



UNIVERSIDADE CATÓLICA PORTUGUESA

# Internationalization to China: Perspectives of Portuguese Companies

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# Resumo

Este trabalho de investigação tem como principal objetivo estudar o processo de internacionalização de empresas portuguesas para a China. Nos últimos anos, as empresas portuguesas têm-se vindo a tornar progressivamente mais internacionais, quer por necessidade, quer devido ao progresso tecnológico que permitiu a globalização de vários mercados internacionais. Não obstante, a expansão internacional de uma determinada empresa para um país em transição como a China apresenta ainda decisões e desafios extremamente interessantes e complexos. Este trabalho visa facilitar uma melhor compreensão das perspetivas das empresas portuguesas no processo de internacionalização para este mercado. Especificamente, no que concerne temas como as motivações das empresas para se internacionalizarem para a China, as principais barreiras enfrentadas ao longo deste processo de internacionalização e as percepções relativamente a duas estratégias ao dispôr das empresas com vista a melhorarem o seu desempenho. Do ponto de vista metodológico, foi adotada uma metodologia mista com a recolha de dados quantitativos e qualitativos.

Os resultados deste estudo permitiram-nos concluir que a principal motivação para a internacionalização de empresas portuguesas para a China é, claramente, a procura de novos mercados. Adicionalmente, as diferenças culturais e institucionais são apontadas como os maiores obstáculos ao longo do processo de internacionalização para este país. Por último, é reforçada a ideia de que a sensibilização cultural deve ser um tema prioritário para as várias partes interessadas envolvidas no processo de internacionalização de empresas estrangeiras para a China.

**Palavras-chave:** Internacionalização, Motivações para a Internacionalização, Barreiras à Internacionalização, Agências para a Promoção de Investimento e Exportações, Guanxi, Portugal, China

# Abstract

This research work aims to study the internationalization process of Portuguese companies to China. In recent years, Portuguese companies have become increasingly more international, either out of necessity, or due to the technological progress that has made the globalization of international markets possible. Notwithstanding, the international expansion of a given company to a transition country such as China still poses interestingly complex decisions and challenges. This work aims to facilitate a better understanding of the perspectives of Portuguese companies when internationalizing to this market. Specifically, regarding topics such as a firms' motivations to internationalize to the Chinese market, the main barriers endured throughout their process of internationalization and two possible strategies companies' might have adopted in order to augment their internationalization performance. From a methodological standpoint, a mixed method approach has been adopted through the collection of both quantitative and qualitative data.

The findings derived from this study allowed us to conclude that market-seeking motivations are clearly the main driver behind Portuguese companies' internationalization to the Chinese market. Moreover, cultural and institutional differences are highlighted as the biggest obstacles throughout the internationalization process to this country. Lastly, the idea that cultural awareness should be a topic worthy of prioritization for the various stakeholders involved in foreign companies' internationalization processes to China is re-enforced.

Keywords: Internationalization, Internationalization Motivations, Barriers to Internationalization, Investment and Export Promotion Agencies, Guanxi, Portugal, China

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# Introduction

The present Master's Final Assignment, carried out within the scope of the Master in Management of Católica Porto Business School, was developed under the category of Internship Report.

For five months, the author of this study worked as an intern at the Delegation of AICEP in Shanghai, incorporated in the Portugal Consulate in Shanghai, where functions of support in the various areas of activity of the entity were carried out, reporting directly to the delegate, Dr. Mário Quina.

Over the past few decades, globalization has dramatically transformed the landscape of international business. Companies have been acting in accordance by intensifying international trade and foreign direct investments, and due to the nature of today's global marketplace firms can no longer operate without having in consideration the foreign and/or the global competition, and the opportunities and challenges that may represent (Leonidou & Katsikeas, 1996; Ruzzier, Hisrich, & Antoncic, 2006). Portuguese companies have not been indifferent to this phenomenon and have become increasingly international, either out of necessity, or due to the technological progress that has made the globalization of international markets possible. On the whole, internationalization has become a highly regarded aspect for many companies' growth and competitiveness, and as such presents itself as an ever increasingly more relevant subject of research.

Concurrently with the globalization phenomenon, China's recent economic success story has captured the world's imagination. From a somewhat

impoverished and isolated position a mere generation ago, China, and its 1.4 billion population, has reinvented itself as one of the great worldwide manufacturing destinations, a dynamic commercial marketplace and an essential source of global finance.

The present work aims to contribute to the body of knowledge regarding the internationalization of Portuguese companies to the Chinese market. Focusing its attention on the motivations behind this internationalization process, the challenges and barriers endured throughout it and two possible strategies for the mitigation of these internationalization challenges, namely resorting to the support of Investment and Exports Promotion Agencies and the development of interpersonal relationships, also known in Chinese as *guanxi*.

In order to fulfil the aforementioned objectives, this work has been divided into five distinct chapters.

On Chapter 1 a review of the existing literature regarding internationalization will be presented, with the purpose of exploring the theoretical background that will serve as the backbone for the remaining work. Succinctly, the topics under analysis are the concept of Business Internationalization and its evolution across time, the main motivations behind firms' international expansion, the main theories associated with the process of internationalization, the different modes an enterprise has at its disposal to initiate this process, and, lastly, the main barriers endured throughout the development of international activities.

Chapter 2 will proceed with China and its business system as the main topic of analysis. A broad overview of the country will be presented, as well as an introduction into China's business system, with a particular focus on cultural differences and how they translate into the development of business operations in the country. Ultimately, the two aforementioned distinct strategies aimed at mitigating the challenges of internationalization to the country will be explored.

In Chapter 3, the methodology used for the development of this research is described, as well as the main data collection techniques adopted.

Chapter 4 concerns itself with the presentation and discussion of the empirical data collected through the development of the survey within the framing of the literature reviewed in Chapters 1 and 2. In addition, data regarding the current state of Portugal and China economic relations is also provided.

Lastly, Chapter 5 presents the answers to the research questions under analysis. Furthermore, the main limitations of the present work are pointed out, alongside with possible paths for future research.



# Chapter 1

## Business Internationalization: Literature Review

In the context of increased integration among the world's different economies due to the liberalization of the trade of goods and services, we have witnessed a rapid increase of evidence regarding the phenomenon of business internationalization. In fact, according to the World Trade Organization (WTO), as of today it is estimated that worldwide trade values have ballooned by over 304 times from 1950 levels (WTO, 2021).

Throughout this chapter a brief literature review on the concept of Business Internationalization and its evolution across time will be explored along with the main motivations behind firms' international expansion. Furthermore, the main theories associated with the process of internationalization will be presented, as well as the different modes an enterprise might have at its disposal to initiate this process. Lastly, the main barriers a company might face throughout its internationalization process will be investigated.

### 1.1. Business Internationalization: Concept Evolution

Over the last two decades, the interest concerning international operations of business companies has substantially grown from the perspective of the various stakeholders involved in it, but also from external institutions such as academia.

Academic research into the internationalization field has both stimulated and been stimulated by diverse strands of concern – for instance, corporations' considerations are typically related to the effectiveness and efficiency of their operations in an ever-increasing competitive global environment; governments, on the other hand, reflect on the positive effects the overall process might represent to their national interests; and trade unions intend to assess the impact on wages, working conditions and their own power.

In a general sense, internationalization provides companies growth (Luostarinen, 1980), usable knowledge and learning (Zahra, Ireland & Hitt, 2000) and improved financial performance (Lu & Beamish, 2001). It is also considered to be a good indicator for the competitiveness and capacity to generate wealth of a given country (Roper & Love, 2002).

Several authors have proposed definitions to the concept of internationalization:

- Welch & Luostarinen (1988) describe it as “the process of increasing involvement in international operations” by enterprises. These international operations can take a more simplistic form, such as international commerce, or a more complex and advanced one, as it is the case of when a company establishes a production unit on a foreign market.
- Calof & Beamish (1995) synthesize it as “the process of adapting firms' operations (strategy, structure, resource, etc.) to international environments”, since, in various occasions, “internationalization can also take the form of de-investment”.
- Matthews (2006) formulates it as “the process of the firms becoming integrated in international economic activities.” This particular definition, according to Matthews, appears to accommodate the “multiple connections of the global economy which draw firms into involvement

across national borders, through contracting, licensing or other transacting relationships.”

Until very recently, internationalization research focused mainly on Multinational Enterprises (MNEs)<sup>1</sup>. Most traditional analytical frameworks had been developed two or three decades ago, and at the time the process of entering a foreign market faced considerable bigger barriers, “internationalization was the luxury of the largest and strongest firms” (Saarenketo et al., 2004).

Be that as it may, in the beginning of the 21st century, with the emergence of dynamic, knowledge-intensive sectors such as information and communications technologies, evidence regarding the internationalization of Small and Medium Enterprises (SMEs)<sup>2</sup> has rapidly increased. Furthermore, smaller countries, “particularly those experiencing balance of payment deficits, have attempted to increase the international activities of their SMEs in order to boost economic growth, cut unemployment and create potential mini-MNEs in the future.” (Ruzzier et al., 2006). Both these factors led to a redistribution of the focus regarding internationalization research, from the dominant role attributed to mature MNEs to the more current broader interest among MNEs and SMEs’ international operations.

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<sup>1</sup> Multinational Enterprises (MNEs) are “incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. An equity capital stake of 10% or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as the threshold for the control of assets. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is a resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10% for an incorporated enterprise, or its equivalent for an unincorporated enterprise).” (UNCTAD, 2019)

<sup>2</sup> According to the Article 2 of the European Commission Recommendation (2003/361/EC), “The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million”.

Even though there is no universal agreement on how SMEs should be defined, the current work will be based on the classification, presented below, currently recommended by the European Union. Nonetheless, it is widely agreed that the main differences between MNEs and SMEs are their size and international presence (Hutchinson et al., 2007). There is an important correlation between both these characteristics, since SMEs should not be seen as simply smaller versions of large firms (Shuman & Seeger, 1986). Contrary to most SMEs, due to their dimension, MNEs have at their disposal enough resources to surpass domestic market barriers while simultaneously undergoing foreign market research (Hutchinson et al., 2006). This research provides them with an important knowledge base regarding the targeted foreign markets, enabling a better performance throughout the internationalization process. These resources and competencies limitations are, to this day, a significant barrier to the internationalization of SMEs (Ruzzier et al., 2006), and this is an important aspect to consider in studying internationalization.

## 1.2. Internationalization Motivations

Analogously to the previously described evolution of the concept of internationalization over time, the literature regarding firms' internationalization motives has witnessed comparable advancements since its inception.

These changes in internationalization motivations' research makes sense in a world that has clearly not stayed the same for the past 30 years. The globalization phenomenon has resulted in deep transformations in what concerns international business. When investigating the motivations behind companies' internationalization, we now have to take into consideration a number of new

factors, for instance, shrinking economic distances, reduced transaction costs, and de facto economic integration. Additionally, we have to bear in mind the perspectives of a variety of new actors, now, also involved in international activities, such as SMEs, State-Owned Enterprises (SOEs), sovereign wealth funds, among others (Cuervo-Cazzura & Narula, 2015).

For the purpose of this work, a categorization has been adopted that takes into account the aforementioned evolution in what concerns internationalization motivations' theory. Following Bartlett and Beamish (2018), the motives behind companies' internationalization have been divided into two broad categories, namely, traditional motivations and emerging motivations.

Additionally, the two above mentioned categories were divided into five smaller subcategories by employing an interpretation of the work of Dunning (1992). The amendment suggested here to the categories he has developed and so convincingly applied is to argue for the division of Dunning's strategic-asset seeking category into two distinct ones. Dunning's definition was deliberately broad, since it can be read both as "the acquisition of assets that are strategic", as well as "the seeking of assets for strategic reasons". According to Cuervo-Cazzura & Narula (2015), "when strategic asset seeking is used in such a wide variety of ways, it becomes tautological – all activities are strategic in some way". We agree with the preceding argument, and as such have resorted to five distinct subcategories in contrast with Dunning's four. The motivations behind firms' internationalization are;

- **Traditional motivations**
  - **Market-seeking**, as in, when firms develop international activities as a means to exploit the possibilities derived by markets of greater dimensions or bigger potential. This motivation mainly focuses on

demand aspects and is particularly common among firms that possess some type of intrinsic advantage, commonly technology or marketing-related. The exploitation of such advantages abroad grants firms a competitive advantage in offshore markets, resulting in higher sales and revenues;

- **Resource-seeking**, in the context of companies' desire to acquire specific types of resources that are not available at their home-country, as in the case of natural resources or raw materials, or that are available but at considerably higher costs, as in the case of unskilled labour that is commonly available at lower costs in emerging economies, and as such is reasonable for firms to look elsewhere for their acquisition;
- **Efficiency-seeking**, generally regards companies' decision to rationalize structures of established investments with the purpose of achieving gains through centralised governance. This type of motivation is often associated with economies of scale and scope, but also with risk diversification. Traditionally, firms' that regard internationalization activities from an efficiency perspective are experience, large and diversified multinational enterprises.

- **Emerging motivations**

- **Competitive positioning**, as in the seeking of assets for strategic reasons, for instance decisions based on pre-empting competitors' actions or the cross-subsidization of markets through the establishment of profit sanctuaries. This type of coordinated global strategy is often referred to as playing "global chess".

- **Strategic-asset seeking**, that is, the acquisition of assets that are strategic, in other words, gaining access to knowledge or competencies that are not yet in possession of the internationalizing firm. Generally, the undertaking of international activities by firms enables them to gain access to considerable informational advantages that could result, for example, in the “location of more efficient sources or more advanced product and process technologies” (Bartlett & Beamish, 2018).

To conclude, it is important to call the reader attention to the fact that, even though the motives behind international expansion by firms have been reduced to five distinct categories, companies are rarely driven by a single motivation force when considering internationalization. In fact, it is commonly the identification of a combination of various potential advantages that propels firms to develop international activities.

### 1.3. Internationalization Theories

As previously mentioned, for the past five decades, several authors have developed a wide array of internationalization theories. In this section, the ones considered more relevant for the elaboration of this work will be presented.

In a broad sense, researchers have been categorizing internationalization theories into two groups. Firstly, there are theories whose main focus of study is the internationalization process from the perspective of MNEs, which were established at an earlier stage since there was a considerable bigger body of empirical evidence regarding this type of companies entering foreign markets at that time. Further along, several authors elaborated theories taking into

consideration the more recent phenomenon involving the participation of SMEs on international operations, developing a second group of internationalization theory based on the experience of those companies.

In the following section, several of the more relevant internationalization theories will be presented.

The theories chosen to exemplify the process of entering foreign markets by MNEs and SMEs are the Monopolistic Advantage Theory (Hymer, 1976), the Internalization Theory (Buckley & Casson, 1976) the Eclectic Theory (Dunning, 1976), the Uppsala Internationalization Process (Johanson & Vahlne, 1977) and the Network Approach.

### 1.3.1. Monopolistic Advantage Theory (Hymer, 1976)

The Monopolistic Advantage Theory was first proposed by Stephen H. Hymer in his doctoral thesis in 1976, and it was later expanded by several authors, most notoriously by Charles P. Kindleberger.

The theory looks to provide possible reasons for why MNEs are still capable to compete effectively against local companies, despite the predictable disadvantages they face, namely the lack of local know-how, the elevated costs of acquiring this knowledge in foreign countries and other liabilities of foreignness.

In order to answer this dilemma, Hymer (1976) suggests a microeconomic theory that envisions the MNE as the center, but also the cause, for the cross-border movement of capital and goods. In his belief, MNEs are able to offset the disadvantages they have to cope with, when compared to the local firms operating in the market, by the existence of certain monopolistic advantages.

These advantages can arise from a vast array of factors, more specifically, advanced manufacturing processes, technological innovations, scale economies, brand names, marketing skills, knowledge and patents. It is important to note, that in order for the Monopolistic Advantage Theory to be consistent, these advantages cannot emerge from location of production but are specific and owned by the MNE.

Another relevant aspect of Hymer's theory is the emphasis on Foreign Direct Investment (FDI). To put it simply, Hymer considers that in order for MNEs to better capitalize and control their firm-specific advantages, they often choose to enter international markets via FDI while simultaneously alluding to the risks this entry mode can entail. In summary, those risks consist of the risks associated with the foreign market chosen, for example the danger of political instability; the communication and learning costs associated with overcoming liabilities of foreignness; and the risks inherent to exchange risks volatility.

### 1.3.2. Internalization Theory (Buckley & Casson, 1976)

In spite of the priceless contribution of Hymer, the credit for transforming internalization into a full paradigm of international production is commonly ascribed to Peter Buckley and Mark Casson.

With the formulation of the Internalization Theory in the book *The Future of the Multinational Enterprise* released in 1976, both scholars did not only complement previously developed international business theories, they re-centred the analysis by building upon the pioneering work of Ronald Coase (1937), *The Nature of the Firm*. By regarding firms as an alternative institution to markets, their model "views the MNE as a special case of the multiplant firm" (Buckley & Casson, 1976).

Buckley & Casson's (1976) claim that MNEs are often vertically and horizontally integrated was the foundation for the formulation of a model that emphasised the relationship between knowledge, market imperfections and the internalization of markets. Succinctly, their theory "demonstrated how seemingly unrelated aspects of multinational operations, such as technology transfer and international trade in semi-processed products, could be understood using a single concept – the internalization of imperfect markets" (Buckley & Casson, 2009).

Contrary to the theory proposed by Hymer (1976) that viewed market power through the creation of monopolies as the key driver for firm's internationalization, Buckley and Casson casted MNEs in a different light by introducing the dynamic innovatory capability of internal markets as their main reason for growth.

Additionally, the theory elaborates on two different types of internalization. Firstly, when certain transactions are more efficiently performed internally than by contracts with the external market (lower transaction costs). The second type originates when a company is capable of internalising externalities even when no external market existed before (market-making). "The actions of firms can replace the market or alternatively can augment it" (Buckley & Casson, 1985). Both these types of internalization are relevant for the transaction of intermediate goods, in the case of the former type, but also of intangible assets, in the latter.

Moreover, the transaction of intangible assets, such as knowledge and technology, internally is cost effective and, in contrast with external transaction, risk free. This assertion helps to understand why companies might prefer to invest in direct production abroad rather than licensing their international operations. Nonetheless, this fact does not clarify the reason companies might still prefer to enter foreign markets through direct production investments in place of direct exporting.

### 1.3.3. Eclectic Paradigm (Dunning, 1977)

In 1976, the concept of the eclectic paradigm (OLI) regarding international production was first presented by John H. Dunning at a Nobel Symposium in Stockholm. Since then, the author and several others followed up on expanding his original contribution. Notwithstanding, Dunning's formulation has been, for the past four decades, considered one of the most influential frameworks for empirical investigation regarding the determinants of FDI.

According to Dunning (1979), the paradigm resulted from his own dissatisfaction with the existing theories of international production, namely, Hymer's approach, the product-cycle theory, and the internalization theory. In a sense, the scholar attempted to integrate the existing theories which he considered to be only partial explanations for the subject to be explained, "the extent and pattern of international production" (Dunning, 1991).

The result was a holistic framework that enabled the identification and evaluation of the determinant factors justifying MNEs' initial act of foreign production as well as the ensuing growth of said production. According to the author, "the choice of the word eclectic was an ambitious yet deliberate one. It was meant to convey the idea that a full explanation of the transnational activities of enterprises needs to draw upon several strands of economic theory; and that foreign direct investment is just one of a number of possible channels of international economic involvement, each of which is determined by a number of common factors" (Dunning, 1988).

The crux of Dunning's eclectic paradigm is the assumption that for a firm to engage in FDI the following three conditions need to be satisfied;

⊗ The MNE pursuing investments abroad must possess some sort of Ownership (O-) advantages in comparison to the local firms operating in the host country. Dunning (1979) enumerated two sets of possible O-advantages, those arising from the exclusive access to inputs, intangible assets or markets; and those derived from the multinationality nature of the firm.

⊗ In the case the first condition is fulfilled, for companies to engage in foreign production activities, host countries under analysis should hold attractive characteristics, Location (L-) advantages, that favour the undertaking of value adding activities in a foreign market, rather than at MNEs' domestic locations. L-advantages avers that the more "immobile, natural or created endowments" found in alternative countries or regions "the more firms will choose to augment or exploit their O-specific-advantages by engaging in FDI" (Dunning, 2000)

⊗ Lastly, Internalization (I-) advantages, which refer to the inherent benefits regarding the internalization of cross-border activities by MNEs, must be determined. This third characteristic of the OLI tripod "offers a framework for evaluating alternative ways in which firms may organize the creation and exploitation of their core competencies" (Dunning, 2000). Through the analysis of I-advantages, the eclectic paradigm, along with other internalization models, demonstrates the reasons MNEs often opt to internalize markets within hierarchical forms with centred ownership in contrast to exporting or licensing knowledge to enable foreign market access.

Dunning's formulated theory also ascertains that in the case a particular company held both O and I-advantages but not L-advantages, external markets would then be exclusively served by exports; on the other side, if such company possessed both ownership and location advantages but was unable to benefit

from the internalization of markets, the logic approach would then be to externalize its O-advantages through licensing agreements or other similar contracts with independent firms.

The main criticism posed to the OLI paradigm concerns itself with its generality, in summary due to the model's vast number of variables it lacks any operationality. Dunning (1991) partially accepted this view, even though the scholar believes it to be an inevitable consequence of integrating the considerably diverse motivations behind FDI into one general envelope paradigm.

#### 1.3.4. The Uppsala Internationalization Process

The scholars Jan Johanson and Jan-Erik Vahlne, from the University of Uppsala in Sweden, developed the Uppsala model in 1977. In contrast to the internationalization theories established at the time, that have since generally been characterized as economic, the Uppsala model pioneered the introduction of behavioural assumptions to describe the internationalization process.

With a fundamentally dynamic approach to international business, Johanson & Vahlne (1977) elaborated a model of "rational internationalization" from their empirical observations regarding mainly individual Swedish firms. The authors concluded that MNEs steadily develop their international operations through a process of incremental knowledge and commitment.

Viewed as one of the so-called stage models for the internalization process, this new paradigm established that firms gather market-specific and experiential knowledge through their initial commitment of resources to a foreign market. Subsequently, the development of these experiential insights will determine the following decisions concerning the firms' internationalization, such as the entry mode or the country-market selection, as well as changes in current internationalization strategies (Johanson & Vahlne, 1977).

According to Johanson & Vahlne (1977), the development of international activities by firms typically followed a gradual pattern labelled as establishment chain. This phenomenon, constructed from the scholars' observations, claimed that firms often began to internationalize through ad hoc exporting, followed by the establishment of deals with intermediaries, commonly agents representing the local companies in the destination market. In the case of continued sales growth, the companies would later opt to substitute such agents with their own sales organization, and subsequently, if the trajectory of growth persisted, finally initiate production investments in the foreign market.

