Internationalization patterns of Chinese SMEs:

Take Off Nodes and Initial Stages of Internationalization

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ABSTRACT

The purpose of this paper is to describe and analyze the situation prior to and during the initial stages of internationalization of Chinese SMEs. A multiple case study of five private-owned exporting Chinese SMEs as well as data concerning industrial clusters in China is presented. A theoretical framework consisting of a 'traditional' network model to internationalization of smaller firms complemented with theories on Chinese firm internationalization is presented as base for the empirical analysis. Major conclusions drawn show that in the take off situation of Chinese SMEs, they might deviate from assumed internationalization paths due to e.g. special characteristics of the emerging Chinese market. The initial stages of internationalization are then dominated by indirect export which hinders the building of international relationships which is key in avoiding the pitfall of indirect export. Cluster localization is seen as a take off node, being a springboard for individual dedicated exporters into international markets.

KEYWORDS

Internationalization processes, Industrial network approach, Cluster, Take off node, Chinese SME

1. INTRODUCTION

Major changes in the global marketplace are seen due to former closed markets opening up and entering the world economy. The liberalization and privatization of these emerging markets not only offer huge opportunities for international business of firms, but also challenges such as enhanced international competition (Meyer, 2001; Jansson, 2007a,b). The rapid economic and structural development of the emerging markets is current and continuous as they are predicted to be the main growth areas of the world for an additional two decades (Cavusgil, Ghauri & Agarwal, 2002). As the largest emerging market and the 'factory' of the world, China possess the potential to strongly affect the 21st century global economy through integrating the demand and supply of 1,3 Billion inhabitants as well as millions of firms into the world economy.

Chinese international business activities were initiated by the 'Open door' policy in the late 1980´s and were further spurred by the liberalization of the centrally planned economy in the 1990´s (Du, 2003; Kanamori, Lim & Yang, 2006). One result of the transition was a tremendous growth of smaller firms (Anderson et al., 2004), reaching a number of 39,8 Million SMEs in 2006, accounting for 60 percent of the export (Kanamori, Lim & Yang, 2006). Nevertheless, the international activities outside China are still mainly performed by larger Chinese firms. Overall the degree of internationalization of Chinese firms is low (Child & Rodrigues, 2005; Jansson, Söderman & Zhao, 2007; Lou & Tung, 2007). In research, the focus has been on Chinese MNCs and FDI (e.g. Buckley et al., 2007; Child & Rodrigues, 2005; Lou & Tung, 2007), and less on the internationalization pattern of Chinese SMEs. The rapid development of the emerging Chinese market implies that the large MNCs of today were SMEs not so long ago, thus indicating the latter as an important ground in the global catching up of China. Thus, the internationalization pattern of SMEs from the Chinese market is inevitably an important and current research topic.

When discussing large multinational firms, they have former experience of foreign business and are therefore able to adjust to and take advantage of new business opportunities (Cavusgil, Ghauri & Agarwal, 2002; Meyer & Gelbuda, 2006), while smaller firms are considered to have less experiential knowledge of international business, thus facing challenges in performance (Eriksson et al, 2000). In addition, small firms are considered to face severe managerial, financial and informational constraints (Zyglidopoulos, DeMartino & Reid, 2006), which could be reduced by developing relationships and networks (Ding, 2007; Jansson & Boye, 2006; Zeng & Williamson, 2003). Yet, with a rapidly changing business world, the traditional theories on how firms internationalize are challenged (Forsgren, 2002). E.g. Lou & Tung (2007) describe that firm internationalization from emerging markets like China faces a too different environment to fit the traditional western models. In addition, Liu, Xiao & Huang (2008) declare the Chinese experience in terms of internationalization unique, and it can only partially be explained by the existing theories. This call for theory development and new models of internationalization is also supported by e.g. Fillis (2001), Johanson & Vahlne (2003) and Meyer & Gelbuda (2006).

The purpose of this paper is to describe and analyze the take off situation and the initial stages of internationalization of SMEs from the emerging market China. The take off situation is when firms start international business and it is discussed whether or not firms have domestic experience prior to the take off. Then in the initial stages of the internationalization process, the chosen entry mode and its effect on the firms' experience, knowledge development and network relationships is discussed. In addition, it is elaborated upon the influence of industrial clusters as take off nodes in order to leverage a springboard effect on Chinese SME internationalization. As a framework for analyzing the empirical contributions in this paper and also open up for theory development from the same, some traditional theories on firm internationalization is presented.

