**Whose Fall and Whose Rise?: Lessons of Japanese MNCs for Chinese and Emerging Economy MNCs**

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*Abstract*. There are limited studies evaluating multinational corporations (MNCs) from different countries, and a comparison of the leading Asia Pacific economies, Japan and China, offers useful insights. This article considers in turn business strategies, firm-level capabilities, management organization, and government policies in determining the patterns and impact of Japanese MNCs and Chinese MNCs in host economies. It reveals the relevance of phases of internationalization on strategic intent, the cross-border transfer of capabilities, and the costs and benefits of parental firm control versus subsidiary autonomy.

*Key words*: Japanese multinationals, Chinese multinationals, business history, international strategy, core capabilities, managerial organization, government policy

**Introduction**

The recent interest of researchers in developing economy multinational corporations (MNCs) has been one of the drivers sustaining or revitalizing interest in International Business as a subject of enquiry. As well as being a developing nation, China is of course the world’s second largest economy, as measured by exchange rate values, and its foreign direct investment (FDI) has grown noticeably since the early 2000s. We might ask to what extent the activities of its MNCs demonstrate unique characteristics, or, conversely, bear similarities with cross-border enterprise from developing economies more generally or from East Asia in particular. In this article, we make direct comparisons with Japan, which still holds the highest levels of outward FDI assets in Asia, and is established as a developed economy. By taking a long term perspective, and exploring how Japan moved from the position of developing economy to being one of the world’s wealthiest, we can test, firstly, if the earlier rise of Japanese MNCs (JMNCs) through their powerful impact on the global economy can proffer lessons for China. We can ask, secondly how the fall of JMNCs from the peak of their success in the 1980s and early 1990s might provide different but relevant insights into the current characteristics and the potential of Chinese MNCs (CMNCs). New and fiercer competition, most obviously from other East Asian countries, supply only a partial answer to the difficulties faced by JMNCs since the 1990s, and the article concentrates on contributory factors such as the strategy, capabilities, and organizational structures of JMNCs and business-government relations for direct comparison with their Chinese counterparts.

There is a glib assumption that JMNCs have lost their place in the world economy to CMNCs, but the nature of Japan’s fall and China’s rise is more nuanced. Given the difficulties confronting Japan since the decades of the ‘economic miracle’ and international leadership in business methods, there is a tendency to speak of dramatic decline. From 1991 to 2012, its economy grew at a barely detectable 0.2 per cent – although much is explainable through a declining population and deflation - and its share of global GDP fell from 19.9 per cent in 1995 to 8.8 by 2010. On the other hand, the Japanese continue to enjoy one of the world’s highest standards of living. Japan retains comparatively significant levels of productive foreign assets, including, for 2012, $1,054.9bn in outward FDI stock. It continues to be the notable Asian exporter of technology, and, unlike other regional rivals, with Korea as an exception, its MNCs retain a prominent presence in the developed markets of North America and Europe. Japan is the world’s third largest economy, by exchange values, and the eighth largest holder of outward FDI stock (UNCTAD, 2013; Pilling, 2014), significantly ahead of its major Asian competitors, China included. Since the 1990s, Japan’s corporations have been shifting production overseas and, with some revealing high levels of ‘multinational-ization’, their interests have gradually diverged from the circumstances of the low or no-growth Japanese economy. If we look at the list of the largest 100 MNCs, we can discover that Japanese automobile MNCs obtain the majority of their sales from overseas subsidiaries: 64 per cent in the case of Toyota, 81 per cent for Honda, and 78 per cent for Nissan (taken from the list of the 100 largest MNCs for 2012). Sony achieved 67 per cent. Yet, while the trading company Sumitomo Corporation achieved a figure of 47 per cent of total sales being generated from overseas subsidiaries, the three rivals of Mitsubishi Corporation, Marubeni and Itochu were far behind in the range of 20-30 per cent (UNCTAD, 2012). China, when it became the second largest economy, put Japan into third position, and it is the 8th largest holder of outward FDI stock, equal to US883bn, in 2014. Although China has exceeded Japan in terms of OFDI annual flows and the number of MNCs listed among the *Fortune 500*, perhaps only one company, Huawei Technology, can claim that more than 50 per cent of its revenue is generated overseas. While numerous Japanese companies such as Toyota, Honda, Sony, Toshiba, Panasonic, and Nintendo are well known to global consumers, only a few Chinese MNCs can claim wide company or brand recognition.

If acknowledged competitive JMNCs could fall so quickly, we wonder what might happen to CMNCs. Existing literature suggests that Japanese and Chinese MNCs share many common features such as government support and a centralized corporate structure. In contrast, there is praise for JMNCs in possessing strategic intent (Prahalad and Hamel, 1990), core competence (Hamel and Prahalad, 1989), and unique management systems, while there is criticism for CMNCs due to their lack of core competence and the nature of their management systems (Rugman and Li, 2007). There are few studies that directly compare FDI from Asian nations, and Yang et. al. is unusual in considering CMNCs in relation to the Japanese experience (Yang, Jiang, Kang and Ke, 2009). This article considers a greater range of case-studies, and explores the relationship between strategic motivation, core capabilities, organization and government policy. It poses and seeks to answer two key questions:

(1) Why, from the perspective of strategic management, did JMNCs fall from their once high level of success, and to what extent have they adequately adjusted their strategies since the 1990s?

(2) How does our assessment of JMNCs and their changing fortunes provide useful long-term lessons for developing economy MNCs such as those from China?

Moreover, in order to answer these two questions, we will analyze how corporate strategy, capability and structure as well as government support brought in turn the rise and fall of JMNCs, and then consider how these factors contributed to the current rise of the CMNEs and the circumstances in which that rise might be sustained or falter. While some CMNCs have already realized the potential risks that have accompanied their rapid growth, most have not considered the issue and its consequences.

**Literature Review**

*Rise of Japanese MNCs*

The literature on Japanese business has overall focused on its unique, national or culturally-determined characteristics. In fact, the history of Japanese firms shows extended international and foreign MNC influence. Before the First World War, in the very first phase of industrialization, Japanese trading and shipping firms increasingly established themselves overseas, frequently through government support, strategic alliances and organizational learning from foreign multinationals. The Mitsubishi *zaibatsu* and especially its trading entity (the modern Mitsubishi Corporation) expanded rapidly in this period (Fitzgerald, 2015; Kawabe, 1987; Kawabe, 1989). Mitsui Bussan (now Mitsui and Co.) was another example, and it founded cotton spinning enterprises and flour millers in Shanghai, in addition to representative offices across the world (Allen and Donnithorne, 1954; Fitzgerald, 2015). Inward FDI allowed the transfer of technology and production methods, as when Western Electric invested in Nippon Electric Company (NEC), and when General Electric of America became a major shareholder in the Tokyo Electric Company (Tokyo Denki) and the Shibaura Engineering Works (which would evolve into Toshiba). From the outbreak of the First World War in 1914 until 1937, the Japanese industrial base broadened, and instances of FDI by foreign firms in Japan increased. The government used import licensing, tariffs and quotas to foster domestic manufacturing, and especially encouraged international joint ventures to facilitate technology and management transfer: Fuji Denki Seizo (ultimately Fuji Electric) in partnership with Siemens, Mitsubishi Electric through the involvement of Westinghouse, and General Motors and Ford with Toyota and Nissan were prominent cases. With the invasion of Manchuria, in 1931, an increasingly nationalist-militarist government reduced the influence of foreign firms, and, following the invasion of China in 1937, and then the attack on Pearl Harbour in 1941, overseas capital was sequestrated and industry came under state direction (Fitzgerald, 2015; Udagawa, 1990; Mason, 1987; Mason, 1990).

After defeat in the Second World War and US occupation, Japan developed through a combination of active industrial policy, the exclusion of foreign investment and ownership, and, thanks largely to US support during the period of the Cold War, international technology and management acquisition. As has been well documented, during the ‘economic miracle’ of the 1950s and 1960s, Japan established a range of manufacturing enterprises with competitive capabilities in production management, employment practices, business organization, products, and eventually technology. With the participation and encouragement of government and technical associations, Japanese revealed a capacity for organizational learning and subsequently a capacity for adaptation and innovation (Dore, 1973; Vogel, 1979; Thurow, 1993). Strategic alliances and technology cooperation were instrumental to the growth of steel making, the automobile industry and the electronic, silicon chip and computer sector (Cusumano, 1985; Fransman, 1995; Fitzgerald, 2015). From 1961, IBM was an unusual case for being allowed to establish a subsidiary, but it had to provide technical assistance to the development of computing at Fujitsu, which received in addition support and large orders from the government and Nippon Telegraph and Telephone (or NTT). Japanese manufacturers preferred to exploit their advantages through overseas exports, and outward FDI, not substantial in relation to GDP, was largely concerned with securing raw materials or the need of the textile sector for Asia’s cheaper labour (Fitzgerald, 2015).

Capital and exchange controls had been formally lifted for some time in Japan before its key manufacturers became committed MNCs in the 1980s. Their main motive was to overcome the imposition of tariffs and import quotas in the developed markets of the US and Western Europe, that is to protect the large export trade they had created. The rising value of the Yen was an additional reason. Post-war FDI followed the development of the wider economy, and so JMNCs built an international presence in heavy industrial goods, complex machinery, consumer durables and automobiles. Before the take-off in Japanese outward FDI during the 1980s, some 66 per cent of the total could be found in developing countries (Kojima, 1978). By 1970, outward Japanese FDI was substantial in mining, timber, pulp and textiles only, and by 1975 three general trading firms accounted for 40 per cent of outward FDI stocks (Ozawa, 1979). In 1977, Japan provided approximately 6 per cent of total global FDI flow. In 1980, some 34 per cent of FDI flows from Japan went to North America, 12 per cent to Europe and 25 per cent to Asia; by 1989, the figures were 50, 22 and 12 per cent respectively, witnessing the new determination of Japanese MNCs to invest in North America and Europe and less in Asia. Japanese outward FDI flows reached their peak in 1989, when they supplied some 30 per cent of the world total. Japan was home to eight of the top 50 non-financial MNCs, as ranked by assets, in 1992, seven in manufacturing, one in trading; it could claim eight manufacturers and six trading companies in the top 100 by 1998 (UNCTAD, 1994; UNCTAD, 1998).