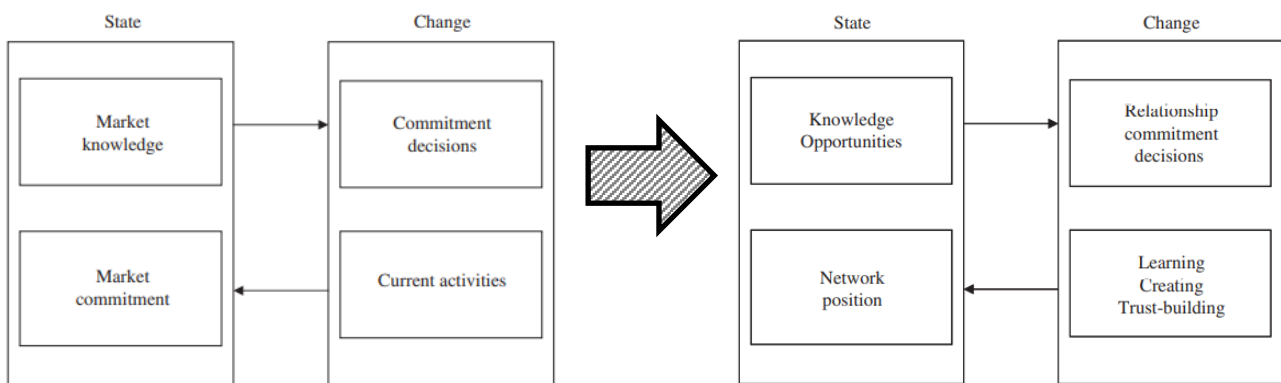
Another crucial aspect of a firms' pattern of internationalization, according to the Uppsala model, is the concept of psychic distance. Johanson and Vahlne (1977) define the concept "as the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development". MNEs often choose to internationalize firstly to countries closer to their domestic market, in terms of psychic distance, and gradually expand their activities to countries considered farther apart.

From this perspective, internationalization can be viewed as "the consequence of a process of incremental adjustments to changing conditions of the firm and its environment". Firms mitigate the level of uncertainty and risks inherent to the process by selecting closer markets and opting for modes of internationalization with lower levels of commitment. As time goes by, the knowledge obtained through their international activities will gradually offset the perceived risks, which in turn will generate an increase on the resources committed to foreign operation as well as the progressive expansion to countries increasingly further apart.

In 2009, Johanson & Vahlne reformulated the theory they had introduced in 1977 by taking into consideration new business practices and theoretical

developments. In the revisited model, the business environment is now viewed as “as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers” (Johanson & Vahlne, 2009). A firm’s difficulties and opportunities in developing its international operations is less and less a matter of country-specificity but more of a relationship and network-specificity one. As such, the concept of psychic distance is now less relevant in explaining the degree of uncertainty a company might face, in contrast to the newly formulated concept of outsidership, in relation to the relevant network. Lastly, in the 2009 model the change mechanisms are fundamentally the same as the ones presented in the original version, with the exception of the addition of trust-building and knowledge creation.

**Figure 1 - Evolution of the original Uppsala internationalization process model (left) to the business network internationalization process model, also known as the revisited Uppsala internationalization process model (right)**



*Source: Adapted from Johanson & Vahlne (2009)*

### 1.3.5. The Network Approach

The field of international business has long lacked a consensus regarding what its’ conceptual domain should be due to its complex and dynamic nature. The

importance of conducting internationalization research within a more holistic framework has been observed by scholars, as is the case of Toyne (1989), who argues, "International business, as a field of theoretical inquiry, should encompass all social, industrial, market, and government activities (economic and political) that lead to, or directly influence in some way, international exchange".

Another aspect, concerning traditional approaches to internationalization, that has faced criticism overtime, is their overall systematic nature which contrasts with the reality of the internationalization process for most companies in today's global environment. According to Fletcher (2008), internationalization is often a not so consistently paced process, but actually a turbulent one (certain circumstances in one market can influence a firm's activity in others, for example).

The network approach, whose development originated in the second half of the 1980s, presents itself as a possible answer to both criticisms mentioned, due to its holistic nature and focus on interaction. In sum, the theory, as originally formulated by Johanson & Mattsson (1987), states that the business networks among firms enables the access to the necessary knowledge and resources required for the development of the internationalization process.

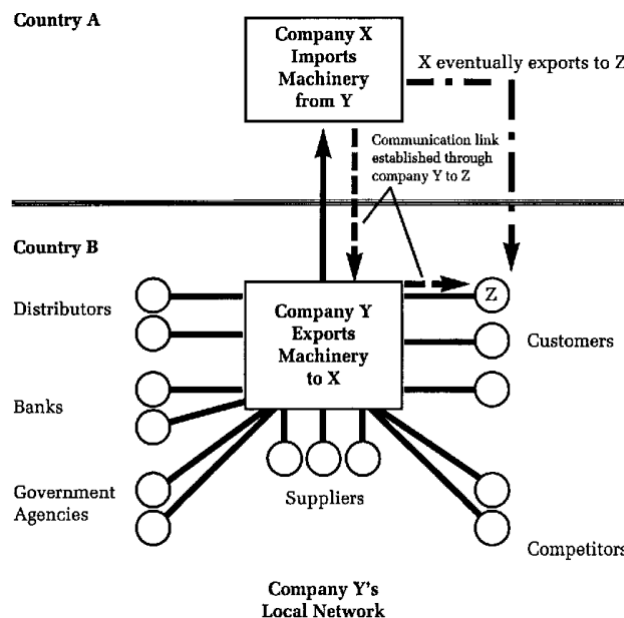
By comprising two new dimensions, the degree of internationalization of a particular firm and the degree of internationalization of the networks the firm is operating in, the network model enlarges on the stage models by allowing for multilateral influences on the international decision making of the firm.

As a result, companies will be encouraged to pursue higher levels of internationalization the broader the networks companies find themselves positioned within, and the higher the level of internationalization of such networks (Achtenhagen, 2011). According to the model, networks enable companies to: identify new international opportunities; acquire credibility from

already existing or future partners; access valuable strategic resources, such as market knowledge. These are indispensable tools, specifically in the case of SMEs, who typically lack the resources and competencies essential for the underdoing of international business (Buckley, 1998). In short, despite resources being external in relation to the company they are internal to the network.

The following example, presented by Welch & Luostarinen (1993), illustrates how firms can employ their established networks in an internationalization context.

Figure 2 – Example of a network in an internationalization context



Source: Welch & Luostarinen (1993)

Early network literature (e.g, Johanson & Mattsson, 1988) mainly emphasised inter-firm business relationships in the network. Nonetheless, social relationships, which were largely overlooked in the initial stages of network theory development, have been gradually more prominent in recent studies concerning the network approach. In fact, various authors (Harris & Wheeler, 2005; Vasilchenko & Morrish, 2011) have stated that their findings suggest that

suppliers and costumers' business relationships are preceded by social relationships established between individuals from firms in both sides. Furthermore, Björkman & Kock (1995) emphasized the importance of social relationships in the Chinese market, ascertaining that such relationships are a prerequisite for most business exchanges in the country.

The relevance of social relationships in China can better be illustrated by the concept of *guanxi*. According to Chen & Chen (2004), *guanxi* "is an indigenous Chinese construct" that can be defined "as an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the social norm of *guanxi* such as maintaining a long-term relationship, mutual commitment, loyalty, and obligation".

Wu (1994) persuasively formulates that *guanxi* networks represent an important transaction mode. Nonetheless, such networks differ from business networks since they oversee transactions and interactions among all social actors, but especially between individuals, in contrast to business networks (Johanson & Mattsson, 1988), which are focused on relationships among organizations and individuals. Based on this view, organizations do not possess *guanxi*, it is the employees of organizations that, indeed, do so.

A third type of relationship, that has recently been highlighted by the extensive body of research regarding the network approach to internationalization, is concerned with linkages to non-commercial agencies, for example governmental agencies, law firms, banks, among others. These relationships, also known as institutional relationships, can prove to be particularly important in the initial stages of a company's internationalization to emerging markets. According to Elg et al. (2008), companies often use their networks to obtain political acceptance and legitimacy through their interactions with international institutional actors.

Networks with institutional relationships tend to be perceived as more effective among companies from or entering emerging markets. As stated by North (1990) and Jansson (2007), these relationships often play a critical part in mitigating information asymmetries responsible for higher levels of uncertainty, stemming from the lack of rules of the game.

Another relevant facet of business networks is their dynamic nature. However, questions like how and why they change throughout the internationalization process are not often the topic of inquiry for most scholars focused on the network approach. Concepts such as change, evolving events, and progress are frequently overlooked in the network theories' body of literature. Nonetheless, a noteworthy exception is Coviello (2006), who examines the development of networks by studying their structures in three distinct phases of the focal firms' internationalization process. The author concludes that throughout the process of internationalization, the focal firms' networks increase in range, size and centrality.

In 1994, Patricia McDougall and Benjamin Oviatt developed a theory, heavily influenced by the network approach to internationalization, seeking to explain one of the various limitations to the original Uppsala model: the existence of companies that did not follow a gradual approach to their internationalization process. On the other hand, these companies, denominated Born Globals, develop their international activities in a fast-paced fashion, often engaging in international operations from their first days of establishment.

The rapid internationalization of Born Globals is highly influenced by the traits of their founder, who is often characterized by having a strong international orientation, global vision, international experience, wide network of contacts, great tolerance to risk and technical knowledge that allow him to develop innovative ideas (McDougall & Oviatt, 1994). Social and business networks are key resources for the success of Born Globals through the development of

international partnerships (McDougall & Oviatt, 1994). The application of the network approach at the founder level has proved to be fundamental to explain certain international standards for the development of highly entrepreneurial organizations (Rialp et al., 2005).

On the whole, these theories contribute to a better understanding of the complexities involved in the process of internationalization. While the first ones emphasize economic factors and focus on the organization itself, the latter emphasize cultural and social aspects and focus on the network of organizations, individuals and other stakeholders.

#### 1.4. Internationalization Modes

The choice of which internationalization mode firms adopt when entering a foreign market has long been viewed as one of the most critical strategic decisions companies have to undertake, since this selection can often determine a positive or negative outcome of the companies' performance on their external markets (Anderson & Gatignon, 1986).

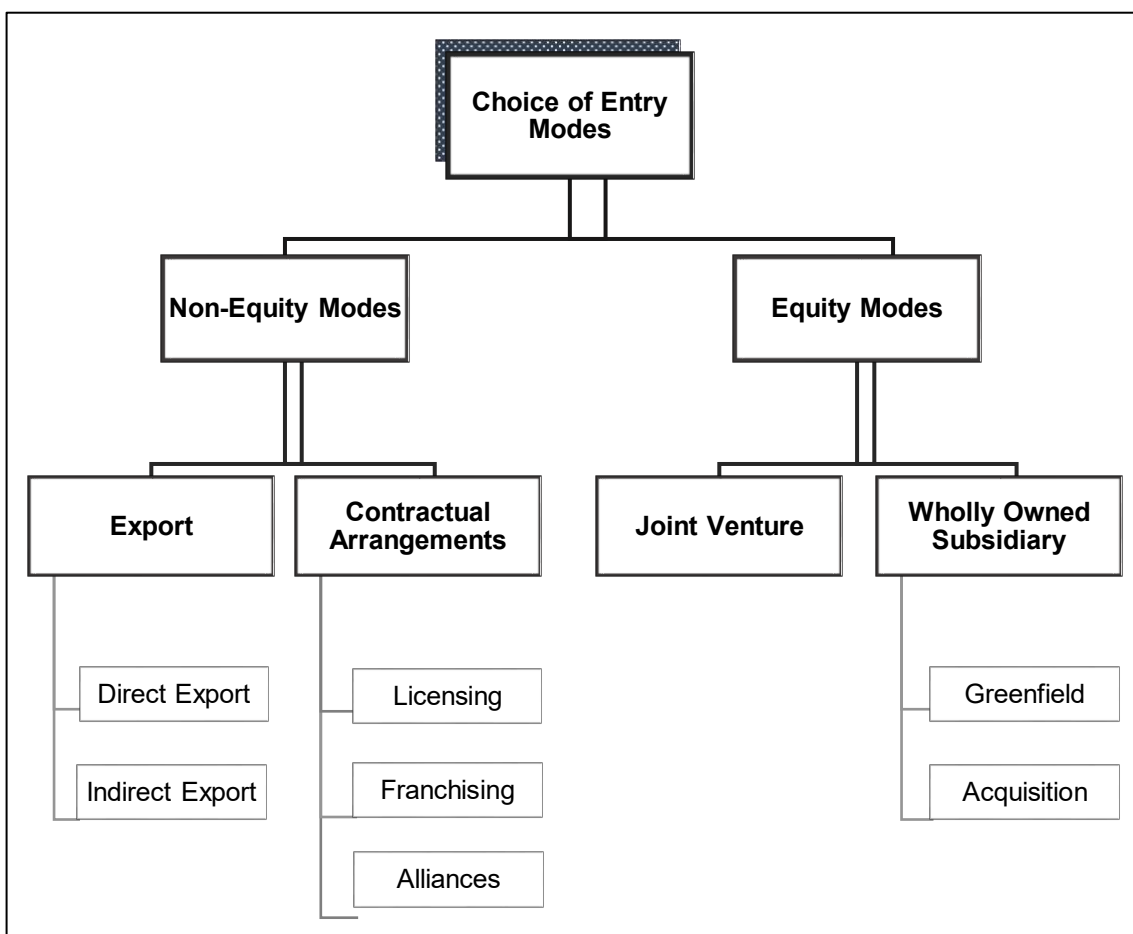
A wide array of internationalization processes and entry modes are available to companies who want to expand their activities. Root (1987) defines a foreign market entry mode as "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country."

In a general sense, researchers have modelled entry modes in two distinct ways. On one hand, as a continuum of increasing levels of resource commitment, risk exposure, control and profit potential from export to wholly owned subsidiaries (Chu & Anderson, 1992). On the other hand, as an option of setting

a particular mode as a baseline against which other modes can subsequently be compared to (Agarwal and Ramaswami, 1992; Buckley and Casson, 1998).

For the purpose of this work, a more streamlined conceptualization of the diverse entry modes has been adopted (figure 3). Based on the Hierarchical Model, presented by Pan & Tse (2000), this formulation is particularly interesting for two main reasons: first, it takes into consideration that managers have a limited analytical capacity (Simon, 1955), and often decompose a complex decision into a hierarchical process while adopting a small set of critical variables to monitor at each level (Steinbruner, 1974); second, the hierarchical process is appropriate for the entry choice decision due to the considerable differences that exist among the various entry modes and among the criteria of choice at each level (Anderson & Gatignon, 1986).

Figure 3 – A hierarchical model of choice of entry modes



*Source: Adapted from Pan & Tse (2000)*

The first level of the hierarchy creates a distinction among entry modes where equity investment is required and those where it is not (Equity Modes vs Non-Equity Modes). According to Anderson & Gatignon (1986), in general, Equity Modes require a major resource commitment in the overseas market, since they call for a concrete investment for the establishment of an independent operation. Additionally, and most importantly, these internationalization forms typically demand an on-going direct management of the newly established entity, as well as a constant interaction with diverse local parties. Considering this type of entry modes, companies have a subsequent decision between the establishment of a joint venture or a wholly owned subsidiary.

As for the case of Non-Equity Modes, the level of resource commitment, risk and control is, commonly, much lower, since firms are not required to establish an independent organization abroad. Furthermore, the relationship between the MNE and foreign parties can be specified and fixed contractually. Among Non-Equity Modes, firms have at their disposal two major modes of entry: exports and contractual agreements.

In the following sub-sections, the lower levels of the hierarchical model will be briefly elaborated. In the interest of presenting the higher level of fine detail managers have at their disposal when considering the internationalization of their companies' activities.

#### 1.4.1. Equity Modes

As previously mentioned, when considering equity modes, companies should assess certain factors, such as investment risk and return, location choice, adaptation to local environment and management, control of operation.

Furthermore, firms can develop their foreign direct investment through the following forms:

**i. Joint Venture**

Joint ventures occur when “two or more firms create a jointly owned legal organization that serves a limited purpose for its parents, such as R&D or marketing” (Todeva & Knoke, 2005). This internationalization form is often chosen when the assessed risk of investing in a foreign market proves to be considerably high, since it allows the companies involved to share their resources as well as the aforementioned risks. Joint ventures among companies of different countries, particularly the ones that include at least one local company from the host market, are especially attractive, given that they allow the internationalizing company to benefit from the knowledge of its local partner concerning, for instance, cultural, market, law and political characteristics of the destination country (Hill, 2009).

Regarding this internationalization mode, most disadvantages derive from the potential for conflict among the companies involved, mainly due to cultural and organizational heterogeneities (Larentis et al, 2013).

Lastly, in certain countries, due to political legislation, joint ventures are the only entry mode available for companies wanting to internationalize to such markets (Hill, 2009).

**ii. Wholly Owned Subsidiary**

Wholly-owned subsidiaries tend to present themselves as the entry mode which results in the highest levels of investment for firms, since the internationalizing company integrally supports the costs involved throughout the process. In a general sense, companies have at their disposal two dominant modalities for undergoing the establishment of a wholly-owned subsidiary. On one hand, through the acquisition of an already established firm operating in the

foreign market, also commonly named Brownfield (Root, 1987) On the other hand, through the establishment of a new subsidiary from the ground up, generally referred to as a Greenfield.

Generally, Brownfields are carried out with the intention of eliminating a possible competitor in the host country. In addition, they often involve a smaller risk when compared to Greenfields, since the parent company will benefit from all the resources of the acquired company, such as location, networks, brand recognition, and, in certain instances, local employees (Zapata, 2007).

Nonetheless, a MNE might resort to Greenfields if the existent local companies do not present the resources, results and opportunities consistent with the vision such company has for the destination market. This entry mode is commonly associated with higher levels of commitment from MNEs, but ensures a stronger alignment between the parent and respective subsidiaries.

In sum, both Brownfield and Greenfield are synonymous with a high level of financial investment and its inherent risk (Buckley & Casson, 1998). Notwithstanding, no other entry mode allows companies' technology to be as safe and protected, in addition to a higher level of coordination regarding their global strategy while simultaneously benefiting from diverse locations and economies of scope (Hill, 2009).

#### 1.4.2. Non-Equity Modes

Non-equity modes are, as a rule, less resource intensive while still allowing companies to develop their international intentions. These can unfold in two diverse fashions:

##### **ii. Export**

According to Johanson & Vahlne (1977), exports are the most common entry mode typology when a firm initiates its process of internationalization, presenting an excellent opportunity for acquiring international experience. Exports enable the access to foreign markets to MNEs while representing smaller investments when compared to other entry modes (Root, 1998). Commonly these can be developed in two distinct modes: direct and indirect exports.

Direct exports occur when a particular company sells directly to a foreign market through agents or distributors. The main benefits of this strategy are the higher level of protection over intangible assets (brands, patents, among others), and the higher level of control over the marketing plan in what concerns distribution, price, promotion and wider and faster feedback from the foreign market. However, most of these advantages are only obtained in case the exporting company undertakes its international market responsibilities (Root, 1998).

Indirect exports, on the other hand, describe the situation in which a firm sells its products to customers in a foreign market through an independent intermediary. Often seen as an attractive strategy for companies entering a new foreign market, as it presents smaller costs due to the transfer of risk to the export agent, it often results in difficulties with respect to the level of active control the MNE is able to undertake. Consequently, this export mode tends to result in reduced knowledge regarding the foreign markets involved and the internationalization process itself (Root, 1998).

## **ii. Contractual Agreements**

Albaum & Duerr (2008) refer to licensing, franchising and strategic alliances as entry modes that enable increases in market leverage. The main goal of contractual agreements is the long-term improvements in competitiveness for the partners involved, based on the belief that both parties have something unique

to contribute to the partnership. In order for this to work, there must be mutual benefits (symbiosis), as well as shared control and power. Furthermore, these strategies favour the transfer of knowledge rather than capital (Cateora et al., 2020).

Licensing enables the licensor to transfer the right to use the company's property (such as trademarks, rights, know-how, among others) to the licensee. The amount paid by the licensee to the licensor is typically fixed and the contracts have a defined period of time, which might, eventually, become a disadvantage for the adoption of this strategy. The licensing advantages are particularly relevant in the presence of import barriers that increase costs (tariffs) or limit the quantity of a particular product that can enter the foreign market, since the licensor transfers intangible assets and services that are not subject to restrictions. A low or uncertain sales potential in the target market and lower political risks increase the attractiveness of licensing in comparison with capital investments or direct exports, while simultaneously overcoming the problem of high transport costs. Nonetheless, it is important to emphasize that a company should not use the licensing strategy if it does not have technology or brands that are attractive to potential foreign customers.

On the other hand, Franchising, consists of an internationalization mode in which the franchisor licenses a business system among other rights to another company or person - the franchisee. The franchisee competes under the franchisor's trade name, which defines clear policies and procedures. In return, the franchisor obtains fees, royalties and other possible compensation forms from the franchisee (Root, 1998). The main advantage of this entry mode is the rapid expansion in foreign markets with low capital expenditures, standardized marketing and low political risk (Root, 1998). By contrast, some of the disadvantages concern the franchisor's limited profit, the lack of complete control over the franchisee's actions, the possible generation of new competitors and the

emergence of government restrictions imposed on franchising contracts (Root 1998).

Lastly, Strategic Alliances, can be defined as a method in which at least two companies combine activities in their value chains in order to gain competitive advantages, such as technology exchanges, knowledge transfers, distribution relationships, marketing relationships, etc. (Bronder & Pritzl, 1992). One of the most vital aspects of this forms of internationalization is the collaboration among partners who, in other circumstances, might be competitors, a situation that can lead to problems among the participants, who must be careful with the type of information they share (Doole & Lowe, 2008). Generally, the adoption of this strategy is driven by factors such as: scarcity of resources, pace of innovation, market diffusion, high R&D costs, concentration of companies in mature industries, government partnerships and market access (Doole & Lowe, 2008).

On the whole, internationalization modes are diverse and range from light forms of internationalization to ones that encompass large investments and represent a heavy risk, especially for SMEs.

## 1.5. Barriers to Internationalization

In the previous sections, the concept that internationalization often results in a plenitude of merits at a firm-level dimension which can eventually translate into increases in economic performance at broader national levels has been reiterated. Nonetheless, it is often the case that international transactions do not occur due to firms' inability of overcoming the barriers associated to internationalization.

According to Arteaga-Ortiz & Fernandez-Ortiz (2010), the perception of internationalization barriers by a firm's decision-makers is one of the more, if not

the most, important factors for the shaping of companies' international behaviour. As such, several studies have been conducted in the field of international business regarding this topic on both conceptual and empirical grounds. For the purpose of this work, the definition of internationalization barriers presented by Leonidou (1995), "all those attitudinal, structural, operational, and other constraints that hinder the firm's ability to initiate, develop, or sustain international operations", proves to be extensive and accurate.

From the extant research on internationalization barriers, several conclusive findings can be enumerated. First, various studies describe the nature of barriers as internal (i.e., firm-specific) or external (i.e., environment-specific), and that these might relate both to home-country conditions and target-country context. Internal barriers, which are intrinsic to the company, are generally related with available organizational resources or marketing decisions (e.g., product characteristics). External barriers, on the other hand, originate from the environment within which the company finds itself operating (e.g., unfavourable fluctuating foreign exchange rates) (Leonidou, 2004).

Second, the assessment of barriers can vary significantly among firms, depending on companies' organisational characteristics, for example their age (Leonidou, 1995), as well as their country of origin (Cahen, Lahiri & Borini, 2016). Another relevant organisational characteristic that often determines the nature and impact of the internationalization barriers, concerns the size of the company. Generally speaking, smaller businesses have to face a higher number of obstacles to initiate and develop their international operations, whereas MNEs typically have at their disposal a level of resources that enables the mitigation of certain obstacles (Knight & Liesch, 2002)

Third, despite barriers often hindering the development of international activities by companies, they also typically do not prevent it completely.