Since they are now challenged in line with the discussion above, the framework is complemented with some of the scarce theoretical developments made on how Chinese firms internationalize and how this relates to traditional theories. After the short theoretical overview, the research method for this exploratory study is accounted for. It is followed by a description and analysis of the take off situation, initial stages of internationalization and cluster localization of Chinese SMEs. Lastly, the major conclusions of the paper are drawn concerning internationalization patterns of Chinese SMEs based on the five cases presented. In addition some potential areas for theory development and further research are suggested.

2. THEORETICAL FRAMEWORK

2.1. A 'traditional' network model to internationalization of smaller firms

The well-known Uppsala model (Johanson & Vahlne, 1977), suggests the internationalization of firms to be a process driven by interplay between learning about international business operations and commitment to international markets (Johanson & Vahlne, 2003). Over the years the model has been continuously tested, mainly for MNCs but to some extent also for SMEs (e.g. Hohental, 2001) and has shown to be valid by most empirical studies (Vahlne & Nordström, 1993, in Fillis, 2001). The model is considered especially useful when studying early stages of internationalization, while it needs complementing insights concerning the pre-internationalization phase according to Tan, Brewer & Liesch (2007). Such a phase would include domestic market activities, being where firms start their business before entering any international markets according to the traditional internationalization process model. Criticism regarding the need of domestic sales experience as well as the overall usefulness of process models is highlighted in research on small firms with a rapid, non-incremental internationalization process often driven by an entrepreneur/manager with global vision and/or a technological break-through, a.k.a. Born Globals (Bell, 1995; Blomstermo, Eriksson & Sharma, 2004; Gabrielsson et al, 2008; Knight & Cavusgil, 1996; Oviatt & McDougall, 2005). For these and other small firms, network relationships are considered useful or even crucial in initiating as well as facilitating firm internationalization (Bell, 1995; Coviello & McAuley, 1999; Coviello & Munro, 1997). It connects well to the industrial network approach, which discuss internationalization of the firm in terms of establishing and developing network positions in foreign markets (Johanson & Mattsson, 1988). This branch of the Uppsala school sees relations as significant for firm internationalization since the business network constitutes of relationships spurring international business activities (e.g. Forsgren, Holm & Johanson, 2005; Johanson & Vahlne, 2003; 2006). Through operating in the local market and building relationships, the firm gains both network and internationalization experiential knowledge (Johanson & Vahlne, 2003), being essential for further internationalization of the firm.

The industrial network theory and internationalization process theory can be integrated into one illustrative 5/5 stages model (Jansson & Sandberg, 2008). The relationship building model by Ford et al. (2003) concerns how network experiential knowledge is gained in a country, and the Cavusgil (1980) model of internationalization of the firm relates to the building of internationalization knowledge. It gives that the more developed the customer relationships in a country are, the more experience the firm has in that particular foreign country market. Thus, the process is driven by relationships, e.g. when building experiential knowledge through network relationships. Then the entry mode of the firm becomes entry node, i.e. how the firm plugs into the local market network (Jansson, 2007b). Alternative entry nodes for exporting firms are direct relationships (dyads) between buyer and seller, or indirect relationships (triads) through an intermediary (Jansson & Sandberg, 2008). In terminology of export entry modes, usage of intermediary in the foreign markets is direct export, while indirect export takes place via a domestic company, and cooperative export via collaborative agreements with other firms. Additional entry modes are intermediary, e.g. franchising and partnership, and hierarchal, e.g. sales office or FDI (Hollensen, 2007).

For smaller firms, as mentioned above, network relationships are useful or even crucial in initiating firm internationalization (Bell, 1995; Coviello & McAuley, 1999; Coviello & Munro, 1997). Especially in these first international steps, firms face different barriers (Tan, Brewer & Liesch, 2007). Reid, DeMartino & Zyglidopoulos (2005) argues that managerial, financial, informational and competitive constraints met by resource poor SMEs can be reduced by cooperation and/or being part of a cluster. As cluster member the competitiveness of a firm can be enhanced by the external features of the cluster e.g. cost advantages due to the co-location, access to competent personnel, information and joint marketing, as well as connections to institutions and public goods (Porter, 2000). Cluster externalities are shown to enhance the competitiveness of the SMEs involved and thus giving a positive impact on the internationalization process of the same (Jansson & Boye, 2006; Zeng & Williamson, 2003).