Strategic intent was first termed by Hamel and Prahalad (1989) to describe the dramatic post-war ascent of Japanese companies. They relentlessly pursued a long-term strategic objective, which in most cases was to become global leaders, although in the West such an objective was considered highly unrealistic in view of Japanese resources and capabilities. Leading Japanese manufacturers emerged from the 1980s as MNCs with substantial investments in North America and Western Europe (Campbell and Burton, 1994; Farrell, 2008; Trevor, 1983; Strange, 1993; Sachwald, 1995; Ando, 2004). In these developed markets, JMNCs became associated with the exercise of strong control by the parent enterprise over subsidiaries and by their strategic intent to transfer management methods and technologies (Sekiguchi, 1979). To assist in the maintenance of MNC parent control and in the overseas installation of home country practices, Japanese companies relied extensively on the sending of expatriate engineers and managers to their subsidiaries. The centralization of power within the headquarters of JMNCs can be seen as a strategy or a hierarchical management process for the international extension of domestic business models (Hatch and Yamamura, 1996; Seki, 1997; Westney, 1993). In the case of JMNCs, Harzing (2002) associates parent control and headquarters-driven coordination with the sending of expatriates, bureaucratic rules and standardization, management by results, or acculturation and common values. Groot and Merchant (2000) distinguish between types of control mechanisms to be used in either joint ventures or wholly owned subsidiaries. In the former, in which there is a greater likelihood of hybrid systems, management strategy has to align partner motivations and organizational strengths. In the latter, the MNC does not require local partners in order to overcome the disadvantage of operating in a foreign market. Alternatively, it has proprietary knowledge it wishes to safeguard from potential rivals, or management and technological capabilities that necessitate its direct control. There is evidence that joint ventures formed a more common form of entry mode in developing markets, due to government policies and the perception of risks, and indications that parental control was less pronounced than in developed economies (Belderbos, 2003; Lu, 2002; Makino et. al., 2004; Delios and Henisz, 2003).

US and European businesses attempted, from the 1980s, to upgrade their failing competitiveness by imitating Japanese management methods. The term ‘Japanization’ implied that a global competitive standard had been set and that it was highly transferrable to different national contexts (Turnbull, 1986; Stewart, 1998; Taylor, 1999 and 2001; Saka, 2003; Florian, 2009). Some authors noted the particular superiority of Japanese lean production (Alder, 1993; Oliver and Wilkinson, 1992; Kenney and Florida, 1993; Abo, 1994; Womack et al., 1990; Florida and Kenney, 1991). Florida and Kenney (1995) argue that Japanese firms adapted their processes in each subsidiary, but retained the substance of their methods. In their interpretation, the strategic intent of the parent company remains paramount to the effective transfer of capabilities and their incorporation within subsidiaries. Critics have questioned the assumption of superior or global practice, and emphasized the locational factors that temper the transfer of capabilities to a host country (Alder, 1999; Florian, 2009). Another strand of the Japanization literature, concerned with employment systems, puts greater stress on the impact of contextual factors on international system transfer, even if extensive ‘multinational-ization’ of practices is feasible (Trevor, 1983; Morris, 1988; Bratton, 1990; Oliver and Wilkinson, 1992; Wood, 1992). Nonetheless, some researchers questioned whether the international diffusion of Japanese work systems to subsidiaries occurred in any meaningful sense (Turnbull, 1986; Ackroyd et al., 1988; Elgar and Smith, 1994).

By the end of the 1990s, JMNCs had to consider how to maintain or expand the place they had established in foreign national or regional markets. Subsidiary level decision making in product development, research or employment policies and the evolution of local capabilities would have to replace centralized, cross-border control. The top-down parent-subsidiary relationship did not, moreover, assist the ability to absorb lessons in managerial practices from overseas markets. Slow or negative growth rates in Japan emphasized the need for growth in overseas markets and underlined the case for subsidiaries having an enhanced role in relation to the parent business. From the 1990s, JMNCs had to give greater consideration to FDI strategies of efficiency seeking (in overseas RandD networks, or through access to lower production or labour costs) and asset seeking (acquiring foreign firms and attempting to utilize their capabilities). As with MNCs from other nations, they joined the vast flows of FDI to China, establishing low cost factories with which to supply world markets, and securing a place in that country’s large domestic market. As opportunities in Asia and emerging economies grew, JMNCs required a revision of global investment and production policies (Cross and Horn, 2007; Encarnation, 1999; Hasegawa and Hook, 1998; Horaguchi and Shimokawa, 2002). Given changes at home in the post-bubble period, and changes in developed and emerging markets, a fundamental issue for JMNCs was how different their strategies and organization had to be from those on which they had built their previous achievements.

*Rise of Chinese MNCs*

The rise of Chinese MNCs was a direct outcome of China’s economic reform and open door policy since late 1970s. Although economic reform has been pursued for more than three decades, significant Chinese outward foreign direct investment (FDI) began in the 2000s. The average annual growth rate of the outward FDI flow between 2002 and 2014 was 37.5%, and OFDI flow reached $123 billion in 2014. The value of stock accumulated between 1978 and 2002 was $30 billion. It rose to $882.6 billion by 2014, when it accounted for 3.4 per cent of the world total (from 0.4 per cent in 2002) and ranked 8th in the world. There were 18,500 Chinese investment entities, and they had established 30,000 overseas firms in 186 countries and regions (MOC et al., 2014; The State Council, 2015). Regarding the entry mode of non-trade Chinese firms, early research (e.g. Deng, 2004) suggested that they had a preference for joint ventures (JVs) with local firms, rather than for wholly owned subsidiaries. Equity shares of 40–70 per cent were the most popular choice, except for banking and trade-supporting investments, which were almost all Chinese ventures with 100 per cent ownership. Further on this, Zhang and Edwards (2007) found that Chinese firms in the 1990s made greenfield investments in developed countries, such as the UK, strategically to acquire managerial knowledge. In the six large state owned Chinese firms operating in London, they without exception heavily relied on local expertise and management systems to survive. Even so, they largely failed after several years’ operation in the host country, due to their lack of expertise and experience. Research on Chinese firms in the 2000s argues that Chinese firms increasingly used cross-border acquisitions to achieve their goals, gaining and leveraging strategic capabilities and location advantage to offset competitive disadvantages, while making use of institutional incentives and minimizing institutional constraints. At an early stage of their development, CMNCs were weak in both corporate capability and government financial support, and, as a result, they had to rely on local expertise (e.g. Rui and Yip 2008; Buckley et al., 2007). Since the late 2000s, Chinese firms were able to acquire Western firms by using profits earned in their domestic market or funding from policy banks pro-actively to acquire foreign firms at lower prices amid or post the 2008 financial crisis. Many of them targeted technology and managerial knowhow in acquired firms in order to compensate for their inherited weakness in these areas: the wave of Chinese equipment firms buying machine tool firms in Germany and the USA, automobile firms taking ownership of MG Rover and Volvo, resource firms with mixed outcomes targeting oil businesses, and petrochemical firms gaining oil, gas and mining firms in US, Canada and Australia were all examples. However, most Chinese firms’ internationalization was considered opportunistic and without a clear strategic intent (Cai, 1999; Child and Rodrigues, 2005; Deng, 2004; Luo et al., 2013). They were found to go overseas in order to avoid fierce competition, high tax or the inefficient institutional environment in China. In state owned CMNCs especially, managers pursued individual benefits or pursued inter-firm rivalry and short term strategies (Luo et al., 2013).

In terms of capability, measured by either owned proprietary knowledge, revenue and profit generated overseas, market share in host countries, or brand awareness in global markets, Chinese MNCs arguably do not hold the distinctive capabilities associated with developed country MNCs (Child and Rodrigues, 2005; Rugman and Li, 2007). Regarding business performance, except for the earlier investment in the resource sector and later in telecommunications and construction, many Chinese overseas affiliates were not very profitable (Quan, 2001; Deng, 2004; Zhang and Edwards, 2007; Rui and Yip, 2008; Rui, 2010). There are several reasons to account for such losses, the most important being inexperience and the fact that enterprises are often humbled by their own miscalculations (Deng, 2004). Apart from that, state ownership and inappropriate government policies arguably contributed to the losses as well (Zhang and Edwards, 2007). For example, state owned CMNCs were criticized for lacking core competence and relying on government support and soft loans from state owned banks. For the handful of successful CMNCs, which obtained substantial market share in host countries or brands recognition, they shared common characteristics: they thrived by creatively combining the open resources or generic capabilities available to them, resulting in the enhanced speed and price-value ratio that are well suited to large numbers of mid- and low-income consumers in emerging markets (Luo and Rui, 2009; Luo and Sun, 2014).

In terms of corporate structure, currently there is no significant research investigating this subject except for a few (e.g. Rui, 2010) who argue that most CMNCs favour centralized and top-down structures, allowing prompt intervention by the headquarters, but resulting in lower levels of localization compared to other MNCs. There is relatively more research on the Chinese government’s role in supporting or hindering CMNCs’ overseas expansion. There is a wide range of literature accounting for how the Chinese government made great efforts since the 1980s in order to attract FDI and to facilitate domestic firms in learning advanced technology and management capabilities from developed country MNCs (e.g. Nolan, 2001), while pushing them further to go international (Luo et al., 2010). It implemented industrial policies by forming and prioritizing 120 large corporate groups to enhance their competitiveness, mainly from the 1990s onwards. It then actively encouraged domestic firms to ‘go out’, from the latter part of that decade onwards. These were important steps in nurturing Chinese firms to evolve and become international. For those Chinese firms that went international, the government provided strong support in many ways, including firstly and in particular in the acquisition of strategic assets from overseas, and secondly assistance from diplomatic to financial resources. For instance, China Development Bank and the China Export and Import Bank, together with other state-owned banks, are committed to providing the best possible service to help firms to invest overseas. The government thirdly gave access to state-supported scientific and technical research (Cai, 1999; Child and Rodrigues, 2005; Deng, 2004; Rui and Rip, 2008, Luo et al., 2010). Such a supportive institutional environment, together with the nation’s huge foreign exchange reserves and domestic savings, certainly provides Chinese firms with the most important foundation for their internationalization (Hitt, Ahlstrom, Dacin, Levitas, and Svobodina, 2004).

However, Chinese government industrial policy was criticized for not being consistent and well designed (Nolan, 2001). The government’s major policy of enabling domestic firms to learn from MNCs – the so called ‘exchanging technology with [giving up] the market’ – was widely considered a failure, as domestic firms were unable to learn the best technology and management practice. The automobile industry is the best example. Almost all the major Chinese automobile firms have joint venture partners. However, after decades of forming JVs, none of these domestic partners own independent intellectual property and brands, and they are therefore handicapped in entering the international market (Nolan, 2001). While the central government aimed for “importation, digestion and absorption” of foreign technology, Chinese automobile firms as executors fell into the cycle of “importation, outdating, and new importation”, because they were unable to create new knowledge by combining existing knowledge and absorbed foreign knowledge (Wu, 2012). Moreover, for decades, the Chinese government failed to establish a long-term and well-organized RandD system at national, industrial, and firm level, as well as lacking effective policy to protect intellectual property rights (Boisot, 2004), which frequently discourages firms to maximize their effort in RandD. When going overseas, Chinese firms often launch a ‘price war’ and compete at lower cost, which further undermines their profitability and reputation (Luo et al., 2013).

**Methodology**

Taking JMNCs and CMNCs as examples, we use case study and interview data to explore two questions. The data were collected from one project on JMNCs and another on CMNCs respectively during the past decade. Overall, we conducted detailed examination of more than 50 JMNCs and CMNCs, and we have conducted over 300 interviews in more than 20 countries. For assessing and comparing the overall competitiveness of the MNCs from the two countries, we paid particular attention to cases from industries in which the JMNCs or CMNCs operated most actively and influentially in global markets. The Japanese cases are mainly from automobile, electric and electronic, engineering, and trading industries, while CMNCs are mainly from oil and gas, electric and electronics, telecommunications and construction. Each case includes an examination of its internationalization history, corporate strategy, capabilities, structure, levels of government support, and other potential contributing factors linked to the cycle of an MNC’s rise or fall.