However, while some are more of a one-off event, others are more residual in nature, persisting throughout subsequent stages of the internationalization process. Furthermore, some authors suggest the perception of barriers also mutates throughout the development of international activities, with international experienced companies assessing the barriers to internationalization to be less important in comparison to those perceived by less experienced firms (Shaw & Darroch, 2004).

Based on the findings presented, it is possible to conclude that the perception and impact of internationalization barriers is highly specific to each particular situation, depending mostly on the management and experience of the firm (Leonidou, 2004). Since SMEs in the earlier stages of their internationalization process are often perceived as the companies more susceptible to face a wider number of these barriers, most recent studies on this topic tend to be focused on the identification of the obstacles perceived by these companies. Not only that, but the majority of studies specifically target the barriers experienced by firms adopting the export mode of internationalization, since this is the most widely used entry mode by SMEs.

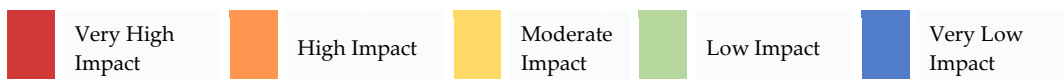
Nonetheless, the literature hints that the traditional views, which regard MNEs as mostly big global monolithic structures and SMEs as isolated niche-specialists, should be reasserted in a world where smaller MNEs' subunits operate in a more entrepreneurial manner, with higher levels of autonomy, while globalizing SMEs continue to establish interdependencies on a worldwide scale (Borghoff & Welge, 2001). As such, Multinational Enterprises can be portrayed more as interorganizational groupings rather than unitary organizations (Bartlett & Ghoshal, 1990), and on the other hand, SMEs overcome their size-related disadvantages by relying on collaborative networks (Brinkmann et al., 2014). To conclude, internationalization barriers experienced by MNEs and SMEs in the 21st century are progressively more comparable.

Having said that, the following table presents the various export barriers identified and categorized by Leonidou (2004), as well as the ranking, presented in the article, of the impact of each barrier. Leonidou’s study was elaborated from a systematic review of 32 empirical studies conducted on this subject.

**Table 1** – Export barriers and respective impact level on SMEs

<b>Internal</b>	<b>Information</b>		• Limited information to locate/analyse markets	Red				
			• Problematic international market data	Yellow				
			• Identifying foreign business opportunities	Red				
			• Inability to contact overseas customers	Red				
	<b>Functional</b>		• Lack of managerial time to deal with exports	Yellow				
			• Inadequate/untrained personnel for exporting	Yellow				
			• Lack of excess production capacity for exports	Blue				
			• Shortage of working capital to finance exports	Yellow				
	<b>Marketing</b>		<b>Product</b>		• Developing new products for foreign markets	Green		
					• Adapting export product design/style	Green		
					• Meeting export product quality standards/specs	Blue		
					• Meeting export packaging/labelling requirements	Green		
			<b>Price</b>		• Offering technical/aftersales service	Yellow		
					<b>Price</b>		• Offering satisfactory prices to customers	Orange
							• Difficult in matching competitors prices	Red
			<b>Distribution</b>		• Granting credit facilities to foreign customers	Orange		
	<b>Distribution</b>				• Complexity of foreign distribution channels	Yellow		
					• Accessing export distribution channels	Orange		
					• Obtaining reliable foreign representation	Orange		
					• Maintaining control over foreign middlemen	Green		
• Difficulty in supplying inventory abroad			Green					
<b>Logistics</b>		<b>Logistics</b>		• Unavailability of warehousing facilities abroad	Green			
				• Excessive transportation/insurance cost	Red			

<b>External</b>		<b>Promotion</b>	<ul style="list-style-type: none"> <li>Adjusting export promotional activities</li> </ul>	Yellow
	<b>Procedural</b>		<ul style="list-style-type: none"> <li>Unfamiliar exporting procedures/paperwork</li> </ul>	Orange
			<ul style="list-style-type: none"> <li>Problematic communication with overseas customers</li> </ul>	Yellow
			<ul style="list-style-type: none"> <li>Slow collection of payments from abroad</li> </ul>	Yellow
	<b>Governmental</b>		<ul style="list-style-type: none"> <li>Lack of home government assistance/incentives</li> </ul>	Yellow
			<ul style="list-style-type: none"> <li>Unfavourable home rules and regulations</li> </ul>	Orange
	<b>Task</b>		<ul style="list-style-type: none"> <li>Different foreign customer habits/attitudes</li> </ul>	Red
			<ul style="list-style-type: none"> <li>Keen competition in overseas markets</li> </ul>	Yellow
	<b>Environmental</b>	<b>Economic</b>	<ul style="list-style-type: none"> <li>Poor/deteriorating economic conditions abroad</li> </ul>	Red
			<ul style="list-style-type: none"> <li>Foreign currency exchanges rates</li> </ul>	Orange
		<b>Political - Legal</b>	<ul style="list-style-type: none"> <li>Political instability in foreign market</li> </ul>	Red
			<ul style="list-style-type: none"> <li>Strict foreign rules and regulations</li> </ul>	Orange
			<ul style="list-style-type: none"> <li>High tariff and nontariff barriers</li> </ul>	Yellow
		<b>Sociocultural</b>	<ul style="list-style-type: none"> <li>Unfamiliar foreign business practices</li> </ul>	Yellow
			<ul style="list-style-type: none"> <li>Different sociocultural traits</li> </ul>	Yellow
		<ul style="list-style-type: none"> <li>Verbal/nonverbal language differences</li> </ul>	Blue	



Source: Adapted from Leonidou (2004)

Leonidou's study reaffirms the idea that the more impactful internal barriers faced by SMEs are mostly of the information and marketing type, more specifically the one's regarding a firm's difficulties in locating and assessing opportunities in foreign markets, contacting overseas costumers, offering competitive and attractive prices and locating cost-effective and efficient distribution channels. These findings may be justified by the fact that information

is vital in mitigating the elevated level of uncertainty surrounding the heterogeneous, sophisticated and turbulent foreign business environment.

In what concerns external barriers, the vast majority of those assessed by Leonidou present challenges, ranging from a moderate to very high impact, to the development of international activities by companies. Barriers regarding cultural, political and economic differences between a firm's origin country and the one it is targeting are typically more relevant for the development of the internationalization process.

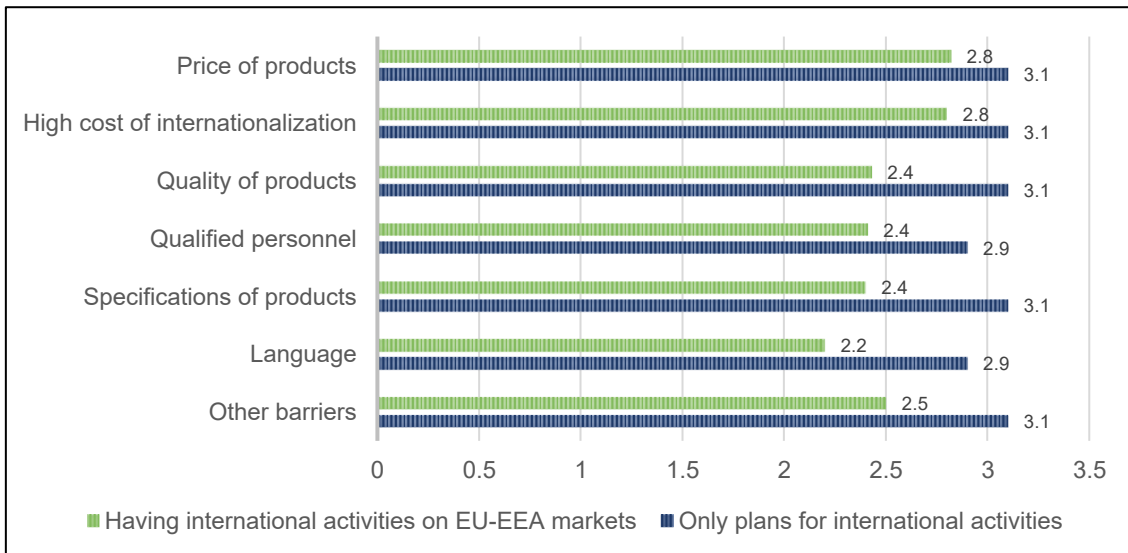
The "Internationalisation of European SMEs" study, commissioned and published in 2015 by the European Union, presents itself as another relevant empirical work when analysing the barriers faced by European SMEs throughout the different stages of the internationalization process and various adopted modes, contrary to Leonidou (2004) which is primarily focused on the export mode of internationalization. The data and findings of the study are based on a survey of 9.480 firms from 33 European countries during the Spring of 2009.

This study also categorizes internationalization barriers into two distinct groups, internal and external. Nonetheless, the classification of these barriers is not completely aligned to that employed by Leonidou: as an example, while Leonidou considers the information-related barriers as an internal aspect of firms, the EU study views these obstacles as mainly external.

Regarding the findings focused on internal barriers perceived by firms (Graphic 1), there are clear differences between companies already involved in international activities and those that have yet to initiate their internationalization process. The graphic below obviously portrays that typically the latter attributes a higher degree of importance relative to the former interpretation of the various barriers. On a scale from 1 (not important at all) to 5 (very important), the average difference among perceived barriers is only 0.50 points, which illustrates the point that internal barriers can be quite specific to

each company, however the most impactful barrier from the companies surveyed perspective is price of the products, which aligns with Leonidou’s results.

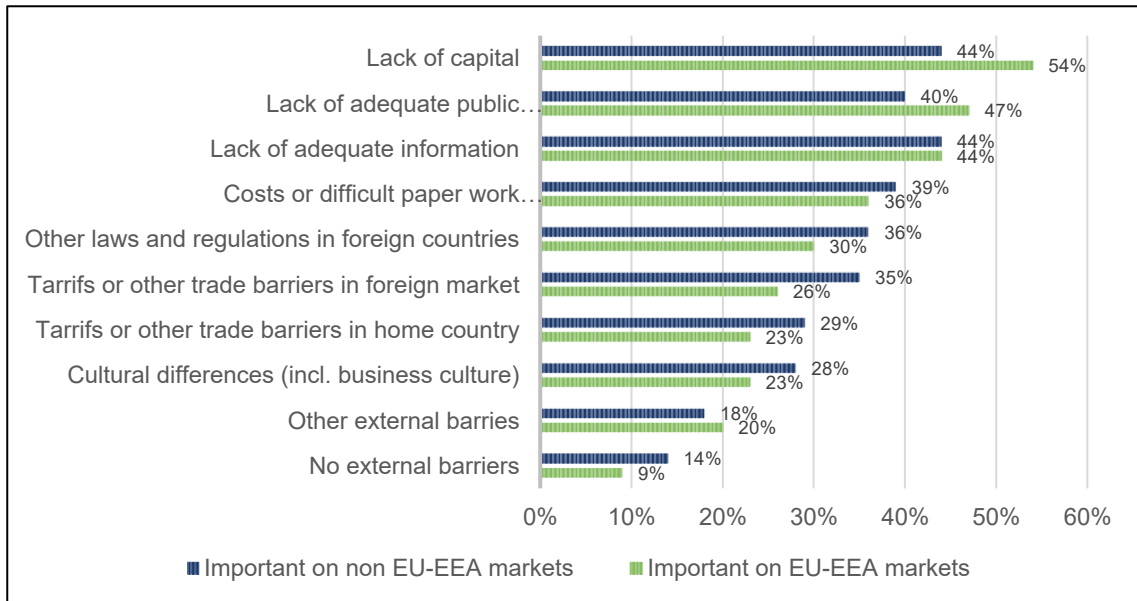
**Figure 4** – Importance of internal barriers for internationalisation for SMEs that are active and SMEs that have plans to become internationally active



*Source: Internationalisation of Europeans SMEs (2015)*

As for external barriers (Figure 5) there are visible differences between perceived obstacles in EU-EEA countries and on third markets. On the case of the first, lack of capital and lack of adequate public support are clearly prioritized. While these are also highly relevant in a non-EU-EEA context, other obstacles such as tariff and other trade barriers in foreign markets, other laws and regulations in foreign countries, tariffs or other trade barriers in foreign market and cultural differences play a more meaningful role when compared to EU-EEA markets.

**Figure 5 – Barriers related to the business environment for the enterprises in EU-EEA markets and non-EU-EEA markets**



Source: *Internationalisation of European SMEs (2015)*

On the whole, these studies on barriers to the internationalization of SMEs provide a useful analytical framework for exploring the process of internationalization of Portuguese companies to China.

# Chapter 2

## China: Developing Business in a Transitional Economy

For the past 40 years, no other economic success story has been able to capture the world's imagination more than the rapid and comprehensive transformation of China and its restored prominence as a pivotal player on the global economy. From a somewhat impoverished and isolated position a mere generation ago, China, and its 1.4 billion population, has reinvented itself as one of the great worldwide manufacturing destinations, a dynamic commercial marketplace and an essential source of global finance.

On the present chapter, a broad overview of the country will be presented, as well as an introduction into China's business system, with a particular focus on cultural differences and how they translate into the development of business operations in the country. In the end, two distinct strategies aimed at mitigating the liability of outsidership, traditionally endured by western companies when initiating and developing activities in the Chinese market, will be proposed.

### 2.1. The People's Republic of China: A country in transition

In November of 1971, the American magazine Time provocatively marked its front cover page with the title, "The Chinese Are Coming". Notwithstanding, at

this moment in time, very few, including the Chinese, would have been able to predict China's blazing rise to the position of one of the most influential nations in the world.

The fact is that China's post-Mao economic reforms have resulted in incredibly rapid and sustained economic growth and unparalleled increases in real income and living standards, transforming what was, not that long ago, a particular insular economy into one of the world's largest, overtaking the United States of America in 2017 with the world's highest GDP, mediating for purchasing power terms (IMF, 2017).

The beginning of this transition dates back to the 1970s, more specifically 1978, at the Third Plenary Session of the Eleventh Central Committee of the Chinese Party, when the Chinese leadership strategically decided to concentrate their focus on economic development by embracing the worldwide phenomenon of economic globalization and technological revolution, rather than detaching themselves from it. Beijing grasped the unravelling global trend and never looked back, reversing the previous country's path set by the erroneous practices of the Cultural Revolution (Bijian, 2005). In the 1990s, by joining the World Trade Organization, another significant step was given by the country, signalling the continuing intent of China's modernization and economic reform.

China's transition from a planned to a market economy has repeatedly been portrayed as a gradual and experimental process (Qian & Wu, 2000), or in the words of Deng Xiaoping's widely used quote: "crossing the river by groping for stones."

From a macro perspective, China has based its modernization mostly on domestic resources, in addition to ideological and institutional re-transformations. Throughout this process Chinese citizens' capacities have also been progressively upgraded and technological progress accelerated. That's not to say that the country hasn't attempted to learn from other societies, especially

those from advanced capitalist ones, mainly through the welcoming of foreign companies to their markets. Nevertheless, the country has shown a resilience in pursuing this transformation while maintaining its independence and self-reliance (Qian & Wu, 2000).

Today, from a demographics point of view, China is the world's most populous country with an estimated population of over 1.4 billion people (United Nations, 2020). The current demographic picture of China results from another radical transition over the past several decades, where both mortality and fertility rates have considerably declined. On the other hand, since the early 1950s, life expectancy at birth has nearly doubled, from 40 to over 73 years (National Bureau of Statistics of China, 2010). Again, the Chinese government has played an unquestionable role in the country's demographics, especially in the rapid decline of the country's fertility rate, through efficient but often coercive family planning policies, most notably with the adoption of the so-called "one-child-policy" in 1979, which enforced disincentive measures for families having more than one child.

Another relevant transfiguration of China's demography regards the levels of urbanization in the country, which were relatively low until the 1980s, when the country was widely seen as an example of "under-urbanization" – that is, the attainment of an elevated industrial growth without a parallel increase of urban population. From that point on, the country has observed a rapid acceleration of their urbanization process, culminating in today's reality, where approximately half of the country's population live in the country's 655 cities and more than 20.000 towns.

Lastly, from an economic perspective, since the previously referred introduction of radical market reforms in 1978, the People's Republic of China's economy has grown increasingly faster, with an average GDP growth of 10 percent a year, resulting in over 850 million people lifted out of poverty. Today,

China has become the world's second largest economy, with an estimated GDP of 14.28 trillion dollars (2019), and its largest exporter and manufacturer (World Bank, 2020).

For the past few decades, China has played a vital role in the global economic and financial landscape, specifically due to the three following reasons: first, its development has been considered one of the more, if not the most, important "engines" of the world's economy; second, its productive sector drives, to a large extent, the world's manufacturing capacity; and lastly, the state currently holds the largest amount of financial reserves in the world, with a significant share consisting of long-term US Treasury Bonds (AICEP, 2017).

## 2.2. China's Business System

China has long captured the attention of Western businesses and researchers, either due to the grandeur of the country's several millennial old civilization, the huge size and potential of its market, or the dramatic political and economic transformation occurring in the country for the past few decades. Nonetheless, businesses and their respective managers have commonly felt lost and faced various difficulties in dealing with the country's culture, politics and economics (Tung, 1993).

In this section, we will provide evidence of what we believe might be at the core of this problem: the misconception that due to the recent economic changes in the country, the Western business strategies adopted by companies in their home markets can be easily replicable and as effective in this "new" capitalist China. However, despite the fact that economic development is commonly associated with pervasive and often predictable cultural changes, resulting in substantial transformations in a country's value system, these values also tend to

reflect a society's cultural heritage (Inglehart & Baker, 2000). And, more specifically in the case of China, the country's culture has displayed remarkable perseverance, robustness and consistency over several centuries. Moreover, most researchers tend to agree that the core cultural influences appear to have remained the bedrock of the Chinese system (Boisot & Child, 1996; Lim & Gosling, 1983; Wang, 1991; Child & Warner, 2003).

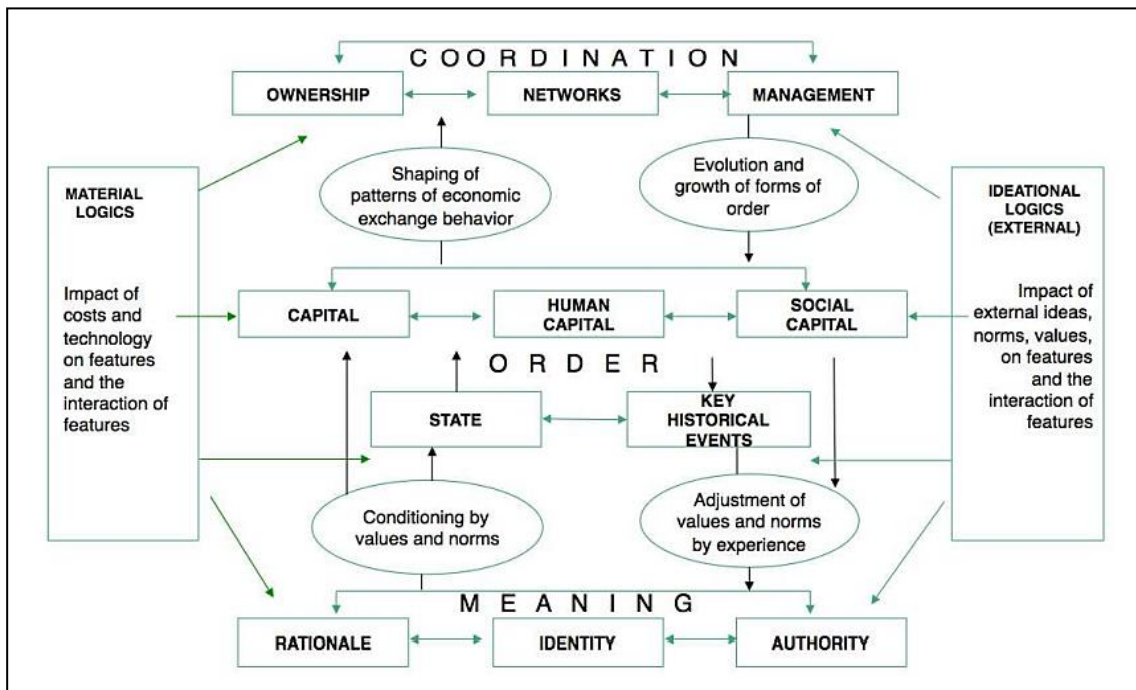
According to DiMaggio & Powell (1983), business management practices are undoubtedly embedded in a broader and more pervasive societal setting, which in turn is heavily influenced by local historical and cultural norms. Michael Porter's similarly points out, in a book entitled *Culture Matters*, that "the role of culture in economic progress is unquestioned" (Porter, 2000). As such, in the following paragraphs, a general picture of Chinese culture will be presented in order to assess its influence on several aspects regarding its society way of doing business, or to put it simply, its business system.

However, before anything else, it is important to consider that when attempting to describe a business system as a unit of analysis, following the Weberian tradition, some basic rules need to be pointed out, more specifically, that whatever the framework opted for and their respective categories, a high level of abstraction and simplification from reality is required, since these are mostly tools created to facilitate thinking about common or distinct features among societies. In addition, that the categories of a given framework do not exist in insulation from each other, but in fact are usually intertwined and interdependent with complementary flows of causality. Lastly, that these systems remain in flux, that is to say that the content of their categories along with their connections change through time, even though stable patterns can be found within it that enable the understanding of a specific society's business system and possible emerging future directions (Redding & Witt, 2010).

Having said that, for the propose of this work, Redding’s (2002) proposed framework in the field of business systems theory has been adopted, which is in turn an adaptation of the framework developed by Whitley (1992, 1999), mainly due to its more holistic assessment of the “the rules of the game shaping economic action in a given society and their interdependencies” (Redding & Witt, 2010).

Redding’s (2002) model puts forward the idea that a society’s business system can be represented and analysed on the basis of three expansive categories, or forces in constant interaction, namely its cultural underpinnings (base layer), as in, the realm of meaning; its institutional context (middle layer), in other words, the structure of societal order; and its organizational patterns of coordination (top layer), put differently, the manner in which firms cooperate within themselves and among others, the Business System itself.

Figure 6 – Redding’s proposed Business Systems Framework



Source: Redding (2002)

### 2.2.1. Culture

The foundational layer of the model, Culture, defined as the social construction of reality (Berger & Luckmann, 1966), is seen here as a prior, or, in another sense, a background to institutions. The notion that institutions are responsible for the shaping and reproduction of predictable behaviour is not disputed, since a society's business system evolves and adapts in relation to the institutional fabric in which it finds itself in, however, that in turn develops in relation to the culture of a specific society. To sum up, as observed best by Etounga-Manguelle (2000), "Culture is the mother; institutions are the children".

This category appears subdivided into three subcategories, rationale, identity and authority. The first, and arguably the most important, rationale, concerns itself with the reasons firms exist in a given society, or in other words, "what ends do people have in their mind when they do business?", but also with the means and valued principles to achieve such ends (Redding & Witt, 2010). The two other components of culture, identity and authority, define societal order and how a specific society organizes itself. In the case of the former, Identity, from a horizontal order perspective, that is to say, do members of particular society see themselves as independent individuals or as active parts of one or several groups commanding their loyalty? Whereas, the latter, Authority, focuses on vertical order, as in, how prevalent is hierarchy in a given society?