2.2. Internationalization of Chinese firms

In Chinese firm internationalization research the relevance of traditional internationalization models is discussed and challenged (Du, 2003; Jansson, Hilmersson & Sandberg, 2008; Liu, Xiao & Huang, 2008; Lou & Tung, 2007). Since the degree of internationalization of Chinese firms in general is still low and concentrated to larger firms (Child & Rodrigues, 2005; Jansson, Söderman & Zhao, 2007), there tend to be a supportive notion of the traditional models, e.g. in terms of Chinese firms undertaking outward FDI in foreign markets (Buckley et al. 2007). Elango & Pattnaik (2007) point out that since emerging market firms still are in their early stages of internationalization, the Uppsala model is a highly useful tool of research. This is partly supported by Liu, Xiao & Huang (2008), also finding some support of the born global/international new venture literature. However, they strongly point out that traditional theories cannot to a full extent explain internationalization of indigenous private-owned Chinese firms since they bear unique characteristics. In addition, Lou & Tung (2007) describe that MNEs undertaking outward FDI from emerging markets face a too different environment to fit the traditional western models. These firms seldom follow an incremental path, i.e. the traditional stages normally seen as valid for most firms (especially larger ones). Instead they react on pressures such as late-mover position, global competition, and domestic institutional constraints, as supported by Child & Rodrigues (2005). Notably though, Lou & Tung (2007) do not deny that even if MNEs in emerging markets follow a less incremental internationalization than traditional theories would imply, the elements of organization learning and global experience is still key in their internationalization process.

The emerging market MNEs discussed above, e.g. Chinese multinational firms such as Haier, Huawei, Lenovo and ZTE (Lou & Tung, 2007) can be classified as national champions. Other types of Chinese internationalizing firms going abroad from China are competitive networks, dedicated exporters and technology upstarts as defined by Zeng & Williamson (2003). Relating to the SMEs studied in this paper, they belong to at least one of the latter three types. In China there are many competitive networks, which is a type of (industrial) clusters of hundreds small co-located entrepreneurial and flexible low-cost producers, mainly within commodity good such as shoes, toys and pens. Firms in these clusters are seen to be interconnected and with governmental support they manage to enter international markets (Zeng & Williamson, 2003). Many industrial clusters in China are located in the economic and export processing zones of the coastal areas. The production focus in the clusters is often standardized consumer or low-technology goods intended for mass markets. The level of innovation and R&D tend to be low (Kanamori, Lim & Yang, 2006). The clusters to a large extent consist of SMEs that face fierce price competition within the domestic market (Ding, 2007). Kanamori, Lim & Yang (2006) point out Chinese firms to face growth problems due to the specific constraints caused by the transition of China. Also, due to low levels of technology spill over, limited local entrepreneurship and less governmental support, the existing clusters tend not to adequately support SME development.

For an SME belonging to a more domestic-focused competitive network or industrial cluster, internationalization can be possible through acting as a dedicated exporter (Jansson, Hilmersson & Sandberg, 2008). Then the firm neglects the domestic market potential and expands into (mass) markets abroad, either alone or as sub-contractor of MNEs. The advantages of dedicated exporters are low costs production, manufacturing skills and economies of scale, while they lack experience of marketing and service. Even if a dedicated exporter entered the international market directly when China opened up in the late 1970´s, their competitive advantages were built up beforehand in the domestic market. The third type of internationalizing Chinese firms is the technological upstarts, being small high-tech firms with origin from state-owned research institutes. This type of firms often takes great advantage of relations with overseas Chinese if they enter international markets (Zeng & Williamson, 2003).

In their research on internationalizing Chinese firms, Child & Rodrigues (2005) find three routes of internationalization: the original equipment manufacturer (OEM)/joint venture (JV) route, the acquisition route and the organic expansion route. The two latter are both ‘outward’ internationalization by FDI; either acquisition or Greenfield, and tend to be too cost-demanding for small firms with lack of resources in their early internationalization. The first route however is the partnership route, enabling ‘inward’ internationalization of the Chinese firm by gaining access to knowledge and competences from the multinational partner. In OEM, the relationship is based on the cost advantage of the Chinese partner and the brand advantage of the foreign firm. However, according to Jansson, Söderman & Zhao (2007), Chinese firms involved in OEM tend to be passive suppliers with an internationalization process driven by the foreign demand. This route is often used by Chinese family firms, but is also relevant for firms involved in competitive networks as well as for dedicated exporters. A more direct relation is formed through JVs, where the Chinese firm can reach into the internal network of its foreign partner (Child & Rodrigues, 2005). Though, in a JV the Chinese firm might be restrained from building its own international reputation, as possible if being an excellent OEM. According to Lou & Tung (2007), ‘inward’ investments bring benefits for Chinese firms stimulating their ‘outward’ internationalization.