Semi-structured interview questions were designed for each case to obtain more detailed information. Our interviewees consisted of managers and employees in the headquarters and subsidiaries of the MNCs, their suppliers and competitors, government officials, and scholars who had good knowledge of MNCs. While interview questions for each interviewee are tailored, there were some headline questions including the introduction of the internationalization of the case study company (motivation, entry mode, key stages, and outcomes), the analysis of the core resources and capabilities, strategy, structure and government relations. In addition, open questions such as “What are the key features and determinants of the rise or fall of your company?” were designed.

We used the case study methodology described in Yin (2008) and Eisenhardt (1989) to understand and analyze the rise and fall of JMNCs and CMNCs. We analyzed the archival data to understand the origin and evolution of the MNCs’ internationalisation. We then analyzed interview data by means of data reduction techniques. Next, we focused our efforts on the factors that appear to have greatest relevance to the MNCs’ strategy, capabilities, structure and government support. We then compared and contrasted the factors in each case, and mapped out their commonalities and differences. We also compared and contrasted the case study with existing theoretical arguments, gaining an understanding of the findings, and improving validity. Finally, the data have been analysed inductively to work out what lessons from the JMNCs might be useful CMNCs.

**Japanese MNCs’ Internationalization**

*Motivation and Strategy*

The Japanese automobile industry became internationally competitive through lean production, rapid product development, product quality, and high skill levels. Toyota established its first overseas manufacturing operation, in 1958, an assembly plant in Brazil, and it followed with two more in South Africa in 1964 and Ghana in 1969. In these investment cases, government pressure, tariffs and content regulations were the principal motivation behind these investments. The imposition of import quotas and tariffs in the UK from 1977, the US from 1981, and in the European Union from 1986 led Toyota and other Japanese manufacturers to switch to FDI as a means of securing export markets, although the growing value of the Yen was influential too. Toyota, which sought greater market access, and General Motors, which sought to learn production methods, founded in 1984 a joint venture, New United Motor Manufacturing Incorporated (NUMMI). Nonetheless, in developed markets, and in the leading automobile and electronics industries, Japanese MNCs showed an increasing bias towards wholly-owned overseas operations. They similarly preferred ‘greenfield’ developments that were free of financial, employment or management legacies. Ownership or, more exactly, control facilitated the transfer of management methods and protected proprietary knowledge and technology. The failure of licensing strategies, as evidenced by Toyota’s agreement with Volkswagen, or Nissan’s with Alfa Romeo and Motor Iberica, reinforced the preference (Interview, Production Director, Toyota Europe, 19 Feb 2010; General Manager, Toyota UK, 17 Jan 2013). From 1990, the company began to view Europe operationally as a single market, and, as other manufacturers did, it adopted a policy of regionalization in an effort to obtain production synergies and vertical integration. By 1995, Toyota owned four plants outright in North America, and two in Britain. Government regulation of the automobile industry in China, where Toyota began manufacturing during 1996, compelled joint ventures. In attempting to exploit its capabilities in production, products and price, Toyota’s international strategy moved from protecting its export trade to market-seeking FDI. Toyota, from 2002 onwards, began to produce from various locations in Eastern Europe, with its lower costs and skilled labour. The company aspired to ‘true globalization’ in the sense of cross-border production and managerial inter-connectivity, the elimination of duplication, and cost minimization (Interview, Production Director, Toyota Europe; 18 Feb 2010; General Manager, Toyota UK, 17Jan 2013).

Suzuki Motors offers different lessons to Toyota. It founded its first overseas assembly plant, making motorcycles, in Thailand, during 1967; a car components joint venture in Indonesia in 1974 and a car assembly partnership in Pakistan in 1975 followed (Shimokawa, 1994: 132–3). However, in order to further internationalization, and to share the capital risks, Suzuki required partners, and it consistently adopted joint ventures as an entry strategy. General Motors took a stake in Suzuki during 1981, and, in the US, Canada, Argentina and elsewhere, the two firms worked in alliance or the US giant manufactured Japanese cars under licence. Suzuki’s competitive products were motorcycles and small cars, and its core strengths were in their design, production and pricing. The company, as a result, fared well in developing economies, and FDI occurred through joint ventures in India (1983), Korea (1991), Hungary (1992) and Vietnam (1996). From 2006, GM began to withdraw its investment in Suzuki Motors, and American Suzuki, its small cheap cars not being suited to the US market, filed for bankruptcy in 2012. On the other hand, Suzuki has progressively acquired a majority share in its Indian joint venture, and Maruti Suzuki achieved by 2015 both a higher capitalization than its parent multinational and top place as the largest auto manufacturer by volume in India (Interview, Deputy General Manager, Suzuki Changhe, 10 Dec 2006; Vice-Minister, Business Planning, Suzuki Changhe, 25 April 2015).

By 1995, Suzuki had founded three joint ventures manufacturing motorcycles in China, and, in addition, two automobile plants in partnership with Chang’an Motors, in Chongqing, and Changhe Motors, in Jingdezhen. Suzuki sought sales in fast-growing developing markets due to long-term low growth in Japan, and because its products and capabilities were less suited to developed nations. As well as China revealing at the time a high demand for lightweight cars, it offered Suzuki a low cost production base, while the SOE partners required capital and technology support. Although, as in Thailand, Pakistan, India and Vietnam, the Chinese government insisted on joint ventures in all cases of automobile FDI, as a device for management and technology transfer, it was an entry mode that coincidentally suited Suzuki’s international strategy. Suzuki needed to localize production in China in order to maximize cost advantage, but it abandoned attempts to establish supply chains of component manufacturers in China for the faster and more practical policy of building in-house capacity (Interview, Deputy General Manager, Suzuki Changhe, 10 Dec 2006; Vice-Minister, Business Planning, Suzuki Changhe, 25 April 2015).

Japanese electronics firms, as is well recognized, won a reputation for innovation, quality and price. Sony was particularly known as an innovator, and, inspired by Philips from The Netherlands, it set a target of exports equalling 50 per cent of total sales. To exploit its ownership advantages, having chosen a Western-friendly company name, Sony was an early Japanese investor in developed markets, opening its first US plant in 1971, and another in the UK by 1974 (Fitzgerald, 2015). The company established foreign plants at an increasing rate in the 1980s, including Germany and France, and its most famous acquisition, achieving product and geographical diversification, was Columbia Pictures in 1989. When Sony suffered a loss of $1bn in 2003, it announced job cuts of 20,000 worldwide and a reduction in its product range, but also, under its Transformation 60 plan, $4.5bn of investment in new lines. Sanyo aspired to compete as a general electronics business, and it sought at home and overseas to match its great rival Matsushita-Panasonic, similarly headquartered in Osaka. The company founded its first assembly operation in Hong Kong, in 1961, and launched production in the developed markets of Europe and the US from 1988 onwards. By 2003, it had established over 150 foreign affiliates, over 85 or so of them in manufacturing (Interview, Deputy General Manager, Shanghai Suoguang Electronics, 12 Dec 2006). Sanyo Europe made televisions in Britain and Spain, air conditioning and heating equipment in Italy, and electronic components in the Czech Republic, with production and marketing being organized on a European-wide basis. Sanyo experienced a financial and organizational crisis in 2005, and looked to cost reductions, a narrow range of world leading products, and the creation of innovative, high margin products through R&D programmes. The company sought particular identification with green technologies, and opened solar energy plants in Hungary and California. Despite its restructuring and R&D investments, Sony encountered further problems in its profitability from 2008 onwards, and renewed attempts at cost-cutting and organizational reform. Sanyo’s attempt to reduce its diverse range of often low margin products to a portfolio of lines in which it had an identifiable global leadership did not succeed commercially. Under pressure from the Japanese government, Sanyo agreed to acquisition by Panasonic in 2009 (Interview, Vice CEO, Sanyo Rongshida, 9 February 2007; General Manager, Sanyo Europe, 19 Feb 2009; Deputy R&D Manager, Sanyo Rongshida, 8 February 2007). Hitachi grew as a general engineering and electrical business, with a diverse product portfolio. In recent decades, it has focused on heavy engineering in power plant and transportation, spent on R&D, and emphasized its technological and project management skills. As a result, it renewed investment in manufacturing plants in Europe, but never matched the profitability of its chief rival, Siemens (Interview, Chairman, Hitachi Technologies Europe, 8 March 2012; Corporate Affairs Director, Hitachi Technologies Europe, 12th March 2015).

After being broken up as a company by the US occupying forces after the Second World War, Mitsubishi Shoji was almost fully re-united by 1954. It was one of Japan’s largest *sogoshosha*, the general trading companies that dominated the country’s export and import trade. These enterprises obtained the raw materials and components that Japan required to industrialize during the ‘miracle’ decades of the 1950s and 1960s, and organized the exporting of manufactured goods. In a developing economy, in which other businesses lacked international experience, trading firms with knowledge of overseas markets and in command of cross-border supply and sales networks undertook a fundamental role. Working for multiple clients, the *sogoshosha* operated through economies of scale and scope. They could advise in addition on currency and other international transactions, and provide trade finance and credit terms. Their investments in natural resources throughout Asia constituted the earliest examples of outward FDI by Japan. Mitsubishi Shoji worked on LNG production in Brunei, from 1968, its first major overseas investment, and it developed forestry, plantation, food production, and mining interests worldwide. It anglicised its name into Mitsubishi Corporation, in 1971, a statement of its intention to be more global. After 1990, in Japan’s low growth era, the *sogoshosha* needed to find growth opportunities in foreign markets, and, in parallel, their importance to Japan’s international trade and domestic distribution fell (Interview, Operations Director, Mitsubishi Corporation Europe, 20th Feb 2014; General Manager, 19th Feb 2015). Enterprises such as the Mitsubishi Corporation, Mitsui and Co., and Sumitomo Corporation are amongst the largest multinationals in the world, appearing in the Top 100 Non-Financial TNCs compiled by UNCTAD (UNCTAD, World Investment Report, 2000, 2005, 2014).

Banks had historically evolved within Japan’s highly regulated and uncompetitive financial market. In the 1980s, Sanwa Bank declared its intention to be the world’s top bank, and Mitsubishi Bank and Dai-ichi Kangyo Bank entered the US as full-service firms. By 1980, Japanese banks had 290 overseas branches; by 1990, there were 1035, frequently the result of following manufacturers which had begun large-scale FDI in developed markets. When the Japanese economic bubble burst, the Japanese banks’ capital melted away, and they retreated internationally. Tokyo’s own ‘Big Bang’, in 1994–97, was an attempt to mend its declining influence as a global financial hub: it implemented de-regulation, broke down competitive barriers between financial services, and ended key exchange controls. The policy change initiated a series of mergers leading to the rise of ‘mega-banks’ better able in theory to compete globally, and it created amongst others the Mizuho Group (in 2002) and Mitsubishi UFJ Financial Group (2005) (Fitzgerald, 2015). Securities and investment firms were amongst the most highly internationalized of Japanese banks, yet over 90 per cent of trading by Daiwa Securities occurred within Japan by 2009. Overall, Japanese banks had substantial capital resources, but they lacked capabilities in products, personnel and networks to be major MNCs (Interview, Daiwa Securities, Research Director, 8th March 2012).