In the case of China's rationale, there appears to be two main motivations for the development of business activities, to generate wealth and to aid the economic development of the country and, consequently, the re-emergence of China to its historical position as an economic superpower. The first, is especially predominant among the private sector, more specifically family businesses, which are incredibly common in the country, 85% of all private enterprises (Cai, 2015). Their focus resides mainly in the generation of a means of living and, in

the long run, family wealth. The second, on the other hand, can be more commonly observed among State-Owned Enterprises which prioritize more nationalistic goals since these are mostly state tools enabling the economic development of the country while simultaneously having a presence in strategic industries. However, over the last years, government has tended to increase the pressure on SOEs to become more and more competitive and, ultimately, more profitable as well (Redding & Witt, 2007).

Despite certain idiosyncrasies regarding the role of SOEs, China's motivations for the existence of firms are not too far off in comparison to those of other economies. Nevertheless, the means and valued principles behind the achievement of such ends are markedly more specific. To begin with, there is evidence suggesting differences on the concept of causation. Contrary to the Western more linear reasoning, Chinese conceptions of causation have traditionally leaned more on the idea of "connectedness" (Capra, 1975; Nakamura, 1964), translated into a perception of reality considerably more contextualized. Things tend not to be analysed in isolation from their surroundings but in a more holistic manner when compared to traditional Western scientific thinking.

Another relevant aspect of Chinese thinking is the prioritization of pragmatism and a tendency for tangibility and realism (Redding, 2002), translated in the bias towards disciplines in which the objects of study are more palpable, and for instance, easily represented by numbers, such as engineering and information technology.

Another value held dear by the Chinese, in general, is that of control. This is to be expected of a society of competing families, in a context of scarce resources along the presence of an interventionist state. For many, but especially for business owners, the control of one's fate is seen as a core ideal, and as such sensitivities regarding it tend to be highly tuned. A tribute of Chinese thinking correlated with their appreciation for control is that of secrecy, seen as an

ingrained component of the country's business people adopted strategies. Information is generally viewed as an important strategic asset not to be generally dispersed.

Lastly, a drive for continuous and constant learning as well as self-responsibility are well established characteristics of Chinese culture. These features appear to originate from a combination of two factors. On one hand, the historical regard for education, traditionally associated with the high social position of the mandarin. On the other, the more pragmatic connection between qualifications and upward mobility.

From an identity standpoint, Chinese society is viewed as collectivist (Hofstede et al., 2004), with family as the core collective unit, granting both psychological and practical stability as well as a sense of identity. This perception of collectivism operates in concentric circles, with the family as the main reference group, surrounded by gradually larger but weaker circles of affiliation, such as extended family, clan, region of origin, etc. (Fei, 1992). Identification in regards to the work-place is typically very weak or non-existent within private companies. Embedded in the country's society horizontal order are the values of reciprocity and personalism, acting as the currency of horizontal exchange, as in, the guarantors of trust (Gabrenya & Hwang, 1996).

*Guanxi*, a concept that was first introduced in Chapter 2, is markedly the most common instrument for placing into service the values of reciprocity and personalism. In a society that lacks a strong and stable framework of institutionalised trust, exemplified, for instance, by the absence of a sound legal system, *guanxi* enables personal connections to find a means of stable expression. The relevance of this indigenous Chinese construct should not be undervalued and will be given a higher emphasis on later sections of the present work.

In what regards authority, the last subcategory of culture in the model, Chinese society presents itself as strongly hierarchical with a "high power

distance” culture (Hofstede et al., 2004). There is a prevailing respect for strong vertical order, which origins remount to the secular Confucian tradition, illustrated by the Chinese reverence towards education and age. However, more recently, wealth – despised throughout the Confucian era and, under Mao regarded, even, as a toxic attribute – has also gradually developed into an influential basis for status.

Additionally, as suggested by Huo & Si (2001), “a strong sense of paternalism, or familism...is still widely shared by Chinese workers”, employees have a tendency to readily accept decisions handed down by their superiors, and often resist participating in decision-making processes (Graf et. al., 1990).

It would be possible to add even more items to the ones previously presented, since they do not claim to be fully exhaustive. Nonetheless, the ones presented, are in our opinion, some of the most characteristically Chinese and plentiful, at this introductory level, to understand as an integrated total and drew a picture of the collective mental universe of the Chinese society. As indicated before, following Redding’s model, Culture acts as a foundational layer from which the two others, Institutions and the Business System itself are derived. As such, in the following paragraphs, the argument will now proceed to a broader description of these two other interlinked forces in order to provide the reader with a more complete perception of the bigger model.

### 2.2.2. Institutions

According to Redding (2002), the institutional fabric of a given society is constantly evolving in interaction with its culture, and is believed to “making tangible the basic definition of reality and the ground rules for dealing with it in a particular society”. Analogously to culture, there are three main aspects for

analysis (capital, human capital and social capital), with the addition of a key mediating element, the role of government.

In what concerns China's institutions, the role of the government or, in this case, the Chinese state, is seen as incredibly significant. Acting as the main interpreter of its society cultural values and ideals. Historically, the country has always had a strong central government, with an active role in the controlling and shaping of its economy. Paradoxically, for the past 70 years and despite the Communist state apparatus, which had Mao, and eventually Deng as its de facto Emperors, the older Mandarin structures were mostly perpetuated. Similarly, to the earlier Mandarin state which ruled in a monopolistic fashion by having sole control of the Confucian ideology, the Communist Party found its path to power, on the basis of preserving the order, by monopolizing the interpretation of the state ideology, at that time Marxism-Leninism.

Regarding the capital (i.e. finance) element of the business model, the private sector, contrary to SOEs who sit at the pinnacle of financial access, tends to be somewhat starved of it. Private firms, both domestic and foreign, which have played a critical role in China's latest economic development, confront themselves with considerable capital access barriers and as such have to resort to informal means, such as loans from family, friends and unlicensed lenders (Linton, 2006). Lately, there have been signs of progress on this matter, like in the case of successful listings on the stock market. But even those are typically reserved for a small number of very large firms whose owners or executives are sufficiently well-connected to secure permission for an IPO.

With respect to human capital, the institutions currently supporting the availability and accessibility of skilful and talented human resources are mostly the education and training system, as in the majority of the world's other economies. The present condition of China on this area is one of shortage, since, until very recently, the investment in education and training has been relatively

weaker when compared to, for example, Western countries. A big part of this problem, however, resides in the daunting size of the country's population and that many come from a background whose experience is exclusively on agriculture (Siu & Glover, 2001).

A more optimistic sidenote on this matter regards the strong desire to learn, illustrated by a highly trainable workforce. Even though training in the private sector is somewhat hampered by traditionally short employment tenure, resulting in high employee turnover. For most companies, the building of organizational capabilities through the investment on the training and developing of its employees' skill level can still prove to quite challenging.

Lastly, we proceed to analyse the final element regarding the institutional fabric of a given society, social capital, a concept that indicates the level of trust in a society for its people to develop business comfortably with strangers. If this phenomenon occurs naturally, it usually implies a high level of trust among individuals, not only in terms of shared ideals, but also in the context of strong institutionalized trust. Since institutionalized trust, describes the disposition to trust strangers by virtue of the existence of a system that incentivizes people to be honest, such is the case of reliable legal systems in the West or strong social pressure in countries like Japan (Chen et al. 2002, Fukuyama, 1996).

Social capital in China appears to be mostly interpersonal in nature. In the private sector, the majority of exchanges is limited to those who are known personally, since institutionalized trust is basically absent. On the other hand, the current trajectory of the country institutions indicates that it is likely that institutionalised trust will gradually increase resulting in additional options and structures of response, but as was the case in Hong Kong and Singapore, the amount of time this process can take should be indicative that it is not a hurdle free process (Tam & Redding, 1993).

In the meantime, and as suggested by Redding (2002), an elegant solution to the limitations posed by this challenge has been “the small-scale network capitalism which uses personalized trust as its main medium of coordination”. This is not a particular innovative form of social capital but its embeddedness within Confucian ethics gives it a distinctive novelty.

### 2.2.3. Business System

We will now proceed with the analysis of the top layer of the model, the Business System itself, which, as described earlier, evolves in relation to the Institutional layer of the model, which in turn is embedded within its foundational layer, the Culture of a particular society.

Similarly to the other two coordinating dimensions of the model, the Business System is described resorting to three distinct elements, namely the coordinating arenas of ownership, networks and management. The three domains confluence and evolve together as an integrated total in practice, since, for example, ownership structures clearly influence the nature of management, and of networks.

To begin with, ownership, the first domain of the Business System, concerns itself with “the structure that first places a boundary around what is to be coordinated, in terms of being gathered together under identifiable and controlling ownership” (Redding, 2005). In addition, it encompasses the implications derived from the various typologies of governance structures which are undoubtedly linked with ownership patterns in a given society.

In the case of China’s private sector, like in most Asian economies, companies are traditionally owned and controlled by individuals and their respective families. There is a considerable concentration of power in the hands of single individuals, whose main purpose will be the generation, accumulation and

retention of family wealth. Family ownership is in part a consequence of China's rapid and late economic development since most companies, notwithstanding their current size, were founded quite recently. On the other hand, another probable explanation for this phenomenon is the low levels of institutionalized trust, previously discussed, which discourages delegation and the common Western solution, especially in the case of modern enterprises, of separating ownership from control.

Networks, the second domain, describes the diverse links across the economy, more specifically the manner in which firms connect (or not) with each other. In this instance, however, through mechanisms other than ownership. These usually include, specific organisations created with the sole goal of bringing firms together to enable cooperation, as is the case of the large industrial alliances present in the German economy. Or in less broad cases, stable subcontracting or sourcing relationships, formal and informal alliances, and other types of links between firms.

In what concerns China's business system networks, the country exhibits relatively weak connections among firms, that is not to say that they are completely inexistent, but they tend to present themselves at a relatively small scale, and, in general, their overall structure tends to be somewhat fragmented. The working partnerships present in the Chinese economy, today, are not national in their impact, they are coordinated mostly on the basis of personal connections and their focus is on short to medium term goals. Examples of this type of linkages among firms are the business associations created in response to industrial needs, through which a small number of firms cooperates in the manufacturing of a particular product. This type of collaboration can still prove to be very effective. According to Zeng & Williamson (2007), in the early 2000s, highly localized networks, established through the process previously described,

were responsible for producing 70% of the world's cigarette lighters supply, as well as, 50% of the global shoe market.

Lastly, another relevant and common type of inter-firm alliances present in China, is one specifically aimed at technology transfers through the establishment of a joint venture between a local and a foreign firm. In the case of China though, these don't tend to be organically created, but result from legislation incentivizing technology transfers in exchange for market access (Naughton, 2007).

The last form of economic behaviour coordination considered in the model – Management – focuses on what goes on inside companies, as in, how do managers organise and combine the various resources, namely human, technical, and financial, available in a firm “into efficient systems of coordinated action at the micro level” (Redding, 2002). Within these coordinated systems, which generally materialize at a level below the one referring to ownership, features, such as the fashion in which interactions with the labour market occur, decision making processes, information flows, among others, are described and analysed.

Decision-making in Asian companies is habitually very hierarchical and top-down. China does not depart from the norm, with a high centralization of power in a small number of individuals, limiting the generation and development of high-order skills, commonly associated with independence and autonomy. As an example, middle managers' role in a Chinese company is mostly one of channelling and enforcing orders from the top as opposed to being an active contributor to a firm's strategy (Lieberthal & Lieberthal 2003; Zhu et al. 2008). Values such as discipline, control and paternalism are found to be the key organizational norms among the majority of China's.

In line with the relevance of family on the ownership domain, top management positions are traditionally restricted to either family members or very close confidants. Again, management delegation is hampered due to the

deficiencies in institutionalized trust. Promotions through the remaining ranks tend to prioritize skills and relationships and, less so, seniority. This leads to a scenario where firm growth is most often correlated with the competencies of the top managers, namely their deal making skills and market-reading expertise.

Overall, China's private sector management structure is one in which entrepreneurialism still flourishes, if only at the higher levels of management. Notwithstanding, this form of organization paired with the surrounding economy environment might be a partial explanation for the recent achievements of the private sector. Economic conditions still dictate, that firms are required to display high levels of flexibility in their responses but also a considerable predisposition for the co-opting of political support in what is, still to this day, a very politicized environment.

We hope the framework presented above along with the description of its various domains, although not fully exhaustive, provides the reader with a better understanding of several critical features of how business is developed in China, especially those that arise from characteristic aspects of Chinese culture. In the following section, we will proceed by describing and providing evidence of two possible strategies for the mitigation of the challenges derived from Business System differences, specifically from the perspective of foreign companies developing or looking into developing activities in the market.

### 2.3. Overcoming the liability of outsidership: the case of China

When reflecting on the internationalization process, Johanson & Vahlne (2009) argue that a firm's challenges in international business are decreasingly a country-specific matter, liability of foreignness, and more and more a

relationship and network-specific one, liability of outsidership. In their view, challenges faced by a company when internationalizing to a new market can be partially mitigated by the firm establishing and legitimizing its position in relevant networks. In the case a firm attempts to develop international activities in a foreign market where it has no relevant network position, it will be a victim of liability of outsidership and foreignness, and foreignness is assumed to complicate the process of gradually becoming an insider.

As such, firms looking to explore opportunities present in a foreign market should attribute less significance to the concept of psychic distance, by opting to mitigate the level of uncertainty associated with the process of internationalization through the investment in markets that present smaller differences in features such as, differences in language, education, business practices, culture, and industrial development; and should instead focus in strengthening their positions in networks relevant to the target foreign markets.

As previously discussed, there is a large body of evidence demonstrating that China's Business System has well-defined features that have been, at least partially, generated from deeper and historic cultural characteristics. As Hofstede (1993) once forecasted, the globalization of world business has brought the topic of national and regional differences to the forefront, "there is something in all countries called "management," but its meaning differs to a larger or smaller extent from one country to the other, and it takes considerable historical and cultural insight into local conditions to understand its processes, philosophies, and problems".

In this section, we suggest two distinct, despite somewhat interlinked, strategies that companies might adopt to overcome the internationalization barriers regarding the Chinese market through the advancement of their company's position in relevant networks. Firstly, we will look into companies resorting to home-country institutions, specifically those focused on the

promotion of trade and investment into and from foreign countries, as a means of overcoming their liability of outsidership. And secondly, we will proceed to approach it from a more uniquely Chinese manner, namely the development of interpersonal relationships, *guanxi*, in order to surpass such challenges.

### 2.3.1. Relying on Investment and Exports Promotion Agencies

The development of international business has proved to be, as expected, very beneficial for the firms successfully developing such activities but also for the countries involved in them (Fischer & Reuber, 2003). Therefore, states have long viewed the employment of their resources and influence as an important tool for the stimulation and support of internationalization.

Hence the concept of economy diplomacy, which definition has been the topic of discussion for many researchers over the years. For the purpose of this work we will follow the recent definition provided by Moons & Bergeijk (2013), that suggest that economic diplomacy can be viewed “as the use of government relations and government influence in order to stimulate international trade and investment and this activity covers a broad range of semi-permanent international representations (embassies, consulates and other public sector business support facilities), domestic institutions (investment and export promotion offices), and diplomatic bilateral activities (trade and state visits)”.

As one can expect, the economic issues that provide economic diplomacy its content are vast and complex and subsequently the instruments required to tackle such issues are themselves extensive and varied. Carrière (1998) suggested that economic diplomacy can be undertaken at two distinct levels: macroeconomic diplomacy (referring to international organizations) and microeconomic diplomacy (referring to companies). In a general sense, the

author describes macroeconomic diplomacy as the classical bilateral relations among states, whereas, in contrast, microeconomic diplomacy main focus centres in the support of the home country's businesses in their pursuit of sustainable economic success.

In the context of this study, we believe that the actors and instruments involved in the development of what Carrière depicted as microeconomic diplomacy provide more tangible and short-term solutions for the challenges related to firms' liabilities of outsidership in the Chinese market, and as such will proceed with a focus on the features concerning this level of economic diplomacy and more specifically the work developed by Investment Promotion Agencies (IPAs) and Exports Promotion Agencies (EPAs).

IPAs and EPAs are specialized agencies, often established by governments, whose main goals are to develop economic diplomacy activities, especially in the area of attraction and promotion of foreign direct investment (former) and exports (latter); and to collaborate with other state actors, in order to improve the international standing, credibility and image of the country they represent. Occasionally, these agencies can also emerge as non-governmental organizations, and in this case their activities resemble those of Chambers of Commerce or consulting enterprises.

According to Zanatta et al. (2006), the role and functions of IPAs can vary considerably across countries, since, in effect, most operate in a vague institutional framework, and their functions encompass several organizations with vastly different forms, frequently with overlapping jurisdictions. In certain instances, Investment Promotion Agencies work merely as "information kiosks", whereas in the other extreme they can assume higher levels of autonomy by developing functions such as policy advocacy; managing of relationships with foreign investors; disseminating information about investment opportunities in

their home country; improving the global foreign investment environment; and promoting a positive image of their home-country abroad.

EPAs, while operating in similar conditions to IPAs from an institutional perspective, focus their activities primarily on increasing aggregate exports from their country of origin to the host country they find themselves operating in. According to Lederman & Olarreaga (2010), the main activities developed by EPAs are the following: country image building; creating an efficient and operational information network regarding the foreign market; organizing networking and educational events, for example, seminars and workshops; and undertaking consulting and other export support services.

It's important to refer that both the performance of IPAs and EPAs is correlated not only with their technical capabilities and configuration under its government structure, but it is also dependent on a country's global influence and ensuing bargaining power. These features are in turn commonly associated with the amount and quality of the assets the country might be able to leverage in order to attract investors and promote the image of its products abroad, namely its market size, geographical location, human capital and science and technology infrastructure (Zanatta et al., 2006).

From an institutional structure perspective, export promotion and investment promotion agencies are commonly divided in two separate entities but, in the case of some countries, their functions are encompassed by one single agency, even though both missions are developed separately. This latter organizational structure is, for example, the one adopted by the Portuguese government, through the establishment of aicep Portugal Global - Trade & Investment Agency (AICEP), a single "government business entity, focused in encouraging the best foreign companies to invest in Portugal and contribute to the success of Portuguese companies abroad in their internationalization processes or export activities" (AICEP, 2018).

There is clear evidence suggesting the importance of these agencies in companies' internationalization process. In an empirical study published by the World Bank and developed by Morisset & Andrews-Johnson (2004), based on collected data from 58 investment promotion agencies, findings showed that spending by IPAs was positively correlated with the attraction of FDI. The authors went a step further and calculated elasticities coefficients that demonstrated that, on average, an increase of 10% in promotion expenditures yielded a positive 2.5% in FDI.

In addition, Lederman et al. (2006), suggest that EPAs have a statistically significant impact on the aggregate exports of a certain country, on the basis of collected evidence regarding 88 agencies. Furthermore, the authors' estimates indicate that a 10% increase in EPAs budgets, in average, translates to a 0.6 to 1% rise of exports to a given country. More interestingly, the data also seems to indicate that EPAs effectiveness increases when they can assist firms with the circumvention of trade barriers abroad, as in the case of information asymmetries.

From the perspective of transition and emerging economies, Cass (2007) proposes that the presence of IPAs in these countries is even more justified, in the sense they assist firms in insulating themselves from or at least offsetting disadvantages inherent to this type of environments. The author further adds that these goals can be achieved through the development of specific activities, for instance: guiding potential investors through regulatory processes still undergoing reforms; raising awareness that conditions in the foreign market are changing; and bringing emerging opportunities to the attention of home-country firms.

Additionally, as argued by Dominguez (2017), EPAs customarily assist companies in overcoming their liability of outsidership and foreignness, by palliating the existent institutional voids typically found in emerging economies.

The information provided, market knowledge, and networks built throughout the years present them as good substitutes to local institutions, especially in the case of countries with a generalised lack of institutionalised trust.

Last but not least, criticisms regarding the performance and role of Investment and Export Promotion Agencies should not be disregarded. According to Moons & Bergeijk (2013), mainstream economists have recurrently shared their scepticism in what concerns economic diplomacy and the effectiveness of their instruments, particularly export subsidies and EPAs. In their views, “economic diplomacy, a tax funded activity, in neoclassical thought is merely a disruptive income transfer”.

Through the 1990s, in a series of influential World Bank publications, Hogan, Keesing & Singer (1991) and Keesing (1993) argued that EPAs in developing countries had failed to achieve their stated goals and, in several instances, even had a negative impact on exports, the exception being countries which had favourable policies already in place, namely Hong Kong, Singapore, Korea and Taiwan. However, others like Wulf (2001) presented the counter-point that the main problem regarding EPAs was their insufficient funding and even bad policy environments could be overcome by well-funded agencies, as cases in China, Korea and Taiwan had in fact demonstrated.

For the past decade, governments seem to have taken criticisms at heart, and the structure and functions of Investment and Export promotion agencies have been changing in the literature’s suggested directions (Lederman et al., 2006).

### 2.3.2. Development of *Guanxi*

The concept of *guanxi* has long been acknowledged as one of the core and all-pervasive dynamics in Chinese society. The Chinese business world is no exception, and all firms developing activities in the country, including both local

and foreign, will inevitably have to deal with the dynamics regarding *guanxi* (Luo, 1997).

From an etymological standpoint, the Chinese word *guanxi* (pronounced gwan-shee) is a great example of China's pragmatism, the word literally means "relationship", and in Chinese is spelled with both the characters, 关 (guan) and 系 (xi), whose meanings when analysed separately are "a door" or "to close" for the former, and "to connect" or "to take care" for the latter. As such, the characters themselves are quite self-explanatory of the concept of *guanxi*, illustrating closed off networks of reciprocal personal relationships.

Recalling the definition advanced in Chapter 2, *Guanxi* "is an indigenous Chinese construct" for "an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the social norm of *guanxi* such as maintaining a long-term relationship, mutual commitment, loyalty, and obligation" (Chen & Chen, 2004).

A key element associated with the development of *guanxi*, is that of face or *mianzi*. According to Standifird & Marshall (2000), when one finds himself embedded in a network, one maintains face by reciprocating favours; on the other hand, one's failure to follow the expectations regarding *guanxi* results in the loss of face and subsequent identification as being unreliable (Luo & Chen, 1996). In sum, face or *mianzi* can be described as *guanxi*'s "intangible form of social currency and personal status" (Luo, 1997).

According to Luo (1997), seven distinct principles form the basis for the conceptual content of *guanxi*, namely:

- **Transferability**, as in, if A has developed *guanxi* with B, and B is a friend of C, then B can introduce C to A and vice versa. If not properly introduced, contact between the estranged parties is considerably unlikely, as is the case of formal business correspondence among strangers. Lastly, the grade of success of

transferability is dependent on the level of perceived satisfaction among the pre-existent relationships;

- **Reciprocity**, in the sense that it is built on the basis of mutuality. As such, if a person does not follow a rule of equity and denies the return of a previous favour it will be deemed as untrustworthy. Nevertheless, it tends to disproportionately benefit the weaker party in the case of unequal relations, since the weaker partner might call for a special favour and is not expected to equally reciprocate;

- **Intangibility**, since people who share a *guanxi* relationship are “committed to one another by an invisible and unwritten code of reciprocity and equity” (Luo, 1997);

- **Utilitarianism**, due to its manifestation through practical acts, especially exchange of favours, rather than through sentiments. *Guanxi* relationships do not necessarily need to entail friendship, although it’s commonly preferred to do so. Another demonstration of this principle, is the fragility of *guanxi* relationships that are perceived to be no longer profitable or bases on reciprocity;

- **Contextualization**, as in markedly situational. As an example, what might be perceived as a gift or favour in one instance can be regarded as a bribe in another. Therefore, implementing *guanxi*, requires high levels of sensibility from the actors involved;

- **Long-termism**, that is to say, that *guanxi* is built up and maintained through continuous interaction. In special circumstances, it might even present itself as intra-generational. This view of relationships is in relative contrast with

the Western perspective, where social transactions are more commonly seen as unique and ephemeral events with a higher emphasis on instant returns.