3. RESEARCH METHOD

Due to challenges in research of Chinese firms, such as lack of access to information and case companies as well as considerations of reliability of translated primary and official secondary data, an exploratory study was conducted in order to contribute to the less researched field of SME internationalization in China. A qualitative multiple case study was conducted, being a sufficient research method for theory testing (Yin, 2003) as well as for potential theory development (Merriam, 1998). The six case firms were chosen with a purposeful sampling technique (convenience sampling) (Merriam, 1998) based on access to private owned SMEs with experience of export. All case firms are located in the Jiangsu province or Shanghai in the Yangtze River Delta region, being one of the most expansive and company dense regions in China. In terms of size classification, Chinese industrial SMEs can have up to 2000 employees and construction SMEs up to 3000 employees (Natural Bureau of Statistics of China, 2007), which differs widely from Western standards (e.g. the EU SME definition is <250 employees). In this paper, the case firms are producing firms in various industries (majority traditional production industries) with up to 2 200 employees.

The study is a result of collaboration between researchers at the University of Shanghai and the universities of Kalmar and Stockholm in Sweden. A semi-structured questionnaire (Merriam, 1998) was developed by the Swedish researchers in spring 2006. It is based on a thorough literature review and concerns the firms' foreign market entry process (e.g. internationalization steps, establishment and development of new foreign business relationships). The semi-structured interviews were made between July 15th and September 15th in 2006 by Chinese master students lead by Prof. Zhao at the University of Shanghai. The case companies were visited and at least three representatives in leading positions (e.g. CEO/founder/owner/managers) from each case company were interviewed in between a total of 5-20 hours. The advantages of having native interviewers include less language and cultural barriers, thus the interviewer might get access to more information from the respondents than if the interviews would have been conducted in English or via an interpreter. Still, there are reliability issues due to the multiple translations of the questionnaire and responses to it. To counteract this, all interviews were carefully documented in both Chinese and in English. Also, the Chinese collaborators presented the gathered material on two occasions (late June and mid October 2006) to the Swedish researchers. Each discussion included joint interpretations lasting for about ten hours. The case material was then summarized in written form in English and the informants gave their approval concerning publication of data and conclusions which further strengthen the reliability of the study.

Five of these six case firms are reported upon in this paper (the sixth case was excluded due to insufficient data). In addition to the primary data, complementary and validating information on the case firms was collected from websites and company data bases. Secondary data from reports and articles concerning industrial clusters in China is also presented in the paper.

4. EMIRICAL ANALYS

4.1. Presentation of the case companies

The five case companies are all exporting Chinese SMEs located in the Jiangsu province or Shanghai in the expansive Yangtze River Delta region. The main characteristics of the case companies are found in Table 1 below.

Company / Firm characteristics	Yangzhou 5A Brush Ind. Co. Ltd.	SuZhou Xing-Xin Knitwear Co. Ltd.	Far East Cable Co. Ltd.	Shanghai Yaselan Adv. Mat. Co. Ltd.	SunTech Power Co. Ltd.
Primary scope of business	Production of toothbrushes (own brand)	Production of knitting garment & sweaters (OEM)	Production of cable wire (own brand)	Production of large digital inkjet printers (own brand)	Production of solar cells & modules (own brand/OEM)
Turnover (Million Yuan) 2005	400	80	530	17	2 800
Foreign sales (%) 2005	50	95	5	60	90
No. employees	1 500	1 300	2 200	80	2 000
Start year: **Start int. bus. :** **Export rights*:**	1993 1993 2001	1986 1986 2004	1990 2001 1998	1993 2002 -	2001 2003 -
International spread (main market/s underlined)	North & <u>South America</u>, Europe, Middle East, <u>Africa</u>, Southeast Asia	Asia (<u>Japan</u>, Taiwan) North America (<u>USA</u>, Canada), Europe (Germany, Denmark)	<u>Southeast & West Asia</u>, (Indonesia, Philippines, Vietnam), <u>Africa</u>	<u>Europe</u> (Italy, UK), Oceania (Australia), America, Africa, Southeast Asia	Europe (<u>Germany</u>, Holland, Spain), North America (<u>USA</u>), Asia (Japan)
Entry modes: **1. Export modes** a) Indirect b) Direct c) Cooperative **2. Intermediate** **3. Hierarchical**	1a) Chinese trade firms: Canton Fair, agents, distributors (main (80%)) 1b) Own export company (20%)	1a) Via Sino-Japanese firm in China, foreign trade firms in China (main) 1b) Some foreign customers	1a) Project sub-contractor to large Chinese SOE (main) 1b) Some Chinese foreign intermediaries	1a) Chinese agents 1b)Distributors & agents in foreign markets (one/market) (main)	1b) Agents in foreign markets, competitors sales channels 3) Subsidiary USA, acquisiti-on Japanese firm