*Capabilities*

Toyota linked their preferred entry strategy of directly controlled, greenfield subsidiaries to their ownership of highly competitive management and production methods, and it aimed, with adaptations, to transfer these methods to its subsidiaries. The company believed that its subsidiaries should follow the ‘Toyota Way’, promoted as a concept from 2001, and that the essentials were its production management, customer service mentality and high skills philosophy. As well as ensuring strong direction from the production departments of the main company, Toyota relied on expatriates for the success of its policy. Yet a global firm could not depend on the pool of managers available from Japan, and, ultimately, Japan-centric decision-making inhibited the development of foreign markets. The Toyota Institute was founded, in 2002, to provide training for executives and managers from all over the world. The company acknowledged that employment and working practices would inevitably vary according to local laws and labour markets, but held to its production management being in their essential principles transferable. While there is evidence of degrees of hybrid practice in subsidiaries, executives claimed that Toyota encountered few problems in achieving its core production objectives. Nonetheless, following the 2008-9 economic crisis, Toyota suffered the first financial loss in its history (although the total was small compared to US rivals). It faced criticism of faulty automobiles and falling quality standards due, it was claimed, to rapid global expansion and growing reliance on international component suppliers. Nonetheless, as well as being Japan’s biggest corporate spender on R&D, Toyota maintained competitive leadership in production management and cross-border supply chains (Interview, Production Director, Toyota Europe; 18 Feb 2010; General Manager, Toyota UK, 17Jan 2013).

Although Suzuki was prepared to form international joint ventures, it preferred to be the majority owner. In China, it was forced to accept a 49 per cent share in both of its automobile enterprises, but, according to the Chinese managers at Changhe Suzuki, it exercised a majority control in practice. It was Suzuki that owned the technological know-how and management expertise. Its Chinese partners were responsible for managing human resources, marketing, sales, public relations, and government relationships, while Suzuki concentrated on production and product development. Formal operational procedures and regulations, originally drawn up in Japan, were adapted to fit local conditions, laws and regulations. As the deputy general manager at Changhe stated: ‘We don’t want to fully copy and imitate Japanese work practices. We selected what we thought might be helpful in improving productivity and the quality of our current products. The most important thing is learning by doing and gaining experience.’ Suzuki accepted a lower quality requirement in the short-term, but it negotiated for years with Beijing to allow conversion of its joint ventures into wholly owned enterprises. Suzuki did introduce three models with advanced technology and design at Suzuki Chang’an, because its greenfield operation eased the transfer of Japanese management practices. At Suzuki Changhe, a brownfield site with entrenched SOE traditions, only the Suzulight model began production. Since the joint venture arrangements with SOEs continued, Suzuki did not found a substantive R&D development centre in China, despite the low cost of designers and technicians, and it retained product copy and adaptation departments instead. For Changhe, the failure to transfer designs, products and technology soured its relationship with Suzuki, and, for the Japanese, the refusal to consider a WOE forced a reconsideration of its long-term commitment to the venture. When Chang’an Motors entered into another joint venture with Ford, Suzuki reduced its stake in the business. After 2008, Beijing Auto replaced Changhe as the joint venture partner. Suzuki withdrew all its expatriate managers and technical staff, and sold out most of its investment. An inability to amend official policy in China and the differing strategic ambitions of SOE partners affected Suzuki’s propensity to transfer capabilities. But the company successfully exploited its specific capabilities in the design and production of small cars in what it perceived as the more favourable policy and corporate context of India (Interview, Deputy General Manager, Suzuki Changhe, 10 Dec 2006; Vice-Minister, Business Planning, Suzuki Changhe, 25 April 2015).

Sony continues to be one of Japan’s largest multinationals. It built a strong R&D capability, and founded a range of innovative lines. In pursuit of a market seeking strategy, it sought to transfer its products and management methods to its US and Western European subsidiaries during the 1970s and 1980s. Japanese electronics firms had succeeded through their ability to manage large-scale plants that manufactured high quality goods at relatively low prices, and through possessing superior management techniques and processes. Falling profits from consumer electronics, cameras and semi-conductors increased the importance of Sony America, whose entertainment interests in film, television and music were the result of asset-seeking. By 2003, the US accounted for 32 per cent of Sony’s sales, and, with only 21 per cent coming from Japan, the company could claim to be highly internationalized (Interview, Deputy General Manager, Shanghai Suoguang Electronics, 12 Dec 2006). Some 47 per cent of Matsushita-Panasonic’s sales derived from Japan. Sanyo’s core capabilities were established through innovations in batteries and stored energy from the 1960s, and, by 1981, through breakthroughs in colour LED. The plants Sanyo had founded in the US and Europe relied heavily on transfers of technology and management-know, and on the posting of expatriates. The multinational did establish a design and new model capability at its Hungarian factory to coordinate with Osaka and to plan for demand throughout Europe (Interview, Vice CEO, Sanyo Rongshida, 9 February 2007; General Manager, Sanyo Europe, 19 Feb 2009; Deputy R&D Manager, Sanyo Rongshida, 8 February 2007).

Sanyo began a series of joint ventures in China from 1984 onwards, but the pace and scale of investment accelerated after 1992, and the Sanyo Rongshida joint venture was founded in 1994. The Japanese company’s strategy in China was long-term, overlooking initial losses, and investing in equipment, products and skills. With its ownership of technology and management know-how, Sanyo exercised operational control at its joint venture, despite becoming the minority shareholder. The Chinese management cooperated in order to facilitate the transfer of capabilities, and to utilize the high levels of expatriates employed. From the Rongshida parent firm, and amongst Chinese workers, there was a tendency to prioritize results rather than processes and product quality. Yet Japanese managers found Chinese employees willing to adapt, and, to achieve the transformation needed, Sanyo abandoned its Japanese manufacturing traditions in favour of top-down planning and the tight monitoring of procedures at its subsidiary. Omron’s strategic motivation in creating the Shanghai Omron joint venture with a Chinese SOE in 1993 was efficiency-seeking. Unlike the case of Sanyo Rongshida, the bulk of the output was intended for export markets. Given the joint venture arrangements, Omron Japan was cautious about the transfer of its core technology, and the localization of R&D in China was minimized (Interview, Strategic Planning Manager, Omron Shanghai, 28 July 2007; Deputy R&D Manager, Omron Shanghai, 20 February 2008). It secured the conversion of Omron Shanghai into a WOE from 2005 before agreeing to the further transfer of know-how. It created an R&D centre, but its function was to customize products for the local market, indicating a continued ingrained caution about the loss of proprietorial knowledge (Interview, Vice CEO, Sanyo Rongshida, 9 February 2007; General Manager, Sanyo Europe, 19 Feb 2009; Deputy R&D Manager, Sanyo Rongshida, 8 February 2007).

In the post-war decades, as large Japanese enterprises, the *sogoshosha* had capabilities or resources in large-scale operations management, worldwide logistics, commercial intelligence, networks, and capital, and they were involved in every stage of the commodity chain. From 1990, the *sogoshosha* encountered major challenges, and began the search for a new business model. Japanese manufacturers gained the experience and size overseas to handle their own exports, and new lower cost competitors, usually Asian, challenged the *sogoshosha* for their bulk merchandise trade. With little scope for growth at home, the traders needed to foster business overseas, and Mitsubishi Corporation abandoned policies of sales maximization and providing a fully-comprehensive service for, instead, the profit-testing of every commercial activity. It became more involved in business solutions, consultancy, project management, IT, communications, venture capital, investments, and technology acquisition, as well as supply chain management. Mitsubishi Corporation stressed its unique global combination of market knowledge, international logistics, capital, and marketing (Interview, Operations Director, Mitsubishi Corporation Europe, 20th Feb 2014; General Manager, 19th Feb 2015).

*Corporate Organization*

Toyota’s internationalization strategy rested on high levels of managerial centralization, heavy use of expatriate staff, and reliance on the main business’s know-how, technologies and senior personnel. One development was the founding of Toyota Motor Europe, incorporated at Brussels in 1990, to secure regional oversight of European national companies and to promote vertical production integration. The organizational rationale was the re-balancing of power between Europe and the parent firm, replacing expatriates with local executives, and improving commercial responsiveness to European markets. The Yaris constituted the first example of a Toyota car designed for the European market, and, in 2000, the company opened a design centre in France. From October 2005, the manufacturing and marketing divisions within Toyota Motor Europe were merged, in order to improve region-wide coordination between the two functions. The ‘2010 Global Vision’ programme looked for a growth in sales, volume and profit by reinforcing and integrating management and systems worldwide. Despite programmes of devolving decision-making, encouraging the development of local management, and investing in R&D centres overseas, Toyota remained dependent on the management and resources of the parent business (Interview, General Manager, Toyota UK, 17Jan 2013). Suzuki, in October 2001, established the Suzuki Investment (China) Company in Beijing as its China headquarters, with responsibility for managing and providing services more efficiently to its two automobile ventures (Liu Hongde, interview, 23 July 2007). A China headquarters formed a starting point for Suzuki’s strategy of convincing the government to allow Changhe and Chang’an to convert to wholly owned subsidiaries. Suzuki China could in addition take a more direct role in marketing and distribution. As we have seen, Changhe and Chang’an were reliant on Suzuki’s product designs, technology and production methods, and on the use of expatriate managers. After 2006, Suzuki began to reduce its commitments in capital and in design and capability transfer, and to withdraw its personnel, while its Chinese partners looked for other strategic partner options (Interview, Deputy General Manager, Suzuki Changhe, 10 Dec 2006; Vice-Minister, Business Planning, Suzuki Changhe, 25 April 2015).

From the early 2000s, Sony sought to allow greater operational freedom in its overseas subsidiaries, and most obviously achieved its ambition in the US. International recession from 2008 highlighted continuing problems of bureaucracy and centralized management, plus remaining difficulties over profitability and the reinvigoration of the product-range. Overseas subsidiaries had to coordinate with a complex matrix structure in Japan that integrated responsibility for products, production, marketing and support functions departments (Interview, Deputy General Manager, Shanghai Suoguang Electronics, 12 Dec 2006). Sanyo Europe, based in London, acknowledged that Europe was not a true single market, and allowed measures of marketing and distribution freedom at the national level, albeit with varying commercial success. Japan, Europe and North America continued to be the competitive locale for the production and sale of automobiles, but, in consumer electronics, production for sale around the globe shifted markedly to China and Asia. Japanese consumer electronics firms as a result lost advantages in price and production management, and Sanyo Europe was forced to focus on the cutting of personnel and costs. Factories in China became a growing source of components for Sanyo’s European operations and of products for sale in Europe. Sanyo Rongshida evolved as a special case for a partly foreign-owned enterprise in China: pressured by its SOE partner and by the Anhui and Hefei governments, Sanyo agreed in 2004 to the subsidiary being listing on the Shanghai stock market and, as a result, to Rongshida and local investors having a majority of the ownership. The government approach to Sanyo Rongshida is seen as supportive rather than restrictive. Whereas tighter supervision in automobiles led Suzuki to restrict its technology and systems transfer, Sanyo Electric has increased its control over the subsidiary’s production system, sales, and marketing, and invested in measures of R&D, despite its reduced shareholding (Interview, Deputy General Manager, Suzuki Changhe, 10 Dec 2006; Vice-Minister, Business Planning, Suzuki Changhe, 25 April 2015). The formation of Omron Shanghai as a wholly-owned subsidiary in 2005 coincided with Omron’s adoption of its global factory policy. China was appointed as the low cost production centre manufacturing for world markets and the policy was based on the inculcation of international, as opposed to strictly Japanese, ‘best practice’. To expand production capacity and to optimize product quality, the MNC sought to enhance the role of local management and subsidiary capability, while integrating the Chinese operation more fully with its international networks. Strong parental control, technology and product transfer, enhanced subsidiary capabilities, and the formation of global supply networks, far from being contradictory, proved complementary. Omron’s ‘global factory’ strategy increased the central role of the parent firm within the MNC in key functions (Interview, Strategic Planning Manager, Omron Shanghai, 28 July 2007; Corporate Communications Manager, Omron China, 12 Dec 2014). Sanyo and Omron’s policies in China differed over investment, output, capability transfer, and management control.