· **Personalism**, since *guanxi* between organizations is initiated and continues to be built upon on the basis of personal relationships. As such, when a specific person leaves a given organization, the organizational connections previously established through them cease to exist. In other words, *guanxi* does not operate at a group level, it relies exclusively on individual connections. This characteristic, is often portrayed as one of the main distinctions between *guanxi* and the more typical inter-organizational networking that occurs in the West.

A relevant aspect of *guanxi* built on the basis of its transferability principle, is the concept of *guanxi* networks or, in Chinese, *guanxi hu*. Despite the personalistic characteristic of these type of relations, since it is possible to transfer *guanxi* from one person to another, the development of intertwined individual links ultimately results in the establishment of a network of relations, or in this case a *guanxi* network (Standifird & Marshall, 2000). As such, according to Luo (2007), *guanxi* can be the foundation for broader inter-organizational dynamics and relations. China's *guanxi* business networks can include managers from other firms, as well as members from government and regulatory authorities.

After presenting a broad overview of the theoretical meaning of *guanxi* at both the personal and organizational level, we will proceed with the identification of several studies focused on the assessment of *guanxi* from an organizational performance level. Naturally, due to the diverse forms of the *guanxi* concept, the theoretical approaches to evaluate *guanxi*'s impact have themselves been quite distinct (Luo, Huang & Wang, 2012).

To begin with, Luo (2007) presents the clear distinction, that it is not *guanxi* itself that grants firms a competitive advantage, but the various business

variables in which *guanxi* might be embedded in. This hypothesis is exemplified by the impact *guanxi* can have in two major business variables, namely sales force marketing and credit liberalization. Luo (2007) concludes, for example, that if a company's product attributes are somewhat less competitive than those of its competitors, good *guanxi* can mitigate this liability, making the weaker product more popular.

As ascertained by Buckley et al. (2006), in a paper investigating the role of *guanxi* and *mianzi* on knowledge transfers to China, cultural awareness should be a topic worthy of representation in a company's international business strategy. Especially in the case of FDI located in transitional economies, the authors suggests that foreign investors should take an expansive view, on the basis of local culture understanding, when dealing and negotiating with stakeholders from the host country. In addition, in the case of China, trust becomes even more relevant and is seen as crucial in what concerns relationship building at personal, corporate and governmental levels. Even though trust building with local partners tends to be a more complex process in transitional economies, mainly due to differences in business orientations and organizational culture, cultural literacy and long-term commitment are seen as important contributors in the overcoming of such liabilities. Lastly, local government should not always be viewed as a limiting force, since "a close relationship can be set up based on personal trust and respect of *mianzi*, government support can be sought and its policy making influenced. This will create an enabling institutional environment for foreign investors" (Buckley et al., 2006).

Another significant paper that approached the relevance of investing in *guanxi* relationships in China was published by Standifird & Marshall (2000). According to it, from a transaction cost perspective, *guanxi*-based business practices provide various transaction cost gains over existing structural alternatives, specifically those resulting from diminished environmental and behavioural uncertainties as

well as reduced opportunistic behaviour. In summary, the authors concluded that “the failure to appropriately assess the perseverance of *guanxi*-based business practices can have a devastating effect on a company’s ability to successfully operate in the Chinese market”.

Furthermore, in an empirical study based on the perceptions of 40 New Zealander companies, Cremer & Ramasamy (2009) established that a main determinant for the success of a given firm internationalizing to China lies on “the interpersonal relational skills, personality and the vision of the respective business leader”, irrespective of the presence of this described leader on the ground in the host-country or overseas. The study additionally reveals, that especially in the case of smaller firms, the web of relations or *guanxi* in China determines the survival of a given business.

As presented above, the pervasive influence of *guanxi* on a foreign company’s internationalization performance on the Chinese market is substantiated by literature. Nevertheless, mainly due to its nebulous and cross-disciplinary nature, foreign managers often find themselves lost in the integration of *guanxi*-based practices into their own organization processes. Throughout the next paragraphs, several approaches to building and maintaining the needed *guanxi* connections will be presented.

Firstly, and especially at the earlier stages of a firm’s internationalization to China, co-opting strategies might provide the means for the needed rapid establishment of *guanxi*, which traditionally takes years to develop (Ahlstrom et al., 2000). A common method of putting into practice this strategy is by hiring locals who already possess a rich network of well-established connections with employees from other firms and government bodies.

Several studies, for example, Standifird & Marshall (2000), Su & Littlefield (2001) and Cremer & Ramasamy (2009) indicate that finding a Chinese national or even an overseas Chinese to act as an intermediary might prove to be an

indispensable stepping-stone, notwithstanding the market entry mode. This third-party collaborator can alleviate the impact of a foreign firm's liability of outsidership by providing useful information regarding the market and potential business partners, assisting with the country's bureaucratic problems, as well as acting as an interface person when establishing contacts with local stakeholders.

Secondly, once a connection is established it is crucial that the parts involved engage in trust-building activities in order to move the relationship further and, consequently, reap its desired full benefits (Chen & Chen, 2004). In the case of foreign entrepreneurs, there is evidence that the act of vouching and offering personal guarantees regarding their commitments, leads to higher levels of emotional investment, and most importantly increases in the levels of trust among the parties (Kriz & Keating, 2010). In addition, other activities like the exchange of small favours or gifts and the organization of small informal events, as in the case of banquets, is considered to be a part of the important rapport- and trust-building process, essential to the development of *guanxi* (Ahlstrom et al., 2000).

However, research developed by Fock & Woo (1988) indicates that comparatively more skilful foreign managers are proficient and sensible at manipulating the exchange of favours, information, and social activities with their Chinese counterparts. Less experienced foreign managers, on the other hand, can be associated with opportunistic behaviour when developing similar activities resulting in a loss of face, which can rapidly spread through the network.

Lastly, foreign firms have seen a positive correlation between the development of charity actions and reputation improvements, specifically from the perspective of the local population. A possible example of this type of behaviour can be a strongly publicized donation from a foreign company for the construction of educational facilities in a specific Chinese city with the expectation that local

governments will take notice of this generosity and will take it into consideration on future interactions (Ahlstrom et al., 2000).

In sum, the literature regarding both economic diplomacy, specifically the role of Investment and Exports promotion agencies, and the development of *guanxi* networks suggests that these strategies can play a significant role in assisting firm's overcoming their liability of outsidership when developing international activities in a transitional economy. Nevertheless, some caveats regarding the efficacy of both approaches on this matter should not be taken lightly. As such, in subsequent chapters of this work, we will look into adding evidence to this topic, specifically through the presentation and assessment of the perceptions of internationalized Portuguese companies regarding the effectiveness of both these instruments throughout their internationalization activities on the Chinese market.

# Chapter 3

## Methodology

In the present chapter we will proceed with the presentation of the methodological approach chosen to investigate the research questions explored in this Master's Final Assignment. We will further elaborate on the procedures adopted for the collection of empirical information, as well as the reasons for employing such data collections techniques. Lastly, a brief overview of the obstacles and limitations encountered throughout the development of this study will be provided.

### 3.1. Research Questions

The development of this thesis aims to answer the following research questions: (i) What are the main motivations behind the internationalization to China from the perspective of Portuguese companies?; (ii) What are the main barriers faced in the internationalization to China from the perspective of Portuguese companies?; (iii) How relevant is the support provided by Investment and Exports Promotion Agencies in the internationalization process of Portuguese companies to China?; (iv) How relevant is the development of *guanxi* in the internationalization process of Portuguese companies to China?''.

## 3.2. Research Strategy

The four research questions being considered in this Master's Final Assignment regard a markedly complex and highly specific phenomenon, the development of internationalization activities in the Chinese market by Portuguese companies. In the context of this work, guided by the precept that "to understand well any phenomenon it is necessary to start by looking at it in broad, nonspecialized terms" (Stebbins, 2001), an exploratory research methodology has been adopted.

According to Stebbins (2001), exploratory research focuses its efforts on the development of inductively derived generalizations regarding the group, activity, process, or situation under study. This description aligns with the main objective of this study, namely the production of new insights regarding the development of internationalization activities in the Chinese market by Portuguese companies.

From a primary data collection methodology standpoint, a mixed method approach has been adopted through the collection of both quantitative and qualitative data.

Primary quantitative data was collected through the development of a survey whose primary measuring instrument consisted of a self-completion online questionnaire. Primary qualitative data was mainly retrieved through both direct and participant observations, in addition to the answers pertaining to three open-ended questions present in the aforementioned questionnaire.

Concerning the observation method, this data collection process occurred mainly through participant observation. The author of this Master's Final Assignment had the opportunity to develop a curricular internship at the AICEP Delegation in Shanghai, which enabled him to be a participant, or in some cases an observer, of several activities concerning the context under analysis. In a

following section of this chapter a more thorough description of the internship will be presented.

Lastly, the main sources with respect to secondary data gathering were documents published or made available by the AICEP Delegation in Shanghai, and other documents with relevant statistics on economic relations between Portugal and China, developed by official entities such as Banco de Portugal, Instituto Nacional de Estatística (INE), World Trade Organization (WTO) and the Organization for Economic Co-Operation and Development (OECD).

### 3.2.1. Survey – Development and Implementation Stages

In what concerns the Portuguese companies' perspectives regarding their internationalization to China, the primary adopted research method in order to answer this study's research questions was of a mixed nature, through the collection of both quantitative and qualitative data. In this case, in the form of a self-completion online questionnaire consisting of a set of 19 closed-ended questions and 3 open-ended ones.

Based on data collected by INE (AICEP, 2017), in 2016, there were 1380 Portuguese companies exporting goods to China, a significant increase of roughly 34% from the 1031 companies developing exporting activities to the market in 2012. Regarding services' exports, despite the previously presented data, indicating that Portugal's aggregate volume of this type of trade has also been growing in the past few years, we were not able to collect reliable data concerning the number of Portuguese companies undertaking these activities.

From an FDI viewpoint, according to information collected from the database SABI (2021), 80 Portuguese firms are currently committed to investments in the Chinese market through the establishment of subsidiaries.

Lastly, data regarding the number of companies employing contractual modes of internationalization to China is not present in any official INE or AICEP document, and is neither possible to collect from the SABI database.

Given the difficulty of building a representative sample of all Portuguese companies undertaking business activities in China, the survey was developed taking into consideration a convenience sample of 122 Portuguese companies.

The sample of 122 Portuguese companies contacted was constructed from the combination of two distinct databases provided by AICEP. One of the databases provided by the Headquarters of AICEP in Lisbon consisted of the 100 biggest Portuguese exporters to the Chinese market, according to INE. While the other, provided by the AICEP delegation in Shanghai, regarded 29 Portuguese companies developing FDI activities in China.

Both databases had 7 companies in common, the most probable reasoning being that these firms simultaneously develop export and investment activities in the Chinese market. As such, the final number of companies contacted does not equal the sum of the number of companies present in both databases.

The questionnaire consisted of five main sections: the first section (Section I.) was of a general nature, where it was intended to determine the profile of the company that was participating in the survey; the second section (Section II.) was aimed at exploring companies' perspectives regarding their motivations behind their internationalization to China; the third section (Section III) focused in exploring companies' perspectives regarding their faced barriers in their internationalization to China; the fourth section (Section IV.) was intended to collect data with respect to possible strategies Portuguese companies might have adopted to enter and develop in the Chinese market; and finally the fifth and last section (Section V.) concluded the questionnaire by determining companies' overall level of satisfaction and some of their future expectations regarding their

experience in China. The division was mostly made on the basis of the various research questions being carried out in this study.

The various stages regarding the development and implementation of the questionnaire were as follows:

i. Preparation of a preliminary version of the questionnaire - this first version of the questionnaire was carried out based on the literature review.

ii. Review of the preliminary version of the questionnaire – this version of the questionnaire was sent to the supervisor of this work in order to receive feedback on it.

iii. Elaboration of the final version of the questionnaire - After the feedback from the supervisor of this work, the changes proposed were incorporated in the questionnaire, thus arriving at a final version of the questionnaire. Google forms was the software adopted for the development of the survey, due to its ease-of-use and capabilities to export the data to Excel. (see appendix 1.).

iv. Definition of the questionnaire procedures - The questionnaire was launched on April 2021 by e-mail, having been administered to a total of 122 Portuguese companies with business activities in the Chinese market. The questionnaire was closed on April 30 with 19 total responses. During the time the questionnaire was active, at least 4 follow-up emails were sent to companies that had not yet responded.

v. Treatment and analysis of results - since the number of responses was considerably small, it was only possible to treat the results on the basis of descriptive statistics.

### 3.2.2. Internship

In addition to the empirical data retrieved by the aforementioned survey, the author of this Master's Final Assignment took into consideration in the

development of this study the observations collected throughout the carrying out of a curricular internship at the Delegation of AICEP in Shanghai, China.

This research method can be described under the classification of participant observation which Denzin defines as a research “strategy that simultaneously combines document analysis, interviewing of respondents and informants, direct participation and observation, and introspection” (1989). This methodology is commonly adopted in order to scrutinize things that cannot be easily sorted out such as the activities and attitudes of the various stakeholders involved in the internationalization processes of Portuguese companies to China.

Regarding the internship itself, as previously stated this was carried out at the Delegation of AICEP in Shanghai, an offshore office of aicep Portugal Global, Portugal’s main government business entity for the promotion of investment and exports. The delegation is incorporated in the Portugal Consulate in Shanghai since the majority of aicep’s foreign network is integrated within Portugal’s Ministry of Foreign Affairs and its external network of embassies, permanent missions and consular posts.

The Shanghai delegation was established in 2005 and undertakes a vast array of diverse functions, such as, development of general market research and survey of business opportunities for Portuguese companies, the organization of specific activities and events to promote Portugal and Portuguese products, the identification of potential local business partners for Portuguese companies, orientation to potential local investors interested in investing in Portugal, advising Portuguese companies interested in investing in the Chinese market, dissemination of information regarding the Portuguese offer (companies, products and services) to local importers, intermediation with local entities, among others. The team of the Delegation of AICEP in Shanghai is typically comprised of four people, the current Director of the delegation, an assistant trade officer, an administrative assistant and an intern.

Throughout the development of his internship, between October 2019 and February 2020, the author of this MFA was able to participate and collect information from several activities, namely;

- Business meetings between Portuguese companies, already internationalizing or considering internationalizing to China, and potential local business partners;
- Organization and execution of the Portuguese Pavilion at the second edition of China International Import Expo in Shanghai (CIIE), the largest multisectoral trade fair in China;
- Participation in several of the monthly organized European Union's Economic Consuls meetings held at the Shanghai chapter of the European Union Chamber of Commerce. Several topics relevant to this work were presented and discussed at these meetings, for instance, the Comprehensive Agreement on Investment, environmental policies and reforms being implemented in China, China's social credit system and its possible impacts for foreign businesses;
- Institutional meetings between the AICEP's Delegation in Shanghai and representatives of local institutions, namely China Council for the Promotion of International Trade (CCPIT).

Lastly, in what regards the data logging techniques applied, these mainly consisted of field notes, in the form of written observations recorded during participant observations, and reports of the several observed interactions, elaborated on the weeks following the event on the basis of the field notes collected.

### 3.3. Research Obstacles

The last section of this chapter looks to provide the reader with some context regarding certain obstacles and limitations the author of this work faced in the course of its development.

In the initial stages of development of this Master's Final Assignment the topic of investigation centred on the role of economic diplomacy regarding China's Foreign Direct Investment in Portugal. From a methodological standpoint the work aimed to focus on a cross-case analysis of two distinct case studies, elaborated from the perspective of two Chinese multinational companies undertaking FDI activities in Portugal.

However, while the author of the present work was carrying out the aforementioned internship in AICEP's Delegation in Shanghai, the initial spreads of what was later named the COVID-19 pandemic started being reported. At the time there was a clear lack of information and understanding regarding the entire situation. As such, by the beginning of February, the AICEP Delegation in Shanghai decided to prematurely suspend the internship in order to allow the author to initiate the preparations to safely return to Portugal, which occurred by the end of February 2020.

The author had initially intended to remain in Shanghai until the end of April 2020, mainly to collect the various elements necessary for the construction of the case studies. As can be imagined, due to the premature return, the initial strategy and agenda being considered for the development of this MFA had to be reassessed.

Once in Portugal, the collection of data concerning Chinese companies proved to be extremely complicated, mainly because, at this time, China and Chinese businesses were fully absorbed by the pandemic situation and its various ramifications.

As a result, the topic of this study was modified, recentring its focus on the study of Portuguese companies developing FDI activities in China. The author believed that the construction of the intended case studies would prove to be more accessible with this reframing of its objects of study.

Notwithstanding, several difficulties were again encountered with respect to the identification of companies developing FDI activities in the Chinese market willing to participate and collaborate in this work. To put it briefly, the companies approached rejected the possibility of collaboration on the basis that they do not have permission to share information regarding their operations in offshore markets, or that at the moment of inquiry they had neither the context or appropriate framework to participate in the study.

At this stage, the theme of the present work was again re-evaluated and, in this case, expanded to now take into consideration not only the perspective of MNEs developing FDI activities in China but all Portuguese companies internationalizing to this market, either through equity or non-equity modes. Another relevant alteration to the study regarded its data collection methodology, from the initially planned case study framework to the ultimately conceived survey.

In sum, the various and comprehensive limitations endured throughout the development of this study lead to several adaptations of its topic of study, literature review, research strategy and research methodology, Notwithstanding, it is the actor belief that these types of obstacles are commonplace among those involved in the world of academia. Therefore, this entire process enabled the author to experience first-hand the difficulties and obstacles often encountered through the development of research and, thereby, resulted in a rich and valuable learning experience.

# Chapter 4

## Findings Presentation and Discussion

The main purpose of the current chapter is to present the current state of the Economic Relations between Portugal and China, in order to demonstrate the significance of the Chinese market for Portuguese companies, but also its untapped potential.

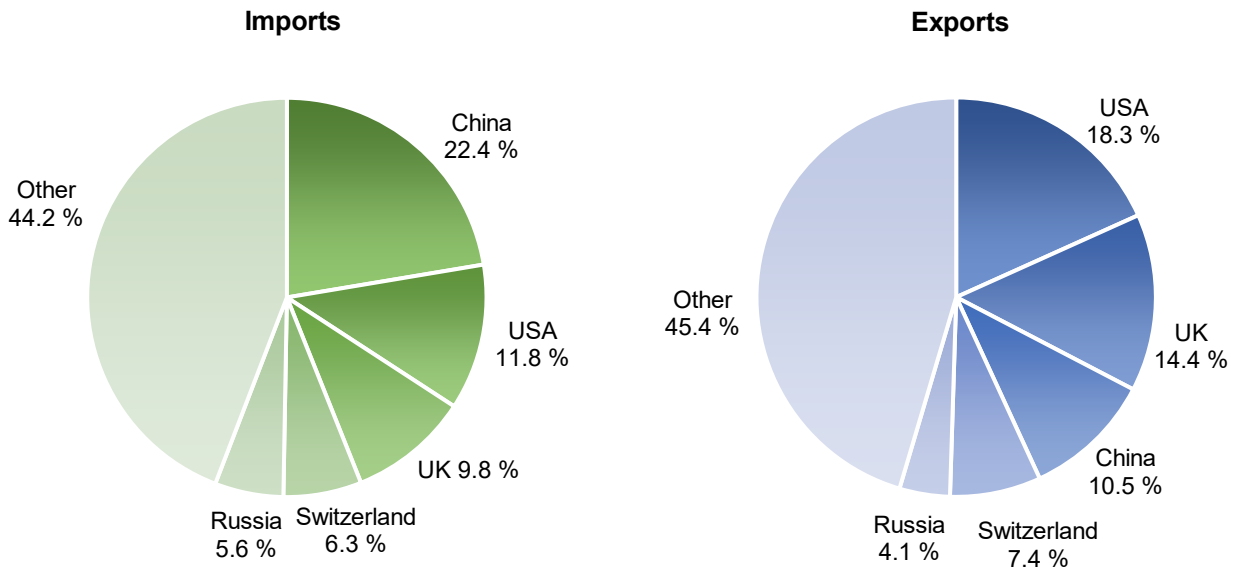
In addition, the findings originated from the empirical component of this study will be presented and discussed, regarding the present-day sample of Portuguese companies' perceptions of China's business environment, namely their main motivations and challenges in the development of activities in the country, their assessment of two possible strategies in order to mitigate the impact of their *liabilities of outsidership*, and their overall levels of satisfaction and future expectations regarding their internationalization to China.

### 4.1. Economic Relations between European Union and China

According to Eurostat (2020) data, in 2019, China was the largest exporter of goods in the world with an estimated aggregate of 2 233 billion euros exported. The European Union, on the other hand, was the world's largest importer of

goods, in the analogous period, with an estimated 1 940 billion euros imported in total.

**Figure 7 – European Union’s main imports’ origins and exports’ destinations**



*Source: Adapted from Eurostat (2020)*

Regarding the goods exchanged between the two, as illustrated in the figure above, China is an essential trading partner of the European Union, given its standing as the largest exporter of goods to the trading bloc, with approximately 383 billion euros exported to the EU (22,3 percent of all EU goods’ imports) in 2020, and the third largest recipient of EU exported goods, with roughly 203 billion euros of imported good from the EU (10,5 percent of all EU goods’ exports).

A more fine-grained analysis of the EU’s exported goods to China by country of origin enables us to better understand Portugal’s standing in this metric in comparison to the other 27 member countries. Table 2, illustrates Germany as the clear largest EU exporter to this market, representing almost half of the trading bloc’s 203 billion euros of exported goods. Portugal on the other hand, occupies

the 19th position in the same ranking, with an aggregate of 568 million euros exported, which represents 3,7 percent of the country's extra EU exports.

The performance of countries such as Hungary, Bulgaria and Greece, who serve as good comparisons to Portugal, both from a demography and economic development viewpoint, indicates that there's still quite a lot of untapped potential for Portuguese exports regarding the Chinese market. Throughout 2020, the three countries aggregate exports to China were 167, 62 and 51 percent larger than those of Portugal, respectively.

Slovakia's output is even more remarkable, when considering the country's considerable smaller population than that of Portugal and its comparable economic development (taking into consideration GDP per capita). The country aggregate exports to China were valued in 2040 million euros, almost four times of the respective Portuguese output.

**Table 2 - EU exports of goods to China by country, 2020**

	€ millions	% of China in extra EU exports	
1. Germany	96 426	16,8	████████
2. France	17 493	8,8	██
3. Netherlands	15 692	7,8	██
4. Italy	12 887	6,1	██
5. Ireland	9 861	10,6	████
6. Belgium	8 541	6,5	██
7. Spain	8 167	7,8	██
8. Sweden	7 458	11,5	████
9. Denmark	5 590	12,2	████
10. Austria	4 019	8,7	██
11. Finland	3 068	11,6	████
12. Poland	2 974	4,8	█
13. Czechia	2 260	6,6	██
14. Slovakia	2 040	12,8	████
15. Hungary	1 518	6,7	██

16. Bulgaria	919	9,7	■
17. Greece	855	6,5	■
18. Romania	646	4,0	■
19. Portugal	568	3,7	■
20. Slovenia	452	3,5	■
21. Lithuania	316	2,5	■
22. Estonia	245	5,1	■
23. Luxembourg	200	8,4	■
24. Latvia	160	3,0	■
25. Cyprus	87	4,9	■
26. Croatia	86	1,8	■
27. Malta	41	3,5	■

*Source: Adapted from Eurostat (2020)*

Regarding EU-China foreign direct investment flows, according to the European Commission (2020), the cumulative EU's FDI outflows to China over the past 20 years have been estimated to be over 140 billion euros. On the opposite direction, China's FDI into the EU in the corresponding period has accounted for almost 120 billion euros.