Table 1: Firm characteristics of case companies (source: interviews made in 2006)
* = Year of receiving export rights from Chinese government (before that direct (self-run) export not allowed)

4.2. The take off situation

In the take off situation, i.e. when the firm goes abroad, firms traditionally are considered to have experience from the domestic market and thus rely on competitiveness built up in there. This is the case of FE Cable and Yaselan Printers, having eleven respectively nine years of domestic experience before entering international markets. Then FE Cable received (unsolicited) orders from foreign intermediaries while Yaselan Printers discovered the opportunities of export via participation in domestic and foreign fairs. The competitive advantage from the domestic market was foremost cost competitiveness. Both firms have also established own brands to combine with their low cost production, manufacturer skills and economies of scale (characteristics of dedicated exporters) in order to try to build a differentiation advantage.

In contrast to going abroad with experience from the domestic market, some firms move directly into the global market i.e. close to born globals (Knight & Cavusgil, 1996). Both 5A Brush and XX Knitwear used to be production units during the centrally planned era but became privatized in 1993 respectively 1986. As a limited company, 5A Brush was forced to sell to international markets at once since it was left outside the state distribution channels in the centrally planned economy of China. Yet, the export was passive and the company was ‘chosen by the market’. In comparison, XX Knitwear used the route of OEM when starting indirect export to Japan via a foreign trade firm in Shanghai. Both 5A Brush and XX Knitwear managed their early internationalization due to cost competitive advantages and their international business was built up through indirect export from geographically concentrated (domestic) industrial clusters, i.e. competitive networks, specializing in toothbrushes and textile respectively.

In comparison to 5A Brush and XX Knitwear, Suntech is more similar to a born global since it is a high-tech firm international from inception. The firm spent two years in R&D and production in the domestic market before entering the international markets due to a non-existent solar cell industry in China at the time. The founder, a Chinese researcher educated in Australia, was driving the internationalization but had no former experience of international business. The competitive advantage of Suntech was its leading technology, i.e. a differentiation advantage, which was build on the founder's former knowledge and skills from research in Australia. In addition there were cost advantages in terms of production and R&D in China.

4.3. The initial stages of internationalization

Once the firm has taken off from the domestic market, either with former experience from it or going international from inception, the firm enters the initial stages of the internationalization process. Related to the Cavusgil (1980) internationalization process model, all the case companies have moved past the pre-export stage. With the exception of Suntech, all firms are more or less in the experimental export stage. Here the export is said to be limited as seen in the case of FE Cable having only five percent export. However, the other firms have export exceeding 50 percent which would indicate a committed involvement in export with a high degree of international experience. However, this is not the case of 5A Brush, XX Knitwear and Yaselan Printers – instead they mix a high export share with insufficient experience due to mainly indirect export. In terms of stages, the indirect export mode can be seen as a stage between pre-export and the experimental (direct) export stage. In the case of Suntech, the firm leapfrogged through the stages and became an active exporter immediately.

4.3.1. Firm experience and knowledge development

From the initial stages, firms move on in their internationalization process through increasing their experiential knowledge and strengthen their international commitment. The firms most involved in indirect export is XX Knitwear, being heavily dependent on OEM, and FE Cable, working as a project subcontractor to large Chinese SOEs, thus undertaking indirect export in the form of piggybacking. The upside of these kinds of indirect export is that OEM provides an opportunity to gain knowledge from the foreign partner, and piggybacking means an opportunity to ride on the brand and recognition of the larger Chinese firm making projects abroad. Both firms have also managed to start some direct export, though this seems to be more connected to overseas Chinese trade intermediaries. Thereby, less experience and knowledge of the foreign country market and its domestic customers is obtained.