Strategic plans in 2000 and 2003 consolidated Mitsubishi Corporation into six profit-orientated business groups, and granted its regional headquarters overseas greater autonomy over business decisions and the employment of local talent. By 2005, trading brought only 14 per cent of the company’s income, and investments a significant 74 per cent. Amongst a highly diverse portfolio, by 2011, were convenience stores, fisheries, forestry, agriculture, food manufacturing, consultancy, financing, transport, mining, and oil. As at Mitsui and Co. or the Sumitomo Corporation, there was an attempt to reform the centralized and hierarchical management associated with Japanese enterprises with long histories. Such structures had emerged when the sogoshosha were Japan-centric commodity traders, and they were less suited to diverse service providers requiring a global perspective and responsiveness to regional and national markets (Interview, Operations Director, Mitsubishi Corporation Europe, 20th Feb 2014; General Manager, 19th Feb 2015). Since most of their business remained domestic, the overseas branches of banks remained dominated by the parent business and by Japanese management (Interview, Daiwa Securities, Research Director, 8th March 2012).

*Government support*

The Japanese government after the Second World War implemented an intricate system of policies to promote industrial development in cooperation with large firms. The approach was termed one of administrative guidance (*gyosei shido*), and public officials had oversight of loans, subsidies, licences, tax concessions, government contracts, import permits, foreign exchange, technology assistance, and regulatory exemptions with which to guide strategies and management practice. The Japanese state sought to develop selected manufacturing sectors and to encourage high productivity industries. Alongside the Ministry of International Trade and Industry, the Ministry of Finance regulated a sector that provided cheap finance for selected lead manufacturing industries, and the house bank system and cross-ownership favoured long-term approaches to investment in skills, technology and production systems. As a result, major manufacturers evolved, at home, competitive capabilities that fulfilled the policy of export orientated industrialization. Under the capital and exchange controls introduced from 1949-50 onwards, outward FDI was small in scale, and the government granted permission only where overseas investments secured raw materials or components, or costs in labour intensive industries such as textiles provided the justification. If we compare China in 2002-12 with Japan in the late 1960s and 1970s, when per capita GDP were equivalent, it is revealing that Japan’s outward FDI reached 0.08 per cent of GDP while China’s was four times larger at 0.31 per cent. Once, in 1971, overseas investment controls had been relaxed, Japanese outward FDI in twelve months exceeded the total for two decades. As capital flows grew, so did the support of state-sponsored finance as a ratio of FDI flows. Whereas, in the first phase from 1953, OFDI lending focused on support for accessing raw materials, a second phase from 1965 saw a greater emphasis on outsourcing declining, labour-intensive industries such as textiles. A third phase, beginning about 1985, matched the surge in Japanese ‘multinational-ization’ in developed economies, with lending going almost entirely to the vehicle, electronics, chemicals, and metals industries. Japanese manufacturers were offered substantial incentives and guarantees to undertake tariff-hopping and market-seeking investments. From 1999, greater attention was given to technology-seeking, and mergers and acquisition received preference over licensing. Japan evolved into the world’s most active state in financing OFDI (Solis, 2004; Solis, 2005; Farrell, 2008). Overseas investment loans in 1955 represented a mere 1 per cent of government overseas lending, the remaining 99 per cent being dedicated to export loans; they grew to 13 per cent of total loans by 1970, 21 per cent by 1985, 43 per cent by 2000, and then 76 per cent by 2013 (Japan Bank for International Cooperation, Role and Function, 2014). Companies investing and operating abroad could count, in addition, on advice and information from the Japan External Trade Organization (JETRO) with its extensive international network of offices (Interview, Director General, JETRO, Europe, 29th Jan 2015).

 The government-owned Japan Export-Import Bank (JEXIM), founded in 1953, had oversight of OFDI lending until 1999, when it was superseded by the Japan Bank for International Cooperation (JBIC). The institution states that it offers OFDI loans to support private sector finance and operations, and to secure policy objectives such as accessing raw materials, improving the competitiveness of SMEs and Japanese industries, and preventing international financial disorder. Its brief is to assist in particular in developing economies, but it provides funds for sectors such as railways, nuclear power plants, and telecommunications and for M&A activities in developed markets. By 2013, maintaining and improving the competitiveness of Japanese industry explained over two-thirds of JBIC’s loan and equity commitments (JBIC, Role and Function, 2014). Within developing economies, there are guarantees and risk insurance, and funding by the Overseas Development Administration is frequently trade-related (Schaede and Grimes, 2003). The continued pro-active support for Japanese business overseas contrasts with the abandonment of post-war administrative guidance and industrial policy at home. MITI, during 2001, transformed into the Ministry of the Economy, Trade and Industry (METI), which became identified with deregulation. From 2006, a ‘new economic growth strategy’ sought to improve competitiveness and identified industries with strong growth potential, but lacked the direct instruments to promote them specifically. Priorities were focused on the development of SMEs and on innovation, and large firms expressed a preference for making their own strategic decisions. JETRO, while retaining its support for businesses in foreign markets, has the task of attracting inward FDI as a means of introducing capital and global best practice to the domestic economy (Interview, Director General, JETRO, Europe, 29th Jan 2015). Japanese business leaders generally express their appreciation of government officials and their activities, while being more sceptical of domestic politics. They perceive their international success as largely dependent on the strategies and capabilities of their firms, but recognize the backing they receive from government. OFDI lending has supported rather than determined the policies of private sector business, although participation in projects such as the Sakhalin oil pipeline by Mitsubishi Corporation and Mitsui and Co. rested on financial assistance and guarantees. Bridging and start-up loans, furthermore, can rebalance calculations of profit and loss for investments (Interview, Director General, JETRO, Europe, 29th Jan 2015; General Manager, Sanyo Europe, 19 Feb 2009; Chairman, Hitachi Technologies Europe, 8 March 2012; Operations Director, Mitsubishi Corporation Europe, 20th Feb 2014).

**Chinese MNCs’ Internationalization**

*Motivation and strategy*

Chinese firms’ internationalization began soon after the government launched the economic reform and open door policy in 1978. Their internationalization motives and strategies varied across industries, locations and stages.At the early stage of China’s reform in the 1980s, the motivation for many firms to internationalize was to deal with surplus capacity at home, resulting in restructuring and productivity improvements. CSCEC (China State Construction and Engineering Corporation) is the largest construction company in China. It signed the first international contract project in 1979. As the deputy CEO (Interview, Deputy CEO, CSCEE, 24 June 2011) recalled: ‘The construction industry was among the earliest industries liberalized during the Chinese economic reform since 1978. Large state owned construction firms were separated from government and requested to be responsible for their own profit or loss. The liberalization resulted in more competition in the domestic market, but also more decision-making autonomy for the company, which contributed to higher productivity and then surplus labour force and capability in the domestic market. The government began to encourage us to go overseas. With such requests but without any support from the government, we felt like an unwanted child’. The deputy CEO was among the earliest expatriates to fly to Kuwait in 1982 and afterwards to Iraq. He added: ‘As early as 1982 and 1983, our company invited a famous law professor to hold seminars on FIDIC regulations so that our staff received proper training on the basic knowledge of international project management. We were the earliest construction firm in China going overseas for international contract projects after proper training’. CSCEC established wholly or partially owned overseas subsidiaries, across both emerging and developed countries. It ranks 100th in the Fortune Global 500 companies of 2012. Unlike other large SOEs in China, CSCEC did not receive government protection from competition, since the construction industry was among the first to be liberalized. It has never formed large international joint ventures (IJVs) or acquired foreign firms. In other words, CSCEC upgrades its capabilities and has becomes a leading multinational mainly through learning-by-doing. According to the same interviewee, in the early 1980s, many construction and service firms were encouraged to go overseas in order to earn the foreign reserves that China needed.

Since the 1990s, a small proportion of CMNCs had the motivation to learn advanced technology and best management practice. We have found that, between 1991 and 1999, CMNCs set up 18 international R&D centres around the world. The total number of global R&D centres increased to 100 by 2013. Shanghai Fuhua was a software company that set up the joint venture China-Japan Software Inc. in Tokyo, in 1991, in order to learn from its Japanese partner. Lenovo had its R&D centre in Silicon Valley, in 1992, to detect frontier technology. Telecommunication companies such as Huawei and ZTE have set up dozens of global R&D centres since 1990s, not only in developed countries, but also in developing countries such as India and Russia. They seek to recruit local talent and gauge technological direction, ultimately to reinforce the parent firm’s R&D. By 2015, Huawei Technologies India had more than 2,200 local engineers and managers but only about 20 Chinese expatriates. This is because the parent firm expected this subsidiary to benefit from India’s IT expertise and to recruit more locals (Interview, Director of Corporate Affairs, Huawei Technologies India, 3 July 2015).