In the topic of investment, one increasingly relevant concern is the lack of reciprocity between the trading bloc and China relations. If on one side, Chinese investors benefit from the same rights regarding the access to the EU market as any European business, on the other, China still heavily enforces restrictions on foreign investments to its markets. This results in a clear perception by EU citizens and businesses that the playing field in this regard is not levelled (Hanemann, Huotari & Kratz, 2018).

As a means to face the prevailing sentiment regarding investment relations, both parties have been working extensively on a comprehensive investment agreement that will be briefly described in the following section.

#### 4.1.1. EU-China Comprehensive Agreement on Investment

On 30 December 2020, following seven years of negotiations and thirty-five rounds of EU-China talks, both parties were able to reach an agreement in principle on the Comprehensive Agreement on Investment (CAI), which has been portrayed as the “the most ambitious agreement that China has ever concluded with a third country” (European Commission, 2020).

The CAI’s main goal, according to the European Commission, is the rebalancing of the existent asymmetries concerning the terms of market access and investment between the EU and China. It encompasses provisions on market access, the removal of quantitative restrictions, and advancements on China’s limiting joint venture regulations in several sectors.

In addition, the agreement binds China’s investment liberalisation policies over the past 20 years, preventing a possible backsliding in the future. This will result in higher levels of transparency and stability for EU businesses interested in the market.

On the EU side, markets will remain open and primarily devoted to services sectors under the General Agreement on Trade in Services. European Union sensitivities concerning particular industries, namely in the field of energy, agriculture, fisheries, audio-visual, public services, among others, are all taken into consideration under the new CAI.

Some of the more relevant commitments under the Comprehensive Agreement on Investment are presented below:

- Market access commitments in several sectors, such as the services sectors (specifically, telecommunications, financial services, private healthcare, environmental services, R&D and air transport-related services), manufacturing, international maritime transport and construction;

- Imposed limitations on the behaviour of Chinese SOEs, “requiring them to act in accordance with commercial considerations and not to discriminate in their purchases and sales of goods or services”;
- Rules against forced transfers of technology;
- Provisions regarding equivalent access to standard setting bodies for EU companies in China; in addition, enhancements concerning transparency, predictability and fairness in authorisation processes will also be granted;
- Measures on the promotion of sustainable development, especially in the case of China, through commitments on climate and forced labour.

The text of this comprehensive agreement is now publicly available while it awaits to be submitted by the European Commission for adoption and ratification by the Council of the European Union and the European Parliament.

## 4.2. Economic Relations between Portugal and China

### 4.2.1. Trade

The Chinese market presents itself as a significant destination and source of Portugal’s trade of goods. According to data from INE (AICEP, 2020), in 2019, China’s was the 14th biggest recipient of Portuguese goods exported, representing approximately 1 percent of the total share of Portuguese goods exported.

On the other hand, China’s exports to the Portuguese market are even more noteworthy. In 2019, the country ranked as the 6th biggest supplier of goods to Portugal, with a share of roughly 3,7 percent (Table 3).

**Table 3 - China's Ranking and Share concerning Portuguese Goods Exported**

		2015	2016	2017	2018	2019	2020 jan/mar
<b>China as a Portugal Client</b>	<b>Ranking</b>	10	11	11	13	14	20
	<b>% Export.</b>	1,69	1,35	1,53	1,14	1,01	0,73
<b>China as a Portugal Supplier</b>	<b>Ranking</b>	7	6	6	6	6	6
	<b>% Import.</b>	2,95	2,96	2,94	3,11	3,68	3,76

*Source: INE, adapted from AICEP (2020)*

In terms of absolute values, and taking also into consideration the exchange of services, we can verify that the total value of exports to China has remained relatively stable through the past 5 years, fluctuating between 829,5 (2016) and 1048,7 million of euros (2017), with a year-over-year positive variation of 1,2 percent during this period of time.

In the case of imports, the estimated total amount is considerably bigger, culminating in 2 703,9 million of euros (2019) imported by Portugal, and presenting an equally stronger year-over-year increase of 12,1 percent.

As expected, due to the sizable differences between Portugal's exports and imports, to and from China, there is an evident trade deficit unfavourable to Portugal. Furthermore, between 2015 and 2019, this deficit has tended to increase, from 785 million of euros in 2015 to 1757,2 million of euros in 2019 (Table 4).

Lastly, from a foreign trade coverage ratio, in 2019, Portuguese exports to China represented only 35 percent of the total amount of imports from that country, another representative value of the trade imbalance between the two countries.

**Table 4 - Trade Balance of Goods and Services between Portugal and China**

	2015	2016	2017	2018	2019	Var % 19/15	Var % 19/18
<b>Exports (M€)</b>	945,3	829,5	1 048,7	931,4	946,7	1,2	1,6
<b>Imports (M€)</b>	1 730,4	1 759,7	1 906,4	2 165,7	2 703,9	12,1	24,9
<b>Balance (M€)</b>	-785,0	-930,2	-857,7	-1 234,3	-1 757,2	--	--
<b>Coverage Coefficient (%)</b>	54,6	47,1	55,0	43,0	35,0		

*Source: INE, adapted from AICEP (2020)*

By discriminating the data relative to Portugal's exports to China by product group, we can better understand the more popular types of products exported to China. In 2019; minerals and ores (15,9%); cellulosic paste and paper (13,4%) and machinery and appliances (11,7%), were clearly the three product groups that found the most success in what concerns exporting to the Chinese market, with all three having a double-digit share of the overall Portugal's goods exported market (Table 5).

Notwithstanding, it is also possible to conclude that the existing discrepancies between the different product groups in 2015, in what concerns the exports to China, have tended to fade over the years. The heterogeneity of products being exported to the Chinese market seems to have grown over the last few years, leading to the idea that there are no industries with clear advantages in exporting to it.

Another relevant point when analysing the data below, is that even in the case of product groups that have seen their total amount of exports decrease substantially in the period under analysis, for example, vehicles and other transportation parts, we should not quickly jump to the conclusion that this

industry is now less accessible or more competitive in the foreign market. A possible explanation for this scenario is that, due to the previous success in exporting a certain type of products to China, some of the companies involved might have decided to increase their levels of commitment to the market by, for example, establishing production units in the country. As such, their values regarding exports would have decreased over time but their level of investment would have taken the opposite direction.

**Table 5 - Exports from Portugal to China by Product Groups**

	2015 (M€)	% Tot 15	2018 (M€)	% Tot 18	2019 (M€)	% Tot 19	Var % 19/18
<b>Minerals and ores</b>	152,1	18,1	73,9	11,2	95,8	15,9	29,7
<b>Cellulosic paste and paper</b>	59,0	7,0	78,4	11,9	81,0	13,4	3,3
<b>Machinery and appliances</b>	74,6	8,9	70,1	10,7	70,8	11,7	1,0
<b>Vehicles and other transportation parts</b>	351,8	41,9	152,0	23,1	48,3	8,0	-68,2
<b>Food and beverages</b>	34,3	4,1	59,1	9,0	41,4	6,9	-29,8
<b>Textile materials</b>	23,8	2,8	51,7	7,9	37,1	6,1	-28,3
<b>Chemicals</b>	3,8	0,5	18,2	2,8	36,7	6,1	101,7
<b>Agricultural</b>	7,1	0,8	14,4	2,2	34,2	5,7	138,1
<b>Plastics and Rubber</b>	32,6	3,9	26,2	4,0	29,6	4,9	13,0
<b>Common metals</b>	21,4	2,5	27,9	4,2	29,0	4,8	3,9
<b>Wood and cork</b>	24,7	2,9	33,6	5,1	28,1	4,7	-16,4
<b>Footwear</b>	11,9	1,4	23,1	3,5	25,9	4,3	11,9
<b>Optical and Precision instruments</b>	12,4	1,5	7,1	1,1	17,6	2,9	146,8
<b>Clothing</b>	9,7	1,2	6,3	1,0	9,8	1,6	54,8
<b>Furs and hides</b>	3,6	0,4	2,9	0,4	3,6	0,6	27,8
<b>Mineral fuels</b>	3,0	0,4	0,0	0,0	0,0	0,0	27,3
<b>Other products</b>	13,1	1,6	13,1	2,0	13,9	2,3	6,2
<b>Total</b>	838,7	100,0	657,8	100,0	602,8	100,0	-8,4

*Source: INE, adapted from AICEP (2020)*

Lastly, we will quickly mention the data regarding Portugal's exports of services to China and vice-versa. As described in the table below, both the total amount of Portugal's exported and imported services, to and from China, have

increased considerably over the years. Especially in the case of the former, the total amount of exported services has been growing at a positive 30,1% year-over-year. As such, the amount of this type of exports in 2019 (356,5 M€) has almost tripled over the past 5 years (124,6 M€ in 2015).

**Table 6** - Services' trade balance between Portugal and China

	2015	2016	2017	2018	2019	Var % 19/15	Var % 19/18
<b>Exports (M€)</b>	124,6	166,6	226,6	284,9	356,5	30,1	25,1
<b>Imports (M€)</b>	268,4	271,5	298,1	335,2	426,0	12,6	27,1
<b>Balance (M€)</b>	-143,8	-105,0	-71,5	-50,3	-69,5	--	--
<b>Coverage Coefficient (%)</b>	46,4	61,3	76,0	85,0	83,7	--	--

*Source: Banco de Portugal, adapted from AICEP (2020)*

#### 4.2.2. Foreign Direct Investment

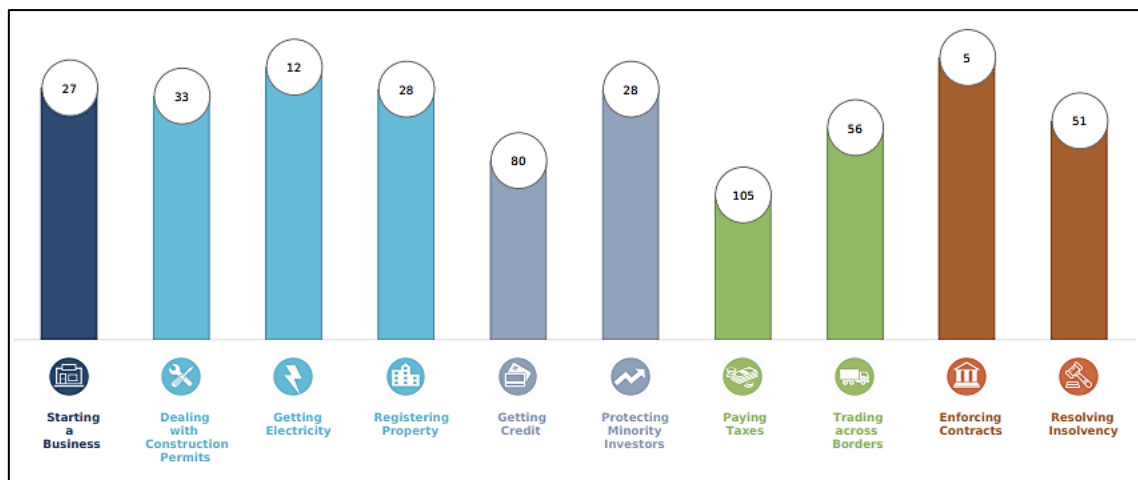
According data published by UNCTAD (2020) in 2019, FDI flows into developing Asia, which groups 45 countries in Asia-Pacific, fell by 5 percent, to \$474 billion, nevertheless the region remained a favourite FDI destination, welcoming more than 30 percent of worldwide FDI flows. In the case of China, inflows grew marginally and reached a record high of \$141 billion, sustaining its position, first achieved in 2017, as the second biggest recipient of FDI in the world.

Another relevant publication, the World Bank's 2020 Doing Business report, responsible for developing a comparison among 190 diverse economies' business regulations, demonstrated an equally impressive improvement in China's business environment conditions. The country was one of the top 10 most

improved economies, in the period between 2019 and 2020, going from the 46th position (2019) to the 31st (2020). This progress is a reflection of several perceived improvements in a vast array of subcomponents, spanning from procedures for starting a business to improvements in infrastructure availability and accessibility to construction licenses, among others.

In the figure bellow, the 2020 standing of China in the various subcomponents under analysis in the report is presented.

**Figure 8 – China’s standings on the 2020 Doing Business Report**



*Source: Adapted from World Bank (2020)*

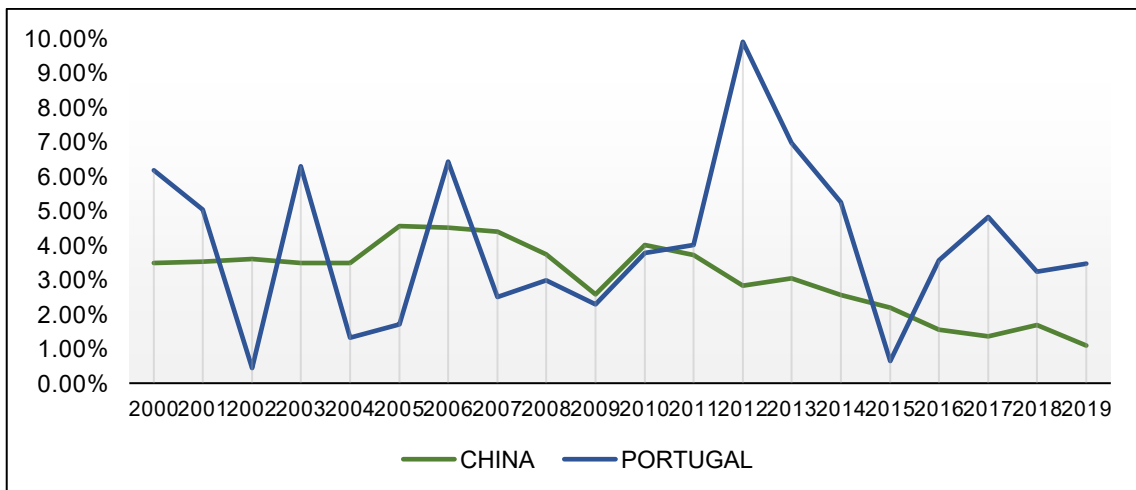
From a comparative standpoint, in the case of Portugal and China, aggregate values of FDI do not present reasonable comparisons, mainly due to the extreme differences in scale between both economies.

A more logical metric for comparing both countries in what concerns their respective FDI hosting activities is to analyse their net FDI inflows as a percentage of their GDP. As Figure 9 illustrates, since the year 2000, Portugal’s net inflows of FDI (as a percentage of GDP), have considerably bigger fluctuations than China’s. Especially between 2011 and 2014, when the country was witnessing an economic downturn triggered by the global financial crisis,

this metric increased substantially. On one hand, because throughout this period the country saw its GDP decrease substantially, on the other because the absolute value of FDI inflows registered a considerable growth in the analogous timeframe, mainly driven by a wide-ranging privatization program, of which Chinese investors were a major involved player (Fernandes, 2020).

On average, however, both countries presented similar levels of FDI inflows (as a percentage of GDP) in the period under analysis, in the case of Portugal foreign investment in the country averaged 3,67 % of the country’s GDP in comparison to China’s 3,48 %.

**Figure 9 – Net FDI inflows as a percentage of GDP**



*Source: Adapted from The World Bank (2021)*

Lastly, we will proceed with the analysis of the direct FDI fluxes between Portugal and China. The data presented in table 7 is quite self-explanatory: there are great discrepancies between the levels of investment China has undertaken in Portugal and those following the opposite trajectory, representing the differences in scale of both economies. Despite this fact, the FDI deficit between both countries has tended to lessen over time, but mainly due to an analogous reduction of Chinese FDI in Portugal between 2017 and 2019.

**Table 7 - FDI Fluxes (millions of €)**

	2015	2016	2017	2018	2019	Var % 19/15 <sup>a</sup>	Var % 19/18 <sup>b</sup>
<b>PT FDI</b>	9,2	4,3	5,0	-1,2	-40,2	-875,2	§
<b>CHN FDI</b>	477,1	508,4	384,3	251,2	217,8	-16,4	-13,3
<b>Balance</b>	-467,9	-504,1	-379,3	-252,4	-258,1	--	--

Source: Banco de Portugal, adapted from AICEP (2020)

### 4.3. Empirical Study Presentation

The empirical component of this work is based on the findings collected from a survey applied to 122 Portuguese companies that develop business activities in the Chinese market.

In the following section, a characterization of the respondent companies will be presented, followed by the description of the findings from the survey's responses.

#### 4.3.1. Characterization of Survey Participants Sample

From the sample of 122 Portuguese companies contacted, we were able to gather a total of 19 replies. However, one of these respondents indicated that it did not believe the company fulfilled the criteria necessary for participating in the study, since it does not currently have any connections to the Chinese market, despite being on AICEP's provided databases. As such, in total, 18 replies were considered valid for the purpose of this study, which resulted in a low answer rate of 14,75 %.

The initial intension was to segregate the companies that participated in the study into two distinct analysis' groups, on the basis of their dimension. The rationale behind this division regarded the evidence provided in the literature, that SMEs and MNEs have traditionally distinct perceptions of their internationalization process. As such, we would be able to better analyse and compare these differences from the perspective of Portuguese companies internationalizing to China. However, due to the aforementioned low level of participation in the survey, the findings originated from this comparative analysis would not be statistically significant.

In the end, the 18 participants in the study were studied as a single group of analysis, whose main characteristics are presented in the table below.

**Table 8**

<b>Economic Sector</b>	<b>Number of companies</b>	<b>%</b>
Agri-food	6	33,3 %
Wholesale and Retail	4	22,2 %
Extraction Industry	2	11,1 %
Manufacturing	6	33,3 %
<b>Number of Employees</b>		
<b>Number of Employees</b>	<b>Number of companies</b>	
1 to 9	3	16,7 %
10 to 49	2	11,1 %
50 to 249	8	44,4 %
250 or more	5	27,8 %
<b>Revenues</b>		
<b>Revenues</b>	<b>Number of companies</b>	
Between 250 thousand and 2 million euros	2	11,1 %
Between 2 million and 5 million euros	2	11,1 %
Between 5 million and 10 million euros	1	5,7 %
More than 10 million euros	13	72,2%
<b>Company Age</b>		
<b>Company Age</b>	<b>Number of companies</b>	
7 to 25 years	7	38,9 %
26 to 50 years	3	16,7 %
More than 50 years	8	44,4 %
<b>Total</b>	<b>18</b>	<b>100 %</b>

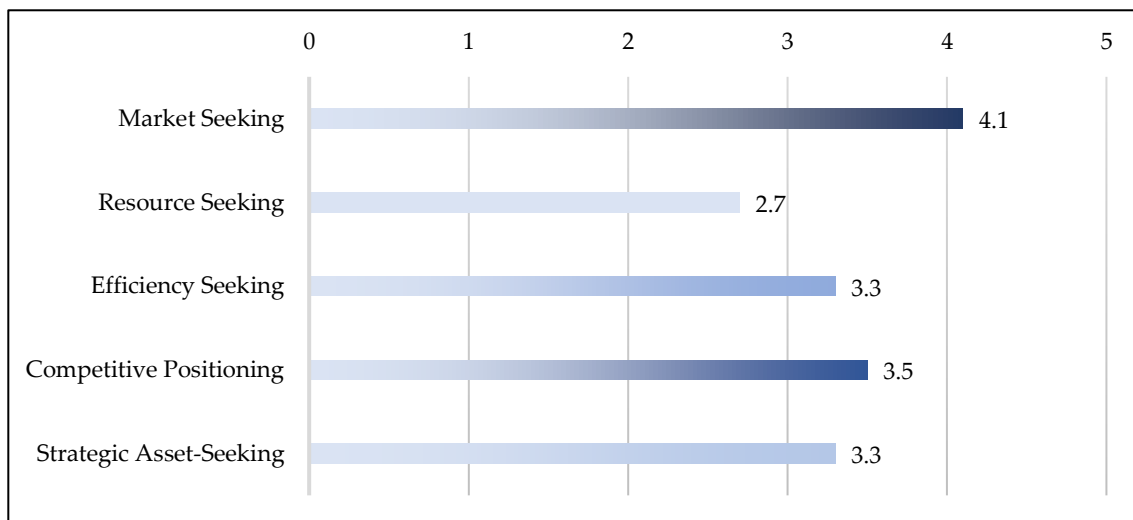
#### 4.3.2. Motivations for the Internationalization to China

Regarding the motivations behind internationalization to China, companies were asked to answer between 2 and 3 questions concerning this topic (Section II. of the survey).

Firstly, firms had to assess the relevance, from their company's perspective, of five main diverse motives for internationalizing to China, retrieved from the literature. This closed-ended question asked companies to review the different motivations in a scale from 1 to 5 (minimum to maximum relevance, respectively)

with an additional external option regarding a “don’t know” scenario. This last option was both created in order to cover the circumstance where the respondent does not actually know or does not want to provide an answer to the question. But also, in order to adopt an even-numbered scale (6 different possibilities), which presents the respondent with two visual midpoints instead of one. This tactic was employed on various following questions of the survey that resorted to Likert scales.

**Figure 10** – Most relevant motivations behind firms’ internationalization to China



As illustrated by Figure 10, Market Seeking was clearly singled-out by Portuguese companies as their most relevant motivation behind the development of activities in China, with an average score of 4,1 in 5. This finding is consistent with the data and literature previously presented that indicates the attractiveness and potential of the Chinese market from a scale perspective.

Equally of note, is the fact that firms perceived Competitive Positioning, Strategic Asset-Seeking and Efficiency-Seeking motivations as considerably relevant drivers for internationalizing to China, with scores ranging from 3,3 to 3,5. This again is consistent with the emerging literature advocating that

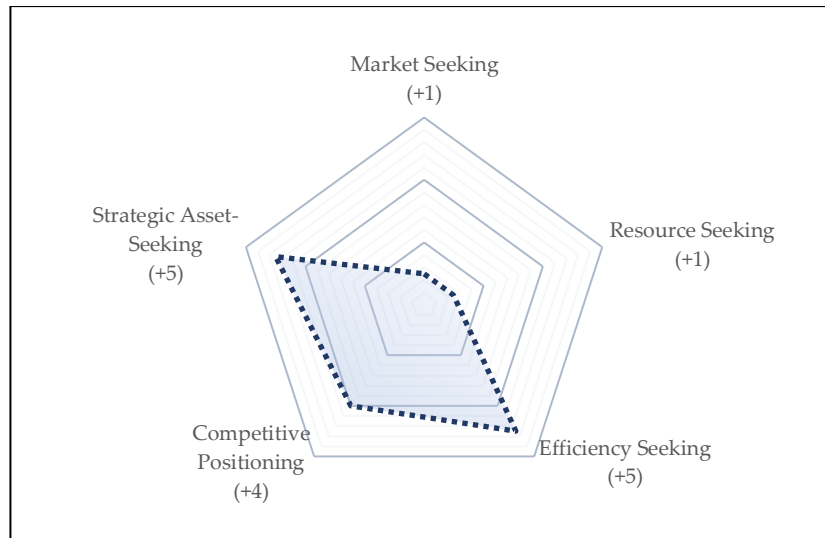
companies no longer formulate their internationalization decisions merely on the basis of traditional motives, typically associated with factor endowments, as in the case of resource seeking motives, but are gradually more sensitive to the interconnectedness nature of internationalization processes, taking into consideration their strategic positioning and access to strategic assets.