After several years with only indirect export, both 5A Brush and Yaselan Printers have tried to gain more direct export. 5A Brush learned from the establishment of a US global competitor in the cluster that branding impact profits. Thus, the firm introduced both a domestic and an international brand bringing more profits and recognition to the firm. As a result of this and in addition to the opening of the Chinese domestic market, the export has gone down from 100 percent to 50 percent – or – the domestic sales have increased from 0 to 50 percent. To be able to handle more direct international contacts and gain international experience, an own self-run export company was acquired. In comparison, Yaselan Printers has focused on direct export by having agents in several countries all over the world. Relations are strengthened by visiting the foreign agents and customers abroad. At the same time the firm learns about the development in overseas markets, helps with problems, discusses future improvements of products as well as promotes new products. Thus the firm is willing to learn from foreign intermediaries and customers, which lays ground for further international expansion.

Suntech shows a different and more rapid internationalization path than the other firms – being active from start having direct export via agents in foreign markets as well as using the sales channels of competitors. The firm has also undertaken FDI through setting up a subsidiary in the US as well as made an acquisition of a Japanese firm. This (costly) kind of outward internationalization has given the firm the needed experiential internationalization knowledge that it lacked from start.

4.3.2. Network relationships

The building of international relationships is connected to the export mode of the firm. In indirect export no international relations are established since the export is made via an intermediary in the domestic market, e.g. the Canton Fair and/or domestic trade companies. Instead, 5A Brush, XX Knitwear, FE Cable and Yaselan Printers have been able to build up domestic business networks which they to a various extent take usage of when obtaining more direct international relationships.

Maybe as a result of being former domestic production units in combination of the cluster localization and being involved in competitive networks, both 5A Brush and XX Knitwear have a strategy in terms of extending their networks. The business model of 5A Brush includes to take advantage of domestic networks and to use the direct international contacts established by the self-run export firm in order to find further direct international relations. However in the direct contacts with international end-customers, 5A Brush has only reached the pre-relationship stage. The contacts are still mainly indirect (triads) and the communication is mainly to secure orders and deliveries. In comparison, the XX Knitwear strategically uses its domestic network of business companions and friends (guanxi) to reach new direct business relationships. One key point for internationalization of the firm was when they received their first international direct (dyad) contacts in the US and in Europe. Still however these direct relations are limited and only in the beginning of their development.

More strong relationships are seen to be established by FE Cable and Yaselan Printers, however in different types of networks. The FE Cable has mainly indirect export in terms of piggybacking on large domestic SOEs. The relation and cooperation with the domestic business network of the SOEs is mature, thus being direct (dyad) and stable resulting in continuous business. Beside the domestic business network only a few direct relations are established with foreign contacts in close-by Asian markets. Thus, the level of international relationship building is low. One possible line of action for FE Cable could be to take advantage of the reputation of the domestic business partners and try to find own contacts in the markets served by the SOEs. In Yaselan Printers the clients are mainly served through direct export via distributors and agents all over the world through classical triad relations. The devise of developing markets home and abroad with 'direct marketing and agents in parallel' indicates an understanding of the importance of relationship building in terms of internationalization of the firm. Yaselan Printers has, in comparison to the other firms mentioned above that are more dependent on indirect export and thus having fewer direct contacts, come furthest in the relationship building of direct international business relations.

Overall, firms relying on indirect export do not gain any direct international relations but can use their strong domestic business networks to find international customers. Still though, the direct relationship-building capacity of the firms above is limited. With the exception of Yaselan Printers, they are still in the pre-relationship and early stages in building an international network. This implies that these firms in terms of relations are less internationally experienced than the firms having more direct export relationships or even having own subsidiaries abroad. The most developed firm in terms of direct relationships is Suntech, having relied heavily in both own and others domestic and international networks as well as the personal network of the founder in order to enable its instant internationalization. The local contacts of a Chinese fellow researcher/friend and later also business partner rendered governmental support for the project. When internationalizing, Suntech used international fairs, relationships with agents, and competitors' sales channels. With both agents and customers the aim was to build long-term relationships, e.g. by setting up collaboration agreements. By this the firm has connected to a global business network and is thereby highly internationally experienced.

4.4. Export clusters as take off node

An export cluster, as discussed in Jansson, Hilmersson & Sandberg (2008), is a cluster in the domestic market that could act as a (geographical) base and take off node, wherefrom the firm could take off into a foreign market network. Both 5A Brush and XX Knitwear have the potential to do this from the industrial clusters and competitive networks they are located in, if the industrial cluster can leverage a springboard effect for internationalization of the firms.