Resource firms also began their international expansion in the 1990s, and, since then, China’s foreign direct investment rose quickly. CNPC is China’s largest oil and gas company. It started its foreign expansion in 1993 and has acquired large stakes in Kazakhstan, Sudan and Venezuela. Many believe that CNPC simply followed government M&Ate, which is not entirely true. In 1991, the former oil minister Wang Tao stated that China’s oil firms needed to go out as a matter of urgency and announced a policy of ‘open the door and operate internationally’ (Tong, 2015). This vision underpinned CNPC’s motivation, and, by 2015, it was the fourth largest international oil firm in the world. CNPC came to Sudan in 1995 after an invitation from the Sudanese government, as a consequence of Chevron’s withdrawal (in 1981) in order to avoid the civil war and US sanctions. CNPC was subsequently granted the right to operate in the designated ‘Block 6’. According to the Chinese Commercial Counselor in Sudan (Interview, 25 April 2008), ‘this reflected that the Sudanese did not trust the Chinese initially and gave them one of the smallest oilfields with heavy oil reserves, which required special technology to extract and refine. The Chinese were not offended by this but simply accepted it in order to wait for better opportunities’. In 1996, the Sudanese government called for bids to operate in ‘Block 1/2/4’. On 29 November 1996, the four partners from Canada, China, Malaysia and Sudan signed with the government of the Sudan a draft exploration and production sharing agreement. In 1997, the Greater Nile Petroleum Operating Company (GNPOC) was established as a consortium, formed by CNPC, Petronas, Talisman Energy (which sold its share to the Indian state-owned company, Oil and Natural Gas Corporation Limited, or ONGC, in 2003), and Sudapet (representative of the host government). They held 40%, 30%, 25% and 5% shares respectively, and CNPC became the operating company for GNPOC. By 2008, CNPC had invested in seven projects in the Sudan, including four in oil exploration and development projects, one pipeline, one refinery, and one petrochemical plant, worth an estimated $5 billion. Sudan evolved into one of CNPC’s three major oil sourcing countries, providing eight per cent of China’s oil imports (Interview, Official at the Ministry of Energy and Mining, 2008). Critics pointed out that state owned oil firms took advantage of government support and wasted national funds. This accusation might be correct in the sense that CNPC invested in many politically and economically risky countries such as Sudan, Kazakhstan and Iraq. When Sudan was divided into two and civil conflict followed, almost all of the oilfields operated in Southern Sudan had to stop production. On the other hand, many interviewees emphasized that the risks were worth taking, as the investments not only helped China’s oil shortage but also improved the technological and managerial capabilities of the company. One typical example was that CNPC had its first PSA (production share agreement) contract with the Sudanese government by copying and pasting an available PSA agreement written by a western MNC (Interview, Geologist, CNPC, 30 June 2010). It also obtained HSE (health, safety and environment) knowledge from collaboration with western MNCs such as Shell (Interview, CEO, 13 Dec 2010).

Since the 1990s, more and more Chinese firms have adopted a market seeking strategy, sending expatriates to explore global markets. Electric and electronic firms such as Haier and Gree had all built up strong positions in the domestic market and started their exploration of opportunities overseas. In 1999, Huawei held an unprecedented farewell ceremony to see off hundreds of expatriates in the company’s conference hall, each with the role and duty to open a new market in different countries. They listened to the CEO’s ambitious corporate strategy of becoming a global player, sang inspiring songs, and promised to work to their limit for the company’s international expansion. This was the signal that Chinese firms had grown to a point that they were able to sell their products or services to global markets (Interview, Head, Huawei Cameroon, 10 May 2009). Huawei was established in 1987, when China’s telecom equipment market was dominated by nine foreign firms and their imported products. In such a high-tech sector with fierce competition, Mr. Ren, the founder and CEO of Huawei, has always been ambitions, stating the following when Huawei was a small unknown firm: ‘If you are unable to reach top three, you are dead’. Establishing leadership in the large Chinese rural market that foreign MNCs were unable to access, and making considerable R&D investments, Huawei evolved into the top domestic firm in less than a decade. In 1996, Huawei captured its first international contract via bidding in Hong Kong. Since then, Huawei’s business has developed rapidly throughout the world except for disappointments in the USA market. In contrast to most Chinese firms, Huawei has never followed joint venture or acquisition as its main internationalization strategy. Instead, it has focused on independent research and going global in order to market its cost effective products and services. For example, Huawei started its research on wireless communication in 1995. Despite severe criticism, Ren consistently spent billions of dollars in 3G without return for a decade. According to the vice president of Huawei, focusing on 3G was a ‘must’. As a latecomer, Huawei had missed out on the 2G market and also the first wave of 3G. Ren was determined not to miss the second wave of the 3G market, and, to that end, Huawei had to ‘persist and be competitive’ (Chen, 2004). By 2005, Huawei had become one of the few telecom equipment makers in the world to provide comprehensive 3G systems and products (Interviews, Huawei subsidiary heads in various countries). It has subsequently become the world leader in wireless research. At the 5G World Summit 2015, held in Amsterdam, Huawei was awarded ‘Biggest Contribution to 5G Development’ for its continuous innovation and industry role (Huawei, 2015).

With innovative technology and products, such as those in 3G products, Huawei was able to enter and win a substantive market share in more than 100 countries, becoming the supplier to 46 out of the top 50 international telecommunication carriers around the world. In Europe, Huawei obtained significant market share by providing leading technology and products, and, in developing countries, Huawei dominated by offering customized products to fit the demand and conditions of the ‘bottom of the pyramid’ (BOP) lower income customers. The company’s Ethiopia representative noted: ‘Nokia-Siemens operated here. They did not maintain network stations. They considered Ethiopia was not their “valuable market”. But, for us, we do whatever to access the market’ (Head, Huawei Ethiopia, 10 July 2014). Huawei took BOP countries as its core market, even though it owned advanced technology and had broken into developed country markets. It demonstrated the effectiveness of its organizational knowledge to low-income hosts and persuaded them of its usefulness. Relevant knowledge transfer was not always an initial goal of CMNCs in Africa, but latecomer internationalization strategies and their host countries’ requirements made the adjustment necessary. Turning necessity into virtue, CMNCs have learnt to use relevant knowledge as a distinctive capability for winning business and attaining competitive advantage in low-income markets. Firms like Huawei maintained a long term strategy of winning global markets, while CNPC held both a government M&Ate and a corporate interest in securing natural resources. However, among our case study CMNCs, most firms were impelled to go out and adopt a ‘follow-the-leader’ approach. For those in the construction sector, for example, they internationalized without any specific strategic intent. Not owning unique products and distinctive capabilities, many CMNCs made huge losses, while others imitated a rival’s strategy where it had proved successful. The result was substantial competition among the CMNCs in host countries or region was reinforced.

*Capabilities*

In line with existing research, we find that most of our case study CMNCs could not provide products or services based on their own technology or management practice. They were, however, able to compete in global markets with the capability of providing products and services with a competitive price and quality combination. Our research finds that CMNCs were particularly capable of reconfiguring existing knowledge successfully in a new context, which in most cases was applying existing advanced technology in developing economies, and often involved simplifying the technology to allow lower costs and to meet particular demands within the host country. At the core of the CMNCs’ capability is the use of applied technology and managerial know-how when operating in developing countries. Applied technology is applied or improved from existing invented technology, in order to meet customers’ needs. It is usually acquired from developed economy MNCs and modified in the less-developed country context. Huawei’s CEO claimed that his company, though a top player in the industry, ‘has not had one single original product invention’ and achieved its competitive advantages by ‘improving and integrating the functions and features of products invented by Western companies’ (Ren, 2006:1). The key feature of applied technology is that it adds features demanded locally and avoids incorporating all the available features in order to maximize output quality and labour productivity. But, in so doing, it becomes easier or less expensive for developing countries to install and use. Huawei customized its telecoms network stations to use locally available sonar power resources and to reduce operating costs (Interview, Head, Huawei Ethiopia, 10 July 2014). Another CMNC, China Hydro, redesigned key components of European wind power technology in order to make construction and operations feasible in the Ethiopian context. It was able to offer a package consisting of Chinese domestic suppliers of fan blades from which Ethiopian wind power project owners could select the most appropriate quality and cost from a long list (Interview, Head, HydroChina in Ethiopia, 16 June 2015).

Managerial know-how includes identifying alternative resources and methods to meet the needs of the project, and understanding its adaptation to local conditions. For CMNCs, their success largely depends on CMNC’s up-to-date knowledge of international markets and supply chains. The scale of global migration of manufacturing to China has made its firms skillful in applying advanced technology in the less advanced Chinese context in cost-effective ways. It has made China an information centre on the demand and supply of goods and services for emerging markets. The typical CMNC attitude is that, ‘whatever is required in this market, I am almost always certain in which location the cheapest or suitable stuff exist. The logistics companies do the rest as long as I place the order” (Interview, Chinese shopkeeper in Dubai, 13 December 2010). Gree is the largest manufacturer of air conditioners in China and their largest exporter in the world. It first entered Brazil in 1998, and became the number one seller in 2004 after dislodging existing MNCs such as LG. The subsidiary head recalled how his business benefited from the full range of the supply chain of major electric goods in China: ‘we are able to offer the most complete product range in the market to meet the diverse needs of customers. … Although many of these products are produced in our factory in Manaus, all components, design and R&D are from China. … For example, the costs of compressors account for 70% of the total cost of an air conditioner. In China there are more than 80 manufactures to supply compressors so we can get the best price and product. But there is only one in Brazil and its offered price is much higher than that in China’ (Interview, Head, Gree Brazil, 30 August 2009). He went further to describe how an ‘economic, reliable, and fast responsive supply chain’ sourced the best possible suppliers and transport to Brazil. A subsidiary head of China Wuyi stated that ‘The cost of equipment and facilities for construction companies account for more than one third of the total project costs. The cost of our equipment and facilities is normally one third or even one half lower than that of our rivals, which are western MNCs who have been in Kenya’s market for decades’ (Interview, Head, China Wuyi, Kenya, 21 June 2009).

As exampled above, many CMNCs did possess a sourcing and price value capability, earning them a competitive advantage in host countries. However, will they be able to sustain such an advantage? Among the CMNCs we investigated, only a handful of them had conducted R&D. Furthermore, even if CMNCs begin to favour R&D, they have to make correct R&D choices. Our latest interviews with Huawei, an innovative company, highlighted that emphasizing R&D is not sufficient. The company had to pay more attention to basic research: ‘pursuing applied technology is fine when we were a follower, but not for a leader. As a leader, you need to sense the direction on your own’ (Interview, Huawei Ethiopia, 10 July 2014). Many of our case study CMNCs possess applied technology and know-how, but in recent years they have realized that they face a great challenge in transforming from an applied technology focus to original technology, or, that is, from imitation to innovation. The Huawei Ethiopia subsidiary head put it in this way: ‘In the past we simply followed the industrial leader, but now we have lost leaders to follow, as we are already in the leading position of the industry. The problem is we tend towards imitating but not innovation. We lack the forward looking vision and strategy as a leader. This is one of the major challenges we are facing’. His view was echoed by many other interviewees at Huawei.

What generally concerned Chinese interviewees, more than an R&D focus, was that many CMNCs lacked core competence and international market experience. CSCEC won a design-build contract in St Petersburg in 2007. After construction had commenced, the management team realised that it was not a simple building project, but technologically challenging. The construction process made the ground sink and neighbouring buildings fall, and the contractor was unable to handle the external and internal wall sculpture decoration. After several months’ work, the company appealed to the owner that their bidding price was too low to complete the project. Astonishingly, the owner accepted the appeal, but later CSCEC company found that they were still unable to complete the project at the increased price, and in addition the owner had never approved their design. After lengthy negotiations, the owner took away the design element from the contract. The company subcontracted numerous items to both local and Chinese companies, and invited experts from Europe to solve the sinking issue. The building was almost completed by October 2010, but nobody knew by then how much of a loss that project would incur (Interview, Deputy Manager, CSCEC St Petersburg Project, 19 Sept 2010). The Deputy CEO of CSCEC admitted: ‘The unsuccessful project was relevant to many SOE issues, such as lack of responsibility for safeguarding state assets, no thorough pre-investigation before making the bid, and lack of international management experience and also some key technologies. …. We still need time to learn. An aristocrat cannot be born in less than three generations’ (Interview, 24 June 2011). Most interviewees emphasized that CMNCs need to address issues of R&D and sustainable competitiveness, while a few optimistic ones predicted that fierce competition would automatically impel strong CMNCs to upgrade their capability and exclude weak firms from competition.