The second and third question of this section of the survey focused on the dynamic nature of firms' motivations, by assessing their evolution throughout the development of international activities. In sum, 55,6% of the companies surveyed indicated that their motivations had evolved during their internationalization to China, in contrast with the 44,4% that did not perceive any alterations.

More important, however, are the findings regarding which motivations had become more prevalent over time and which ones, if any, had lost some of their relevance. The third question of the present section looked into collecting data related to this matter.

Companies that had answered positively to the previous question were asked to review the perceived changes in the various motivations on a three-level scale. By attributing values (+1, 0 and -1) to the three possible answers companies had at their disposal (increased relevance, equal relevance and diminished relevance, respectively) we are able to comparatively analyse which motives have seen their relevancy increase or diminish, through the comparison of each other's net gains or losses.

**Figure 11** – Net variations of motivations' relevancy over time



The results presented in Figure 11, reinforce the findings originated from the first question of the present section. According to the surveyed sample, Strategic Asset-Seeking, Efficiency-Seeking and Competitive Positioning motivations have seen the biggest increases in relevancy over time with scores of, +5, +5 and +4, respectively.

In the following section, we will proceed this study with the presentation and discussion of the findings relative to the barriers endured by Portuguese companies when internationalizing to the Chinese market.

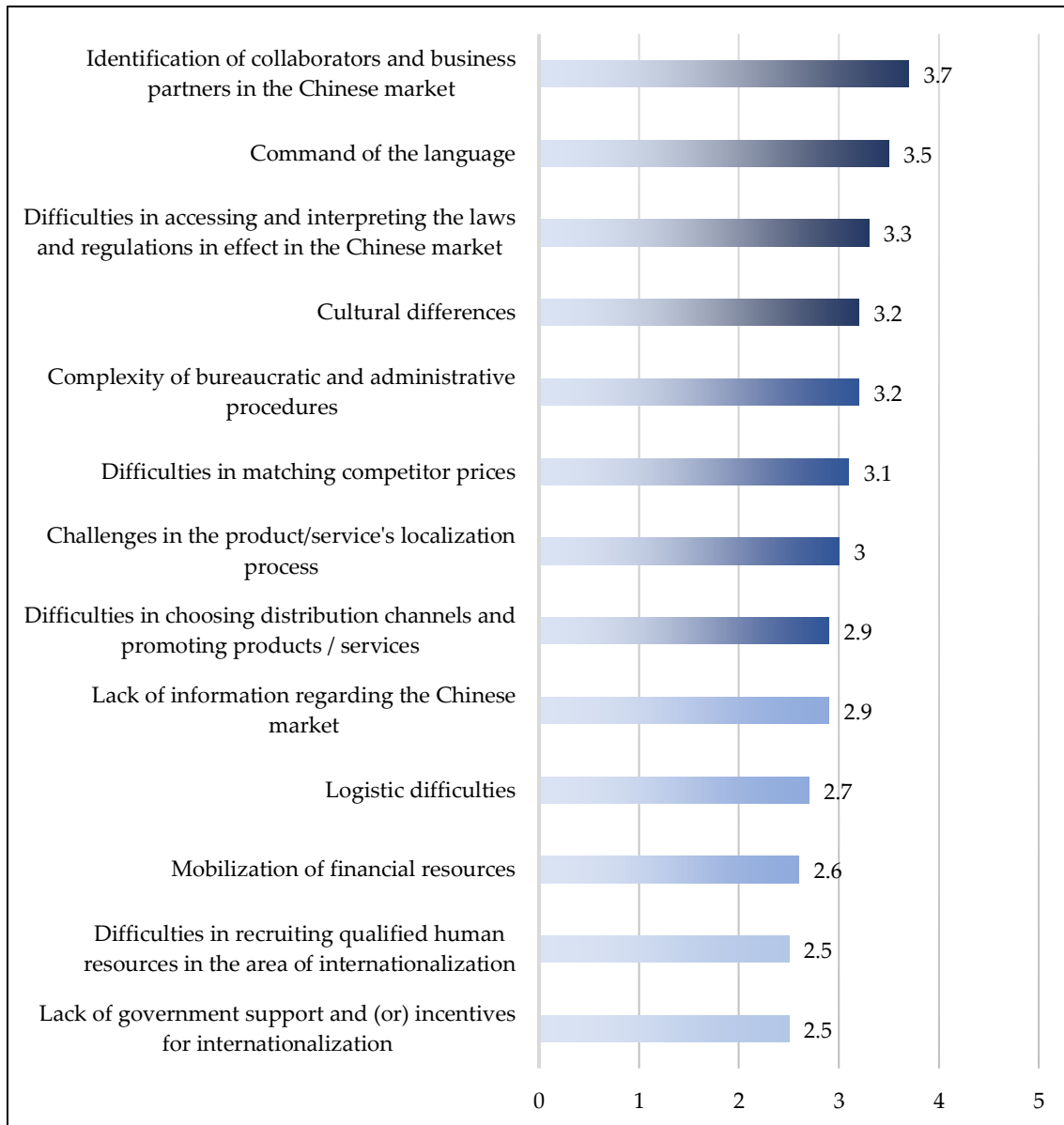
#### 4.3.3. Barriers in the Internationalization to China

Section III. of the survey followed an analogous structure to its Section II. Content wise, though, the former looks to provide insights into the companies perceived barriers and challenges when internationalizing to China. Respondents were again asked to answer between 2 or 3 questions, depending on their answer to the second question.

To begin with, companies were asked to evaluate the various barriers to internationalization suggested by the reviewed literature. This closed-ended

question was conducted in a similar fashion to the one described for the first question in the previous section of this work.

**Figure 12 – Most relevant barriers perceived during firms’ internationalization to China**



According to the firms’ responses, the five most commonly relevant barriers when developing international operations in China are: the identification of business partners and collaborators (most relevant barrier with an average score of 3,7); command of the Chinese language (3,5); difficulties in accessing and

interpreting the laws and regulations in effect (3,3); cultural differences (3,2) and the complexity of bureaucratic and administrative procedures (3,2).

These results are again aligned with the literature reviewed in Chapter. 3. China has distinctive cultural, institutional and political characteristics, and, in line with what is referred in the literature (Boisot & Child, 1996; Cooper, 1996; Lim & Gosling, 1983; Wang, 1991; Child & Warner, 2003), it appears that cultural influences have remained the bedrock of the Chinese business system. As such, it is not surprising that Western companies, as is the case of Portuguese firms, tend to face more relevant roadblocks throughout their process of internationalization to China in aspects related to cultural and institutional differences.

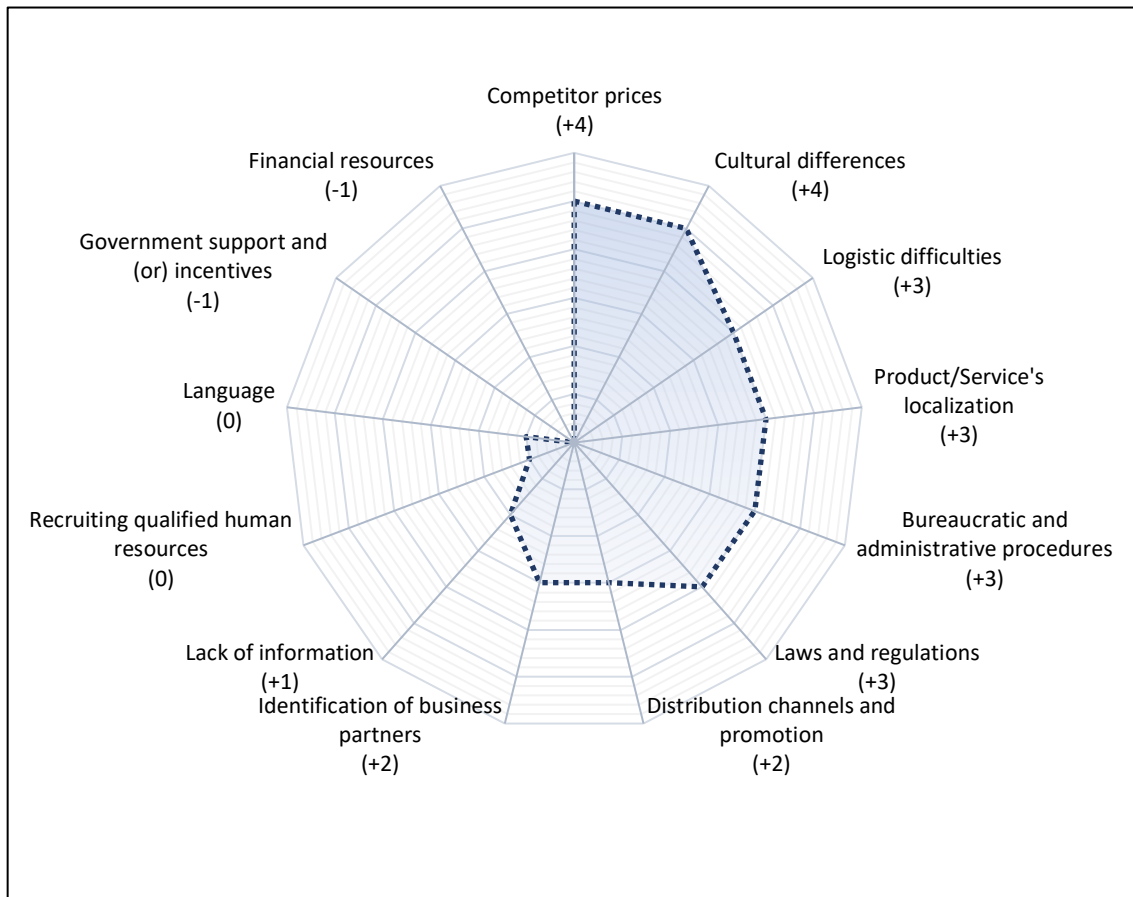
In addition, we would like to emphasize the fact that all barriers had an average score superior, or at least equal, to the average scale value (2,5). This in turn suggests that, as observed by Leonidou (2004), the perception and impact of internationalization barriers is highly specific to each particular situation, depending mostly on the management and experience of the firm.

The main purpose of the subsequent two questions of section III. was the assessment of companies' perceived changes in the barriers they faced in the Chinese market over time. These questions followed an analogous structure to their respective counterparts in the survey's antecedent section, as such the treatment of its results followed the same method.

In general, 44,4% of the respondents indicated that the pertinence of the various barriers they faced had changed during their internationalization to the foreign market, in contrast with the 55,6% that did not perceive any alterations. There is here a slight difference in comparison to the changes concerning internationalization motivations, where the majority of the respondents verified such changes.

Figure 13, provides a comparative visualization of the companies' described changes regarding the relevancy of the various barriers faced throughout their internationalization to China.

**Figure 13** - Net variations of barriers' relevance over time



According to the responses, difficulties in matching competitor prices (+4) and cultural differences (+4) tend to become even more impactful over time. Other barriers, namely, logistic difficulties, challenges in localization processes, complexity of bureaucratic and administrative procedures, and difficulties on accessing and interpreting laws and regulations in effect have also been perceived to become more relevant as companies gradually familiarize themselves with the foreign market (all obtained positive net scores of +3).

Notwithstanding, it is hard to find any relation among these barriers that would present a possible explanation to this phenomenon. Again, the most probable explanation is that these findings reaffirm the idea that the perception and impact of internationalization barriers is highly specific to each particular situation. In this case, there were no other statistically significant tendencies among the answers that would enable us to infer any other reasonable interpretation.

Section IV. of the survey presented seven questions intended to collect data with respect to possible strategies Portuguese companies might adopt in order to overcome their previously identified challenges in the market. Specifically, those regarding the role of Investment and Exports Promotion Agencies and the development of interpersonal networks.

The following three sections of this work presents the survey's findings regarding these topics of investigation.

#### 4.3.4. Impact of Investment and Export Promotion Agencies

In the context of this study, it was previously suggested that both IPAs and EPAs customarily assist companies in overcoming their liability of outsidership and foreignness, by palliating the existent institutional voids typically found in transition economies (Dominguez, 2017).

Therefore, one other main objective of the survey was the assessment of the importance attributed by Portuguese companies with activities in China to the role of this particular type of organizations.

Firstly, firms had to assess the importance of the support provided by Investment and Exports Promotion Agencies on the development of activities in

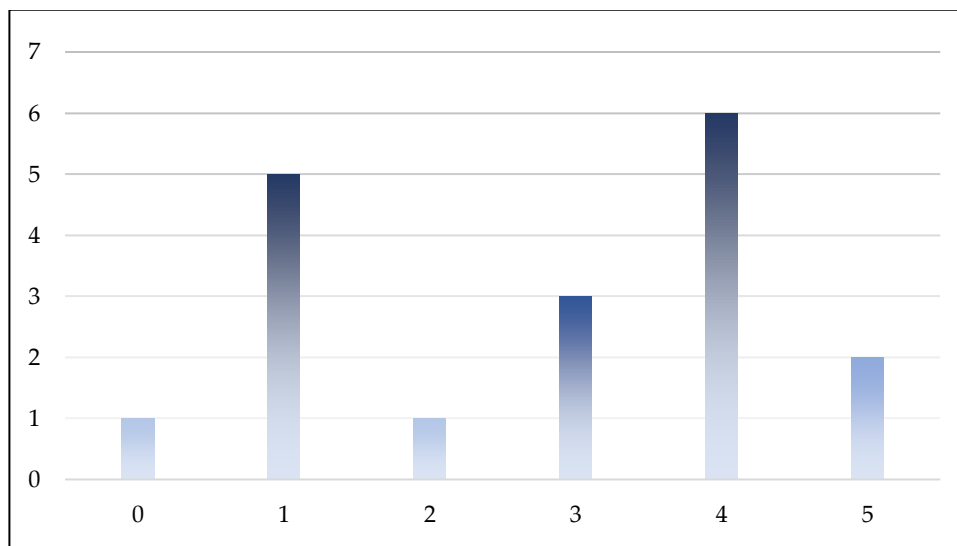
the Chinese market. Respondents had to resort to a scale from 0 to 5 (minimum to maximum importance, respectively).

On average, firms attributed a score of 2,9 in 5 to the importance of Portugal's Investment and Exports Promotion Agencies support on the development of international activities in China.

The findings presented in Figure 14, indicate that we may be in the presence of a bimodal distribution. Responses suggest there might be two distinct groups of companies in what concerns firms' perceptions on this matter.

On one hand, eight of the eighteen companies surveyed view the role of this type of economic diplomacy agencies as markedly important, grading their impact with scores of 4 or higher. On the other hand, six out of eighteen firms attributed a below average score (2 or below), indicating that, in their view, the support provided by these agencies does not appear to be particularly important in the market.

**Figure 14** – Companies' assessment of the importance of the institutional support provided by Investment and Exports Promotion Agencies



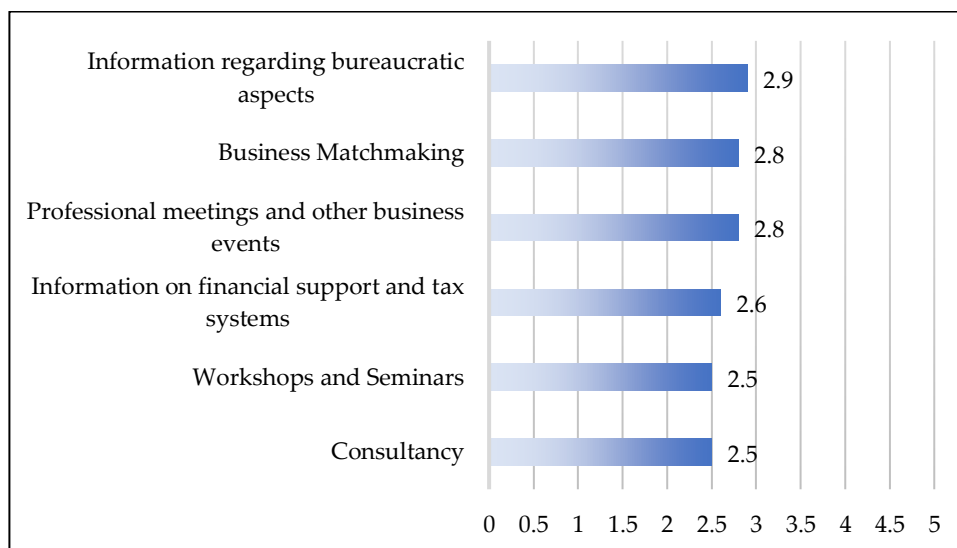
We proceed to explore what type of assistance appears to be more relevant for companies in overcoming their liability of outsidership and foreignness. As

Figure 15 illustrates, firms positively graded all the presented types of support provided by these agencies in comparatively similar scores between 2,9 and 2,5. This reveals that Portuguese companies considered relevant a wide range of support services for their internationalization, confirming the findings presented on Simões & Silva (2012).

The top 3 ranked types of assistance: provision of information regarding bureaucratic aspects (2,9); the development of business matchmaking activities (2,8); and organization of professional meetings and other business-related events (2,8).

These results also appear to be in line with the more relevant barriers pointed at an earlier stage of the survey, reinforcing that the information provided, market knowledge, and networks built throughout the years by these organizations presents them as good substitutes to local institutions, especially in the case of countries with a generalised lack of institutionalised trust such as China.

**Figure 15 – Most relevant activities developed by Investment and Exports Promotion Agencies**



The last question focusing on the role of IPAs and EPAs was of the open-ended type, aiming to collect more exploratory qualitative data concerning what other relevant types of actions can be undertaken by Investment and Exports Promotion Agencies. In total five answers were provided to this question.

The most common and pertinent insights regarded the importance in providing agencies with financial and human resources to promote the “made in Portugal” brand. One of the respondents went a step further and offered the work developed in Hong Kong by analogous Spanish agencies as a possible role model for future explorations regarding this topic.

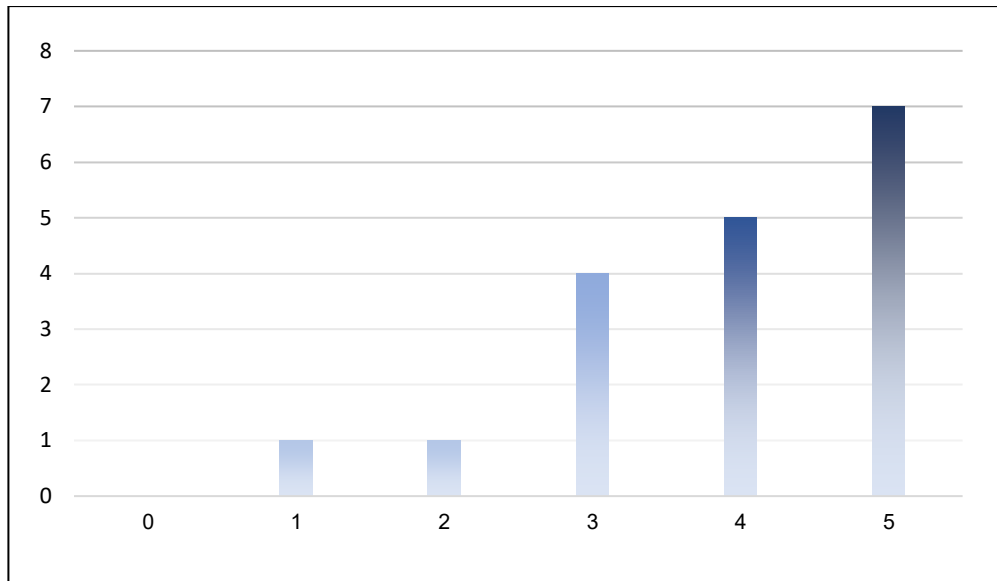
#### 4.3.5. Impact of *Guanxi*

The reviewed literature established that a main determinant for the success of a given firm internationalizing to China lies on the development of interpersonal relations, also known as *guanxi*, with various local stakeholders.

As a result, three more questions of Section IV. of the survey focused in assessing the importance attributed by Portuguese companies with activities in China to the development of *guanxi* and subsequent *guanxi* networks.

On average, firms attributed a score of 3,9 in 5 in what concerns their perceived importance of the establishment of a network of interpersonal relations (*guanxi*) for the developing of business activities in China. These results, presented in Figure 16 reveal that the web of established relations or *guanxi* may determine the survival or failure of a given business in the Chinese market.

**Figure 16** – Companies' assessment of the importance of developing *guanxi*



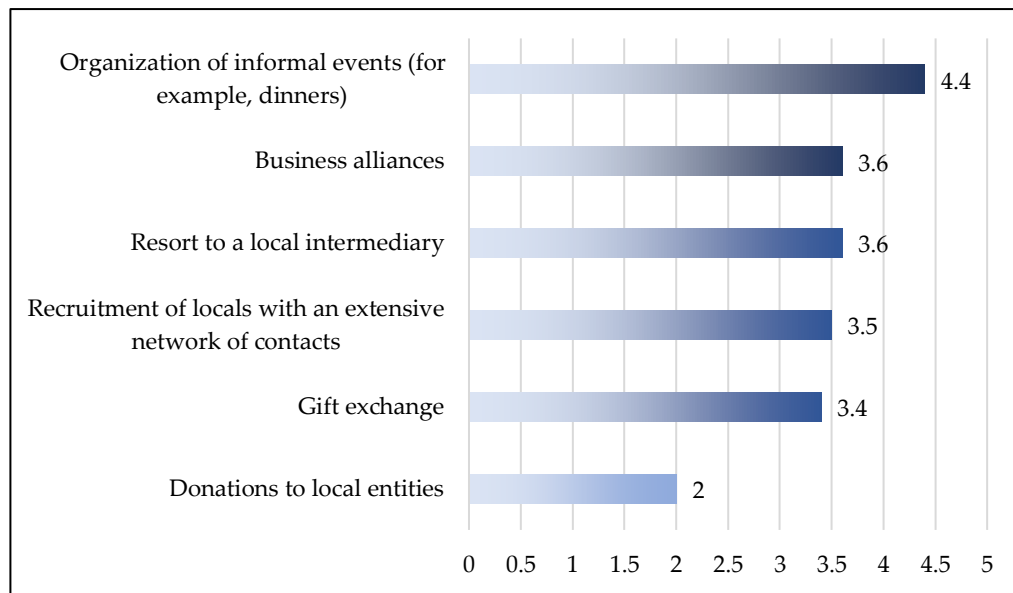
We proceed to explore what type of approaches revealed to be more effective on building and maintaining the aforementioned essential *guanxi* connections.

As is represented in Figure 17 the organizational of informal events, such as dinners, was clearly identified as the most efficient approach in what regards the development of *guanxi*, with an average score of 4,4 out of 5.

Furthermore, developing business alliances with local companies (3,6), resorting to the support of a local intermediary (3,6), recruiting locals with an extensive network (3,5) and exchanging gifts (3,4) were all assessed as similarly and considerably efficient in what concerns the development of interpersonal relationships with local stakeholders.