4.4.1. The case firms and the clusters

5A Brush is located in Hangji – the 'city of toothbrush' in China. The man-made toothbrush industry began here in 1827. There are more than 1 000 individual units located in Hangji producing toothbrushes, corresponding to 70 percent of the toothbrush manufacturing firms in the whole country. More than 90 percent of the firms in Hangji are small family-owned firms. Most firms in the cluster target the domestic market only, while some of the larger firms have started to sell to the international market. The annual output from Hangji is 3 billion toothbrushes (and it is growing), being the largest toothbrush production base in the world. (Jian, 2003). According to the Li & Fung Research Centre (2006), the Hangji toothbrush cluster is formed as a result of expansion of a few large enterprises, stimulating the growth of other firms in the cluster. Receiving governmental support suggests the Hangji cluster to be close to a competitive network (Zeng & Williamson, 2003).

XX Knitwear is situated in the city of Suzhou, a textile center concerning cotton, silk and wool. Suzhou was beside Shanghai the largest exporting city in the Yangtze River Delta in 2005, and has industrial clusters in textile, as well as in knitting machinery (Li & Fung Research Centre, 2006). Clothing and textile is one of China's pillar industries and the production accounts for more than nine percent of the GDP and more than 25 percent of the foreign exchange revenue. The export from China in terms of knitwear is rising steadily. In 2005 it accounted for 20 percent of the world output. The main way of export is OEM, corresponding to circa 90 percent of the export. Thus, Chinese self-branded textile products only represent ten percent of the export. Clusters as the textile cluster in Suzhou is often, according to Li & Fung Research Centre (2006), traditional self-initiated clusters in which the firms are entrepreneurial and family owned. They are often labor-intensive, low technology and low threshold of entering. Thus, also Suzhou has similarities to the competitive network as discussed by Zeng & Williamson (2003).

4.4.2. Advantages gained and challenges met through cluster localization

The advantages of being established in the Hangji cluster is according to 5A Brush availability to the same labor costs, manufacturing technology and management level as other firms in the industry. Also, by being established in the cluster, 5A Brush was able to learn from the case of Colgate Sanxio (a joint venture between the US MNC Colgate and a Chinese SOE) in terms of importance of branding for performance and thus get a peak in both the international and domestic sales. An advantage is also the quality distribution system of the Hangji cluster, making it possible to get new products into the domestic market within one week. The overall challenges are mainly connected to profits and competition of the firms, e.g. the crowded domestic market, the low profits of toothbrushes caused by low-price competition, and the regional battles within the industry.

For XX Knitwear the main advantage taken of the cluster is the usage of the domestic network, including friends and business partners to obtain international orders and contacts. It is a well-known company that has long-term relationships with most of the biggest clothing trade companies in the surroundings. Since the main competitors of the firm are also established within the Suzhou cluster, the location enables the firm to keep track of these. XX Knitwear, still being a typical OEM with low returns, meets challenges in terms of lack of management expertise, limited access to export markets, and difficulties to conform to international operations in order to meet market demand. Coming challenges are increasing costs of raw material and labor costs.

Some of the challenges mentioned above could be counteracted through more active collaboration in the competitive networks that the firms actually are part of, but not so much use. For example access to competent management personnel, information sharing such as introduced in the Hanji cluster and joint marketing, as well as connections to institutions and public goods. Such connections could be exemplified by the governmental support of the development of the 5A Brush brand. One reason for lacking cooperation between firms in the industrial clusters of China seems to be the characteristics of being a former centrally planned economy. Many firms, including 5A Brush and XX Knitwear went from a situation with a predetermined number of customers and distribution channels. Changing to a mode of cooperation is not easily done since it is costly, takes time and demands a certain level of trust. After the privatization 5A Brush was closed out from the sales channels of the state owned firms, so the firm had to adjust to a market with free competition through entering international markets. Both firms are clearly influenced by the different features of the transition process of China. Also, both firms lack experiential international experience and should be able to identify actors within the cluster for collaboration in terms of learning and relationship building with new (direct) entry nodes into foreign markets.

5. MAJOR CONCLUSIONS

In the take off situation firms traditionally are considered to go abroad with former experience from the domestic market, thus exploiting a competitive advantage built up there. When it comes to firms from emerging markets, facing a more complex institutional context, one cannot always assume that such firms follow the paths traditionally suggested. The internationalization pattern in the take off situation of the Chinese SMEs studied shows that they tend to either (1) start doing business on the domestic market as traditionally suggested, then go international, or (2) start directly on the international market without former domestic experience. These paths can at a first glance be interpreted as following either the traditional internation-alization process model or the born global models of firms international from inception.