*Corporate structure*

We discovered that a hierarchical structure is common to CMNCs, in which subsidiary managers were imbued with the values and goals of the parent corporation and highly centralized bureaucratic control was evident. In CMNCs, top-down vertical management lines were clear from the corporate head to the regional subsidiary head and to the country subsidiary head (with variations on precise titles). Based on both formal mechanisms, that is established management systems such as ERP, and informal ones such as personal visits, corporate heads tightly monitored subsidiary heads. Key decisions - including overall budgets, R&D direction, production volume, quality control, developing new products, and key human resource recruitment - were all made by the parent firm, although the subsidiary’s administration, local recruitment, internal budget and sometimes even local marketing were empowered to the subsidiary.

The centralized structure was reflected in the appointment of large numbers of expatriates, another distinctive characteristic of CMNCs. Differing from developed country MNCs, whose expatriates mainly focus on control and knowledge transfer, we discovered that CMNCs’ expatriates consist of a systematic combination of all types of roles in control, transfer, coordination, career development and operations. According to medium level CNPC expatriates in Sudan (Interview, HSE Manager, CNLC, Sudan, 21 April 2008): ‘[the rival company] Schlumberger has a few expatriates to fill key positions such as technical advisors and marketing officers. We have expatriates at all levels from office chief to construction workers’. Consequently, CMNCs tend to bring the largest number of expatriates, measured by the relative numbers of expatriates in the same industry and host country. Many of our case study CMNCs had a 20 to 50 per cent expatriate rate, compared to below 10 per cent in developed country MNCs. CMNCs explained the benefits of a centralized structure. They frequently mentioned that it ensured fast decision making and facilitated market responsiveness. We heard from most interviewees that the heavy use of expatriates, at both managerial and operational level, could considerably reduce costs, speed up projects, and transfer knowledge more effectively and efficiently. They believed that Chinese were more hardworking, flexible and obedient than local employees or third country employees. They emphasized that such a capability as fast responsiveness and quick decision-making is of paramount importance for hyper-competitive global markets. Huawei’s founder Mr Ren holds that Japan’s lost competitiveness is closely related to its slow responsiveness from the 1990s onwards. In contrast, Huawei responded to markets, thanks to the centralized structure and a large number of cheap expatriates.

*Government support*

Our research found that, at the early stages of internationalization, a large number of the contracts that CMNCs secured overseas were related to Chinese government aid or loans to the host countries. On the other hand, many CMNCs suffered from government’s unsystematic and discriminate policy and support, meaning that frequently many one-off cases of support were based on requests rather than documented regulations, and support obviously favoured state owned CMNCs. We have two opposite cases to illustrate. Harbin Power Equipment Corporation (HPEC) is one of three dominant state-owned power equipment manufacturers in China. Having carried out small subcontracted projects abroad, starting in 1983, they began outward FDI in the early 1990s. Before going to international market, HPEC had developed a wide range of capabilities through government support, its own R&D and inward internationalization, particularly through international joint ventures and strategic alliances with top global players. Since the 1950s, China had treated the power equipment industry as a priority in order to overcome electricity shortages. When Western MNCs started competing in China in the 1990s, HPEC enjoyed the home government’s support, giving it priority in local projects. For example, the government ordered that international consortia for the first phase of the Three Gorges construction must use HPEC’s products and transfer technology to HPEC whenever subcontracting occurred. HPEC had thereby acquired some of the most advanced thermal, hydro, and nuclear power equipment and technology. Government support played a part in ‘pushing’ HPEC to expand globally. In its early stage of internationalization, about 80 per cent of its “go-global” projects were financed by loans from government-owned banks. With this initial push, HPEC was able to operate overseas. Although its technology was not as advanced as its Western rivals, it was at the level that suited developing markets. Moreover, lower cost and fast delivery facilitated HPEC in winning overseas projects. This position translated into ample opportunities. By 2008, HPEC had undertaken nearly 30 outward FDI projects, all in developing countries (Interview, Head, HPEC Sudan, 1 May 2008). Gradually, through learning by doing overseas, HPEC was able to win international contracts without government assistance. For instance, the ratio of government support related projects fell from 80 per cent in 2008 to 30 per cent in 2011 (Interviews, Senior Managers, HPEC headquarters, 28 March 2012).

However, numerous cases in our research proved that government support was not effective or successful. Nanjing Automobile Corporate (NAC) was a case in point. NAC was one of the oldest Chinese state-owned vehicle manufacturers, and produced the first light-duty truck in China in 1958. NAC was among the earliest Chinese automobile firms to receive FDI. With the direct intervention of automobile ministers, NAC formed 14 IJVs, including two with Iveco and Fiat. The Chinese government induced and supported NAC to form and learn from IJVs. However, the same government, due to its lack of experience at the beginning of China’s reform, did not help NAC to secure favourable terms and conditions to impel foreign partners to transfer core technologies. The 50-50 IJV ownership structure created conflicts between the partners. However, the experience of being in IJVs for more than 20 years woke NAC up with a painful fact: they wanted to learn from foreign partners and eventually own independent intellectual property rights, but this ambition never materialized. Through IJVs, NAC was left with numerous arguments, and recognition that it was unable to control its commercial fate for lack of intellectual property (IP). With this realization, NAC was keen to acquire the British firm MG Rover in 2005 and the government (including local governments) strongly supported it. Acquisition of MG Rover was expected by NAC ‘to generate pressure on the current two IJVs so as to stimulate the foreign partners to upgrade new technology in time’, claimed one of the six negotiators who participated in the MG Rover acquisition (Interview, Head, Foreign Cooperation Department, NAC, 16 June 2006). While NAC aimed for acquisition in order to obtain independent intellectual property, it was its rival SAIC that acquired MG Rover. There had been wide-spread criticism of the unnecessary competition between the two and the government’s lack of intervention. The criticism was even stronger after the acquisition, as both sides needed each other, since ‘one had purchased the software of MG Rover and the other had purchased the hardware’ (Interview, Deputy Head, China Automobile Industry Association, 12 January 2006). Before its acquisition, NAC was already making heavy losses. After gaining Rover, NAC produced its new car and operated an R&D centre in UK in less than two years. Yet it did not have any available funding to further its plans. The government refused its loan request, but forced its integration with SAIC, which was eagerly waiting for NAC’s half of MG Rover’s capability. NAC was eventually integrated into SAIC in 2007. Throughout NAC’s history, since the 1980s, the government did not show a consistent and clear strategy enabling successful internationalization.

Critics have focused on Chinese government policy towards CMNC operations in host countries. Many SOEs have strategic importance to the Chinese economy and enjoy government support at both the central and the local level. One form of support is the ‘soft’ budget. At the same time, many SOEs’ top managers were promoted through support of government. As a result, SOEs are impelled to strengthen their market positions and win contract bids even at very high internal cost. They would take whatever price to win a bid in a host country, so as to boost the company and the manager’s performance. However, private CMNCs were unwilling or unable to take a loss. One foreign subsidiary head of a private IT company exclaimed: ‘If we expect a project to be unprofitable or generate very little profit, we choose not to bid because the headquarters would not reward us for taking this contract’. In such cases, government support led to unfair competition among CMNCs. When SOEs receive substantial local government support, the rivalry can intensify even between SOEs. For example, the acquisition of MG Rover illustrates the competitive battle between two SOEs with headquarters in different regions in China. According to a senior manager from one of the rival firms, a cooperative solution could have been possible without the intervention of the local governments. Almost all the Chinese commercial counselors we interviewed in host countries admitted that ‘Both government and CMNCs were learning by doing in dealing with the firms’ internationalization. … it is chaotic as the Chinese government lacked sufficient and clear policies and regulations to guide CMNCs’ behavior in host countries’ (e.g. Interview, Chinese Commercial Counselor in Cameroon, 11 May 2009). One of the serious consequences they claimed was that CMNCs were not welcomed by the host country. They urged that the government establish relevant policies as soon as possible, so as to regulate CMNCs overseas.

**Comparisons and Contrasts**

*Motivation and Strategy*

In comparing trends in the internationalization of Japanese and Chinese businesses, a number of factors assume prominence. One very obvious issue concerns timing, with Japanese firms increasingly adopting strategies of multinational-ization from the 1980s onwards, and Chinese firms doing so from the early 2000s. As a result, across the two decades, circumstances of international political economy inevitably varied. Levels and flows of world trade and investment, government policies, and commercial relationships between countries would all have influenced opportunities and incentives for FDI. The economic development achieved at these turning-points in multinational-ization conditioned the nature of firm-level capabilities in management and technology in each nation. Furthermore, compared to the previous four decades, world FDI from 1992 witnessed a number of broad trends: accelerating investment flows above rises in world GDP and trade, the increasing importance of service multinationals over manufacturers, the growing use of international M&A and asset-seeking as strategies, the switch in investment to developing and transition nations, and the arrival and expansion of emerging economy multinationals (Fitzgerald, 2015). Contexts affected the strategic objectives of aspiring MNCs, choices of host location, entry modes, and the purposes and practices of parent-subsidiary management. Nonetheless, the case studies indicate why we should in addition consider both industry and firm-level factors in determining international strategies and their success. Once Japanese automobile companies such as Toyota or electronics enterprises such as Sanyo had accepted their need to protect and expand their overseas developed economy markets through FDI, they revealed a strategic intent to obtain sustainable success. To fulfill their objectives, major Japanese manufacturers established subsidiary plants at scale. They demonstrated a capacity for rapid internationalization, assisted by core capabilities and experienced managers that were available for cross-border transfer, and a capacity for long-term planning and organizational learning. They had developed their capabilities in management and production within their home economy, to an important extent due to the framework created by government policy. When internationalizing, JMNCs possessed the strategic intent to be leaders in global markets by leveraging their technology, unique management practices, and cost-effective products and services. By contrast, from Haier and Gree in manufacturing to CSCEC in construction and CNPC in oil, CMNCs were more short-termist in their goals. The Japanese government provided important but supplementary financial, administrative and informational support to firms. Yet, in terms of motivation to multinational-ize, it was the management of JMNCs that decided strategic objectives, based on export success, firm-level capabilities, and availability of capital. For CMNCs, at least in the case of SOEs, government policies and influence in effect determined the decision to internationalize.