However, there are some characteristics distinguishing the international take off by Chinese SMEs from the take off by firms originating from mature markets.

The first path concerns Chinese SMEs that take off from the domestic market, i.e. follow a traditional internationalization process where experience is gained in the domestic market before starting with international business. Though, while firms in mature markets usually build their international take off on some kind of differentiation advantage, the two Chinese SMEs within this path took off by exploiting a cost advantage relative to foreign competitors. Thereafter the domestic and foreign markets are developed in parallel. By learning from the international markets, the firms have been able to start developing possible future differentiation advantages such as own brand and products.

The second path concerns Chinese SMEs performing international business from start. Here two kinds of firms are seen. Two firms were production units within traditional industries during the centrally planned era. They became privatized in the 1980's/90's and once limited companies, they both started to export 100 percent (indirectly) to international markets. One firm was forced out since they could not enter the distribution channels of the SOEs, and one became heavily dependent on international orders (OEM). The other kind of firm is the high-tech firm, becoming international from inception. The firm had a differentiation advantage in terms of new technology (spent two year of R&D and production start-up in China before starting to sell to the international market). In addition, the domestic solar-cell market was non-existent at the time of the take off so there where no alternatives but to go global directly. Thus, the main difference between firms being 'born globals' in mature markets vs. the Chinese SMEs studied in this paper is that the latter includes firms that are trigged to early internationalization by the characteristic of the emerging market. Another common trait of the Chinese firms is that they develop the international markets first and thereafter they tend to go back to the domestic market in order to develop it in parallel. Here the firms use their international experience in order to develop or utilize existing differentiation advantages such as own brands or high-tech products.

When moving from the take off situation into the initial stages of internationalization, most of the studied Chinese SMEs rely on indirect export. Some of the firms even were prohibited to perform direct export due to no export rights from the Chinese government. In terms of export share, the firms can mix a high export share (suggesting it to be an experienced exporter) but still have insufficient experience due to the indirect export. Thus, the export share ratio (Cavusgil, 1980) is not useful in terms of firms with indirect export. As a result of indirect export, close to no international knowledge or experience is gained, and no direct relationships with international customers are built. On the other hand, the firms can build up strong domestic business networks that can be used in order to find international customers. Overall, the capacity of the studied Chinese SMEs to build direct international relations is limited since it is a process of experiential learning. The Chinese SME furthest in building international relationships was spread in more foreign markets than the other firms, thus being the most internationally oriented firm. It indicates that in order to gain international experience and knowledge, as well as more and deeper international relationships, the firms need to get past the pitfall of indirect export. For this, building direct international relations and taking usage of the network (guanxi) seems to be key.

Firms located in cluster environments have the potential of gaining a springboard effect into foreign markets if the firm utilizes the advantages of co-location and collaboration, e.g. information sharing and economies of scale. However, it seems like the clusters studied have mainly played the role of export clusters, from where the two cluster-based firms have entered the international market on its own as dedicated exporters. Then the cluster becomes a take off node, wherefrom the firms take off from the (domestic) local market network into a foreign market network. Thereafter, a parallel development of the international and domestic market is seen, facilitated by collaboration and learning from the cluster. Partnerships and other collaborative actions are examples on ‘inward’ investments that bring benefits for cluster-located firms in order to stimulate their ‘outward’ internationalization, i.e. FDI as urged for by the Chinese government through the ‘Go abroad’ policy. By this, Chinese SMEs could move further in their internationalization processes and grow larger, which would spur the catching up process of China.

When studying internationalization of Chinese SMEs, there are many possible aspects that can influence the firm take off and initial internationalization. A limited number are discussed in this paper, e.g. characteristics of the emerging Chinese market, the impact of the chosen entry mode on the firms’ experience, knowledge development and network relationships, as well as cluster as take off node. Many possible influencing aspects, such as the role of the manager (entrepreneur), psychic distance and selection of foreign markets as well as the timing of internationalization in relation to performance (e.g. in Liu, Xiao & Huang, 2008) were excluded due to the frame of the study. It is an exploratory study aiming at describing and analyzing internationalization patterns of the Chinese SMEs studied. Even though multiple cases are studied, the low number of case companies limits the generalizability of the findings. Thereby, the conclusions above should be seen as indicators of potential areas for theory development, e.g. concerning the importance of an insufficient home market as a driver of early internationalization, and/or further research areas in order to enhance the understanding of the internationalization patterns of the unique and less researched Chinese SMEs.

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