At the point in which JMNCs decided to embrace large-scale FDI in developed markets, they owned brands and products that were already visible in these major host nations; at the later date in which they internationalized, their Chinese counterparts lacked such recognition, and primarily focused on developing economies. CMNCs did not possess globally superior technology and management practice, and only a handful formulated long-term strategic goals. They used internationalization as a means to acquire strategic capabilities or to leverage home advantages in low cost products and services. As well as responding to government encouragement and pressure, Chinese firms acted opportunistically rather than strategically. Furthermore, as confirmed by interviewees mostly located in Africa, CMNCs went international ‘to follow others’ or ‘to follow the trend’ of Chinese firms going abroad. They were in the longer term able to utilize and exploit their cost-effective advantages in developing countries and their understanding of emerging market needs. Yet, having internationalized opportunistically, CMNCs had little chance or incentive to attend to the R&D and product differentiation that could offer the sustainable strategic approach advocated by so many Chinese interviewees. JMNC strategy had become associated with rapid internationalization, founded on the transfer and adaptation of home nation capabilities, centralized internal organization, and top-down parent relationships. JMNCs had evolved into established MNCs by the late 1990s onwards, from which point they were beginning for a range of reasons to lose overall international competitive advantages. They required strategies for enhancing or readjusting capabilities, and they needed, potentially, to do so through less centralized and more international horizontal network structures. The growing incidence of off-shoring and efficiency-seeking FDI, notable for example in electronics production, implied less reliance on the capabilities of the headquarters or home nation firm, just as the rising incidence of cross-border M&A and asset-seeking potentially reduced the advantages of transferring capabilities from the parent enterprise to subsidiaries. Many JMNCs appeared less adept at implementing strategic intent in scenarios of decentralized cross-border management, joint ventures, alliances, or inter-firm organizational learning.

*Capabilities*

JMNCs in manufacturing possessed core competence in production methods, strategic planning and management, and R&D; they had competitive products and brands; and, for a period, they had advantages in price against their major rivals. The Japanese experience was one of competitive ‘leaders’ that could transfer capabilities from their parent enterprise and home economy; in a sense, they could exploit the advantages of being both Japanese and owners of Japanese management methods. By the end of the 1990s, Japanese companies had matured as established MNCs. Having focused on the transfer of capabilities, served by a dominant parent firm and a centralized structure, they had to evaluate what capabilities and organization they required to retain or improve their international competitiveness. Strong internal capabilities and management did not always suit collaborative relationships and organizational learning in host economies, and centralization hindered the empowerment of subsidiary management or the building of global as opposed to a Japan-dominated MNC. Historically, Japanese firms had a tradition of organizational learning through strategic alliances and licensing, but, as their competitiveness grew, many prominent enterprises had relied on strong internal R&D capabilities. As a result of its financial difficulties, Nissan formed its strategic alliance with Renault in 1999, but then entered a period of rapid recovery due to its strengths in production, technology, and product development; aside from the immediate impact of the 2008-09 economic crisis, Toyota has enjoyed long-term profitability in addition to global sales growth. Through new rivals and imitation, and the relocation of production to low cost locations, Japanese electronics firms have encountered strong challenges and low profit returns, as evidenced by Sony and Sanyo. They have lost global advantage in production efficiencies, technology, and brands, and had to abandon strategies of manufacturing a full-range of standardized products. Lengthy planning horizons, extended restructuring, and faulty investments have disadvantaged the search for corporate renewal and distinctive products.

Chinese companies remained organizational learners when they transformed into MNCs, although they had reached a capability level that gave them ownership advantages in emerging economies. CMNCs quickly understood the needs of customers in these host countries, in terms of price, basic technology and simplified operations. Centralized structures and sourcing from China enabled them to meet the price and scale demands of customers. CMNCs revealed an ability to adapt their capabilities and a capacity for quick decision-making. But, while CMNCs have exploited their advantages in overseas markets, their competitive capabilities, management and structures are not well suited for the next stage of developing leading business systems and technologies. Comparatively, much fewer Chinese brands are known to the global market, although by 2015 more CMNCs than JMNCs are listed in *Fortune 500*. CMNCs’ competitiveness comes from their imitation capability, cost advantage, hardworking culture, and a fast responsive supply chain, rather than superior technology and best management practice in manufacturing practice or product design. Most CMNCs were good at imitation but not innovation, leading to fierce domestic competition due to the lack of differentiation in products or strategy. Furthermore, the cost advantage is being undermined by rising production costs in the home economy, which is a challenge for foreign firms located there but also for CMNCs with international strategies founded on low domestic costs. Indeed, the case studies above cite CMNCs that have moved to Africa or India to access cheap labor and manufacturing in these countries. Large state-owned CMNCs, such as CRC and CSCEC, generated overseas income but frequently made losses. Many large and small private CMNCs create profits overall, although specific subsidiaries may not. Among the cases studied, only a handful of CMNCs have won a significant share of a host market: Gree in Brazil, Huawei and ZTE in several countries, Haier in the USA, CSCEC in Singapore and UAE, and CNPC in Sudan, Angola and Kazakhstan. A small number have made their brands well known around the world, such as Huawei, CNPC, Lenovo and Haier; many are recognized in specific host markets or industries; most are largely unknown and without a reputation based on the quality of their products and services.

*Corporate structure*

Both JMNCs and CMNCs have favoured a centralized corporate structure, in which the headquarters made the most important decisions and localization rates were relatively low, compared with Western MNCs. JMNCs became heavily reliant on expatriate managers in the 1980s and 1990s. CMNCs have received contemporary criticism for bringing not only managers to host economies but also oil, construction and other workers. Japanese expatriates were needed for the transfer of capabilities to subsidiaries, but, once recognized as a barrier to decentralization and localization, their number was reduced. For CMNCs, Chinese managers understood relative ownership advantages in developing economies, and were well placed to exploit China’s cost and supply advantages in the expansion of their host economy operations. While JMNC management sought enhanced competitiveness through measures of regionalization or localization, longstanding centralized structures could work against this ambition and fast decision-making.

*Government support*

What both the histories of JMNCs and CMNCs reveal is the impossibility of looking in isolation at the motivation of firms that undertake the costs and risks of ‘multinational-ization’. The contexts of domestic and international political economy exerted a determinant influence in case after case. The role of the Japanese state in fostering industrialization, including associated cross-border knowledge transfers, has long been acknowledged. Until the 1930s, the government encouraged joint ventures and alliances with Western enterprises, in order to gain transfers of technological and managerial knowledge. China followed with this model from the mid-1990s (Fitzgerald, 2015). During the ‘miracle’ post-war decades, the Japanese government coordinated and promoted technology transfer through international licensing arrangements, and cooperated with large corporations to fulfil a policy of export-orientated industrialization. As has been recorded a multitude of times, Japanese manufacturers gained capabilities in production, products and technology, with which to make inroads into export markets. The Japanese government sought to retain capital for the development of the home economy. Yet it proved willing to promote FDI that met specific needs in natural resources and components, or FDI that responded to rising domestic labour costs and declining sectors. In the significant new phase beginning with the 1980s, Japanese government financial support was targeted on the wave of manufacturing FDI in the developed economies of Western Europe and the US. From the 2000s onwards, to meet Japan’s changing economic needs, there was a switch to technology acquisition FDI, and to promoting international mergers and acquisitions as a means of managerial and technological interchange. The Japanese state evolved into one of the world’s most active subsidizers of FDI, and actively supported trade and multinationals in overseas markets. To date, no extensive research exists looking closely at the support offered by the Japanese and Chinese governments to their respective multinationals. Although a close state-business relationship exists in both countries, Japanese government support was more active and effective, assisting the evolution of core capabilities at home, and subsequently promoting FDI by firms exploiting their core capabilities overseas. The Chinese government attracted foreign firms and encouraged joint ventures, and aimed to ‘exchange technology by [giving away] the market’. However, it has long been argued that ‘the market has been lost, but the technology has not been learnt’. The consequence was that Chinese firms obtained second hand or outdated technology from their joint venture partners, and, unlike Japanese corporations, did not instill an independent R&D capability. Chinese managers in SOEs believed that they had to respond to the government’s ‘go global’ policy, and many CMNC overseas contracts were linked to or underpinned by Chinese state aid or loans to host economies. CMNC managers noted that government support was indiscriminate, unsystematic and sometimes not sustained.

**Implications and Conclusion**

In our survey of JMNCs and CMNCs, as respectively Asian early movers and relative latecomers, we considered the areas of motivation and strategy, capabilities, organizational structure and state-business relationships. What lessons might we take from comparing JMNCs and CMNCs? JMNCs had leading ownership advantages, and government support and subsidies bolstered companies that set their own multinational strategies and decisions. The policy decisions made by the Chinese government were more influential on the decisions made by firms, especially SOEs, and CMNCs frequently required the institutional support of the state as compensation for gaps in ownership advantages. Nonetheless, such support was frequently seen by CMNC managers as inconsistent and un-sustained. Japanese managers accessed government support because it could nurture and further enhance firm specific advantage (FSA). In the example of China, state support has the danger of distracting CMNCs from building and improving FSA, and certainly it has had negative effects on large state owned enterprises. The case survey demonstrates that long-term and short-term strategy must be balanced and mutually supportive. Without a long term strategy, MNCs may neglect R&D or fail to sustain their competitiveness; if failing on short-terms targets, MNCs overlook customers in fast-changing markets, and undermine their ability to plan long-term.

JMNCs in the key manufacturing sector underwent a first phase of initial FDI, transferring domestically well-entrenched capabilities. Their strategic intent was clear and long-term strategic planning effective. But, overall, JMNCs found the subsequent stage more problematic, in some cases due to strategic aims being unclear. Long-term planning became associated, over recent decades, with slow responses to broad shifts in the structure of the global economy and in relative firm-level competitive advantage. The highly successful Japanese trading multinationals, on the other hand, had a very different history of international engagement and FDI. Their competitiveness originated from their long historical engagement in cross-border operations, and not, as in manufacturing, from the transfer of domestically nurtured capabilities. Despite their established reliance on Japanese expatriate managers and centralized organization, they have retained their position as leading MNCs. As well as seeking to be more profit-orientated, Japanese trading enterprises have adopted strategies based on developing investment portfolios and business services. CMNCs in many of the cases demonstrate inadequate strategic intent, but in host markets revealed a commendable flexibility and responsiveness to customer needs. In parallel to JMNCs, they might consider the stage that follows from their initial investments and breakthroughs in developing economies. For manufacturing JMNCs, the issues were the localization of decision-making and R&D to assist responsiveness to consumers, and, by contrast, the shifts in production to low cost sites and the deepening integration of global production chains. For CMNCs, generally, there was a need to improve management, technology and product differentiation, and, specifically, a firm such as Huawei offered a role model.

In some respects, centralized management structures and the dominance of the parent business over subsidiaries limited or limits strategic change, the further evolution of capabilities, or the creation of truly ‘global’ companies. In other respects, core or vertical strengths in management knowledge and advanced technology at the parent business remained a source of competitive advantage within JMNCs, as they strove to develop horizontally with stronger subsidiaries, joint ventures or strategic alliances. Within CMNCs, the home based parent often provided the basic technologies and low priced supplies sought by host nations. As with JMNCs, CMNCs have to address the complex balance of centralization and decentralization, and the extent to which the ownership or control of subsidiaries is desired. They have to acknowledge the important influences of differences between industry sectors and from varying levels of national economic development. While fast decision making in each host nation or region is beneficial, the availability of a leveraged central resource or capability may be vital to global competitiveness. The cases imply that JMNCs and CMNCs should give urgent attention to a combination of centralized resources and increased decentralization of decision-making.

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