These findings suggest that different firms possibly identify different approaches as more or less efficient in the development of *guanxi* on the basis of their individual characteristics and necessities in the market. As such, what might be interpreted as the best *guanxi*-building strategy in the case of a given company should not be generalized since it tends to be highly specific to each particular situation.

**Figure 17** – More relevant strategies to the development of *guanxi*



Lastly, and analogously to what had been developed regarding the role of IPAs and EPAs, the last question focusing on the development of interpersonal networks was of the open-ended type. The reason behind this being the collection of qualitative data related to approaches for the development of *guanxi* that had not been covered in the previous close-ended question.

However, in this case, all the respondents opted not to answer this particular question. Suggesting that from their firms' perspective there were no other noteworthy approaches to the development of interpersonal relationship networks in China, or more reasonably, that it is not on their company's best self-interest to share this information.

#### 4.3.6. Other Possible Strategies

The last question of Section IV. of the survey invited respondents to present other viable strategies, in addition to those previously assessed, that have been

adopted by their companies in order to increase their chances of success in the Chinese market.

In total seven firms provided observations regarding their perspectives on this matter. The most relevant insights constructed from these answers are presented below.

One respondent highlighted the importance of “acting with determination” in the market, by “fulfilling obligations” and being consistent with both one’s actions and decisions. In addition, this respondent re-emphasized the importance of cultivating connections that go “a little beyond professional relationships”, a clear allusion to the all-pervasive *guanxi* dynamics in Chinese society. Suggesting to “whenever possible do favours and/or help the Chinese counterpart” especially “with something they need or in case of conflict”, which is another reference to the concept of *guanxi* and its reciprocity principle previously explored.

Two distinct firms reinforced the literature that suggests that entry-mode decisions have long been viewed as one of the most critical strategic decisions companies have to undertake throughout the development of their international activities. One proposed the “establishment of a joint-venture with a local partner”, while the other mentioned the importance of high-levels of commitment in the market, “in China for China. More than focusing in exports” companies should “undertake FDI activities”.

The latter also pointed out that managers should “live in China and get to know the market” while adding that China should not be seen as any ordinary country since there are “very diverse realities throughout the Chinese territory”.

Lastly, another respondent highlighted a more marketing-oriented approach, especially focused on adopted distribution channels, by proposing the development of “pilot experiences on social networks and a strong focus on specialty stores where personalized can be a difference maker”.

#### 4.3.7. Overall levels of satisfaction and future expectations

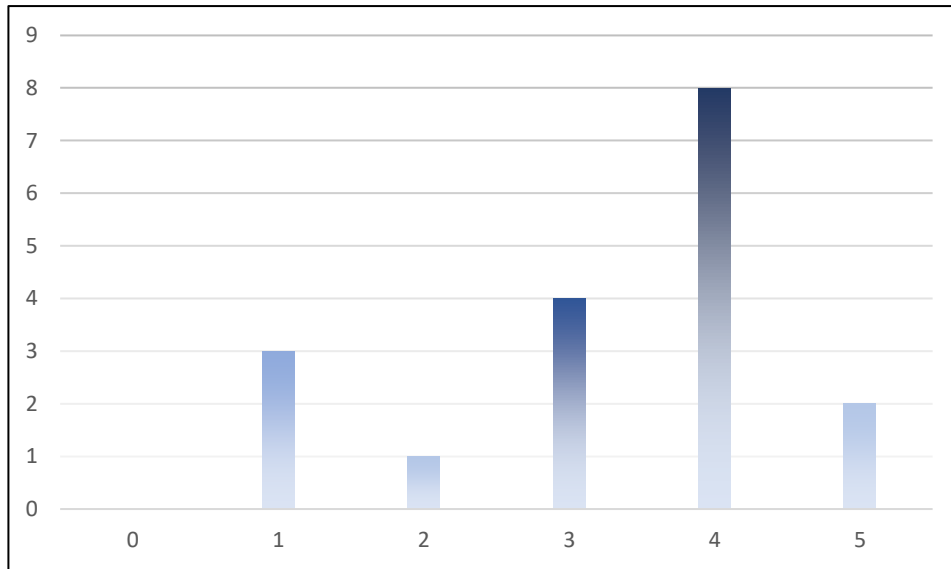
The fifth and final section of the survey investigates the surveyed sample perceptions with respect to: China's opening-up agenda; their general satisfaction level regarding their internationalizing experience in China; and their commitment, or lack of it, in continuing their operations in the country.

Figure 18, presents the results from the close-ended question regarding the surveyed companies' assessment on China's commitment to continue its market liberalisation path and by doing so, opening up its economy even further to foreign businesses.

Again, respondents had to resort to a scale from 0 to 5 (minimum to maximum perceived commitment, respectively).

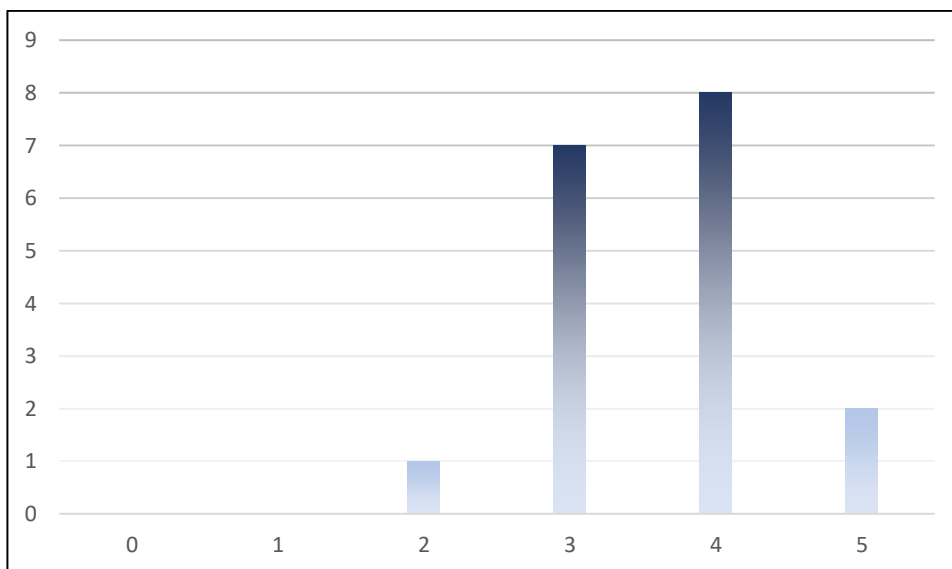
Firms positively rated China's commitment to continue opening their markets with an average score of 3,3 out of 5. Overall, these results demonstrate a relatively strong confidence from Portuguese companies that China will gradually carry on this transition from a planned to a market economy. Notwithstanding, by analysing the results more carefully, we can see that some firms remain relatively sceptical in what concerns this commitment (22,2% replied with below average scores). However, this also does not come as a complete surprise, since the path China has followed for the past 42 years has not always been a straightforward one. As such, companies should be conscious about the fact that possible setbacks regarding China's economic liberalisation might occur in the future, even though the recent past provides reason for an equal amount of moderate optimism.

**Figure 18** – Companies assessment on China’s commitment to continue the process of opening-up its economy to foreign businesses



On the subject of companies’ overall satisfaction level regarding their internationalization process in the Chinese market, firms’ responses were somewhat more straightforward, with only one inquired company attributing a below average score (Figure 19). On average, firms graded their level of satisfaction regarding their experience on China with a score of 3,6 out of 5.

**Figure 19** – Companies’ overall satisfaction level regarding their internationalization process in the Chinese market



The last question of the survey inquired firms if they plan to continue developing activities in the Chinese market over the next two years. 17 out of the 18 participants on the survey answered affirmatively to this question, while the remaining company indicated that this decision is still not yet settled or he has no knowledge concerning it.

## 4.4. Discussion

After presenting the empirical data collected through the development of the survey, we will now proceed with the discussion of these findings and confront them with the literature reviewed in chapters 2 and 3.

To begin with, since only 18 replies were considered valid for the purpose of this study from a total of 122 contacted Portuguese companies (low answer rate of 14,75 %), it is important to note that the findings of this study are not statistically significant to be generalized and representative of the population of Portuguese companies internationalizing to China.

Firstly, in what concerns the motivations of Portuguese companies to internationalize to China, market-seeking motives have been clearly prioritized. This finding makes sense in the context of China's increasing openness to foreign businesses and its exceptional growth performance for the past 40 years. Furthermore, the majority of the companies surveyed are medium-sized enterprises with relatively high earnings (above 10 million euros in the past year), suggesting that their production capacity might be superior to Portugal's domestic demand for their products and services. As a result, these Portuguese firms might have regarded the expansion of their activities to offshore markets as a means to increased sales and growth, in the face of the limitations inherent to their home-country.

In addition, the fact that Portuguese companies still attributed high levels of relevance to competitive positioning, strategic asset-seeking and efficiency-seeking motivations, and actually perceived increases in the relevancy of these over time, indicates that these organizations are sensitive to the interconnectedness nature of the internationalization process and do not regard the Chinese market exclusively on its merits as one of the world's biggest, but indeed understand its relevance from a strategic perspective. For instance, for

some of these companies, China might work as a starting point for future endeavours to other Asian countries, by enabling them to be present in an ever-increasingly more international marketplace and initiate the network building necessary to mitigate the risks of future international expansions.

Secondly, in the topic of most relevant barriers when internationalizing to China, Portuguese firms' perspectives proved to be aligned with the literature presented in Chapter 3. On the whole, the most commonly relevant barriers identified regard cultural and institutional difficulties, namely the identification of business partners and collaborators, cultural differences, the command of the Chinese language, difficulties in accessing and interpreting the laws and regulations in effect and the complexity of bureaucratic and administrative procedures.

These findings point in the direction hypothesized in Chapter 3 that often foreign companies' faced roadblocks in China derive from the misconception that due to the recent economic changes in the country, the Western business strategies commonly adopted in their home markets can now be easily replicable and efficient in China. However, as supported by the literature, China's culture has displayed remarkable perseverance and robustness overtime. And despite the various radical transformations recently witnessed in the country, its culture remains incredibly characteristic and pervasive in all aspects of society, including its business system. As such, as suggested by Buckley et al. (2006), cultural awareness should be a topic worthy of representation in any company's international business strategy and the case of China clearly re-enforces this argument.

Another pertinent observation, is that all barriers under consideration had an average score superior, or at least equal, to the average scale value, suggesting that, in general, Portuguese companies regard the Chinese market as complex and relatively hard to internationalize to.

We will now proceed with the analysis of the potential strategies at the disposal of Portuguese companies as a means to overcoming the discussed challenges in internationalizing to China. The first clear observation that we can retrieve from the survey results, is that, on the whole, Portuguese companies attributed more importance to the development of *guanxi* in the market than to the support provided by Investment and Exports Promotion Agencies.

Several explanations can be advanced on this matter. On one hand, the immediate justification could be related to the fact that the services carried out by these agencies in the Chinese market do not reflect the real needs of Portuguese companies. On the other hand, and in the author's opinion more plausibly so, it just might be the case that the resources, both financial and human, that these agencies have at their disposal are very scarce, especially in a country where its sheer size and scale present uniquely distinct challenges.

Notwithstanding, the truth of the matter is that the majority of the companies identified the development of *guanxi* as markedly important for the development of international activities in the country. In fact, even when assessing the most relevant types of assistance provided by Investment and Exports Promotion Agencies, two of the three most relevant support activities selected regarded network building processes, namely business matchmaking and organization of professional meetings and other business events.

Which leads us to the final conclusion regarding these findings. The comparison between these two proposed strategies is not completely unbiased, since several of the activities undertaken by Investment and Exports Promotion Agencies clearly enable the establishment of *guanxi* networks. Nonetheless, the presented findings indicate that more important than trying to establish which one of this two strategies might prove more efficient in assisting Portuguese firms in the future, is the realization that not only companies but also other actors, namely Investment and Exports Promotion Agencies, involved in contributing to

the success of Portuguese companies abroad need to take into consideration the pervasive nature of China's cultural features.

# Chapter 5

## Conclusion

The present work aimed to answer four research questions: What are the main motivations behind the internationalization to China from the perspective of Portuguese companies? What are the main barriers faced in the internationalization to China from the perspective of Portuguese companies? How relevant is the support provided by Investment and Exports Promotion Agencies in the internationalization process of Portuguese companies to China? How relevant is the development of *guanxi* in the internationalization process of Portuguese companies to China?

To this end, a collection and analysis of data regarding the perspectives of Portuguese companies developing international activities in China was developed, on the basis of a survey methodology through the application of an online questionnaire. Additionally, this work also presents relevant statistics concerning bilateral trade and investment flows from Portugal and China, as well as information collected throughout the carrying out of a curricular internship by the author. The data provided valuable insights in what concerns the motivations, challenges and possible strategies adopted, from the viewpoint of Portuguese companies present in the market.

On the whole, the captured results are aligned with the majority of the literature reviewed on Chapters 2 and 3.

For the past four decades, China has seized the attention of Western businesses and researchers, either due to the grandeur of the country's several millennial old civilization, the huge size and potential of its market, or the dramatic political and economic transformation occurring in the country. The empirical data collected clearly points in the direction that Portuguese companies are sensitive to the potential and countless opportunities of China and its recently found economic development, prioritizing *market-seeking* motivations as the main driver behind their international expansion to the country.

However, internationalizing to China can prove to be considerably challenging for Portuguese companies, whose available resources tend to be relatively scarce due to the inherent limitations of scale of their own home-country. The empirical evidence collected re-enforces this fact, since, on average, all but one of the various barriers being assessed by Portuguese companies proved to be relevant for their internationalization processes.

Furthermore, the surveyed companies explicitly highlighted barriers concerning cultural and institutional differences as the main hurdles to overcome regarding the Chinese market. This evidence proves again to be attuned to the body of literature presented in Chapter 2, which looked to demonstrate the idiosyncratic and pervasive nature of Chinese culture in all aspects of society, but especially from the perspective of China's recently established capitalist system.

Lastly, we proceeded with the analysis of the two remaining research questions, by investigating the companies' perception regarding two possible strategies aimed at mitigating these cultural differences and its ramifications on China's business environment, namely resorting to the support of Investment and Exports Promotion Agencies, and the development of interpersonal relationships, also known as *guanxi*.

The findings with respect to this matter predominantly demonstrated a preference on the part of Portuguese companies for the latter strategy. This is not

to say they perceive the role of Investment and Exports Promotion Agencies as not important, since in fact both strategies ranked above average in their respective relevance.

More importantly, however, is the course of action suggested by the results, that these type of economic diplomacy agents should adapt their services to target activities specifically important to the market in question. For instance, in the case of China, one suggested course of action for Investment and Exports Promotions Agencies, would be to tailor their assistance activities to clearly prioritize the cultural context in which companies are carrying out their international operations. For instance, as suggested by the evidence, an apparent emphasis should be attributed to the support concerning the development of companies' networks in the market.

Besides the research obstacles presented in Chapter 3 of the present work, the main limitations of this Master's Final Assignment regard the collection and analysis of data. The first limitation is due to the fact that the majority of responses to the questionnaire are from the perspective of top management, or of those responsible for the Chinese market; there was no other opinion regarding the companies surveyed. This fact might have skewed the answers, despite the fact that in most companies it is typically those who are responsible for offshore markets or top management that possess the most complete information regarding their companies' international activities. But the main limitation of this work is the low number of responses obtained through the survey, and as such the main findings of this study are not statistically significant to be generalized and representative of the population of Portuguese companies internationalizing to China.

In future studies it would be interesting to administer a similar type of questionnaire to the one produced for the purpose of this work to a larger number of companies, in order to obtain a considerably greater number of

answers, for the purpose of being able to apply other more advanced statistical methods, such as hypothesis tests. It would also be interesting to conduct interviews and develop a case study methodology with distinct Portuguese companies in the Chinese market in the interest of complementing the information that the questionnaire could not capture.

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# Appendixes

## Appendix 1

### Introduction and Section I.



### Empresas Portuguesas presentes no Mercado Chinês: Perceções e Estratégias adotadas

O presente questionário, desenvolvido no âmbito da dissertação de Mestrado em Gestão do aluno António Dias da Católica Porto Business School, tem como objetivo apurar as principais motivações e dificuldades das empresas portuguesas que desenvolvem atividades no mercado Chinês. Adicionalmente, serão também avaliadas duas possíveis estratégias a adotar com vista à mitigação dos desafios no processo de internacionalização para a China.

O questionário é anónimo e confidencial sendo importante que responda com o máximo de rigor e sinceridade.

Desde já muito obrigado pela sua colaboração.

Duração Estimada: 8 minutos

Seguinte

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#### I. Identificação da Empresa

A presente secção visa o recolher de alguns dados gerais da empresa para uma melhor contextualização das respostas ao questionário.

Qual das seguintes opções melhor descreve o setor de atividade principal da sua empresa? \*

- Agro-Alimentar
- Indústria Transformadora
- Construção e Imobiliário
- Comércio por grosso ou retalho
- Tecnologia, média e telecomunicações
- Prestação de Serviços
- Indústria Extrativa
- Componentes Electrónicos
- Outra: \_\_\_\_\_

Se possível, indique o CAE (Classificação Portuguesa das Atividades Económicas) do principal setor de atividade da empresa.

A sua resposta \_\_\_\_\_

Atualmente, quanto trabalhadores são diretamente empregados pela empresa? \*

- 1 a 9
- 10 a 49
- 50 a 249
- 250 ou mais

Qual o volume de faturação da empresa no último ano (2020)?

- Inferior a 250 mil euros
- Entre 250 mil e 1 milhão de euros
- Entre 2 milhões e 5 milhões de euros
- Entre 5 milhões e 10 milhões de euros
- Superior a 10 milhões de euros

Qual a idade da empresa? \*

- 1 a 6 anos
- 7 a 25 anos
- 26 a 50 anos
- mais que 50 anos

A sua empresa desenvolve algum tipo de atividade/negócio internacional no mercado chinês (exportação, distribuição via franchising, agente de representação comercial ou outro, investimento direto via filial local, etc.)? \*

- Sim
- Não

Anterior

Seguinte

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## Section II.

### II. Motivações para o desenvolvimento de atividades no mercado chinês

Classifique, quanto à sua relevância, as seguintes motivações para iniciar o desenvolvimento de atividades no mercado chinês, na ótica da sua empresa? \*

	Não tem conhecimento	Sem relevância	Pouca relevância	Relevância Média	Relevância considerável	Relevância máxima
Expansão de mercado (capturar novos consumidores)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Procura de recursos (acesso a recursos não disponíveis no seu mercado doméstico)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ganhos de eficiência (economias de escala, diferenças nos custos e disponibilidade de fatores de produção)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Posicionamento competitivo no panorama internacional (jogo de "xadrez global")	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ganhos estratégicos (ganhos de aprendizagem, acesso a redes de contactos, acesso a informação relativa a mercados externos, entre outros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Ao longo do desenvolvimento de atividades no mercados chinês, tem assistido a alterações nas suas motivações relativamente ao processo de internacionalização para este mercado? \*

- Sim
- Não

Para a sua empresa, quais das seguintes motivações têm vindo a ganhar ou diminuir de preponderância ao longo do desenvolvimento de atividades na China? \*

	Diminuição de preponderância	Igual preponderância	Aumento de preponderância
Expansão de mercado (capturar novos consumidores)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Procura de recursos (acesso a recursos não disponíveis no seu mercado doméstico)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ganhos de eficiência (economias de escala, diferenças nos custos e disponibilidade de fatores de produção)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Posicionamento competitivo no panorama internacional (jogo de "xadrez global")	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ganhos estratégicos (ganhos de aprendizagem, acesso a redes de contactos, acesso a informação relativa a mercados externos, entre outros)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Anterior

Seguinte

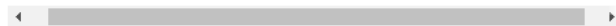
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### Section III.

#### III. Barreiras ao desenvolvimento de atividades no mercado chinês

Classifique, quanto à sua relevância, as seguintes barreiras no desenvolvimento de atividades no mercado chinês, na ótica da sua empresa? \*

	Não tem conhecimento	Sem relevância	Pouca relevância	Relevância média	Relevância considerável	Relevância máxima
Dificuldades no recrutamento de recursos humanos qualificados na área da internacionalização	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades no acesso e interpretação da legislação e regulamentação em vigor no mercado chinês	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Identificação de colaboradores e parceiros de negócio no mercado chinês	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Desafios no processo de localização de produtos/serviços	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades logísticas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Falta de apoios e(ou) incentivos governamentais à internacionalização	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mobilização de recursos financeiros	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domínio da Língua	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Diferenças culturais	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Complexidade dos procedimentos burocráticos e administrativos	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades na escolha de canais de distribuição e na promoção de produtos/serviços	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades em igualar preços de competidores	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Falta de informação relativa ao mercado chinês	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Ao longo do desenvolvimento de atividades no mercados chinês, tem assistido a alterações nos desafios/barreiras relativamente ao processo de internacionalização para este mercado? \*

Sim

Não

Para a sua empresa, quais dos seguintes barreiras/desafios têm vindo a ganhar ou diminuir de preponderância ao longo do desenvolvimento de atividades na China? \*

	Diminuição de preponderância	Igual preponderância	Aumento de preponderância
Dificuldades logísticas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades em igualar preços de competidores	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades no acesso e interpretação da legislação e regulamentação em vigor no mercado chinês	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Falta de informação relativa ao mercado chinês	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Complexidade dos procedimentos burocráticos e administrativos	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Diferenças culturais	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Identificação de colaboradores e parceiros de negócio no mercado chinês	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades no recrutamento de recursos humanos qualificados na área da internacionalização	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Desafios no processo de localização de produtos/serviços	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dificuldades na escolha de canais de distribuição e na promoção de produtos/serviços	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Língua	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Mobilização de recursos financeiros	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Anterior

Seguinte



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## Section IV.

### IV. Estratégias adotadas no processo de internacionalização para a China

Como avalia a importância do apoio institucional, mais especificamente de agências de promoção de comércio e investimento (como por exemplo, AICEP, IAPMEI, Câmaras de Comércio) no desenvolvimento de atividades no mercado chinês? (Classifique, tendo em consideração a escala apresentada) \*

0 1 2 3 4 5

Não importante       Importância crítica

Na ótica da sua empresa, que tipo de ações ou apoios desenvolvidos por agências de promoção de comércio e investimento apresentam maior relevância no desenvolvimento de atividades na China? (Classifique, tendo em consideração a escala apresentada) \*

	Não tem conhecimento	Sem relevância	Pouca relevância	Relevância média	Relevância considerável	Relevância máxima
Consultadoria	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ações de formação/Seminários	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Encontros e outros eventos empresariais	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Informação sobre aspetos burocráticos	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Informação sobre apoios financeiros e aspetos fiscais	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Matchmaking empresarial	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Considera que existem outro tipo de ações ou apoios desenvolvidos por agências de promoção de comércio e investimento para além daqueles apresentados na pergunta anterior? (Em caso afirmativo preencha o espaço em baixo com os mesmos)

A sua resposta \_\_\_\_\_

Como avalia a importância do cultivo de relações interpessoais (também conhecidas na China, como guanxi) no desenvolvimento de atividades no mercado chinês? (Classifique, tendo em consideração a escala apresentada) \*

0 1 2 3 4 5

Não importante       Importância crítica

Com base na sua experiência no mercado chinês, quais as estratégias mais eficazes no desenvolvimento de relações interpessoais (guanxi)? (Classifique, tendo em consideração a escala apresentada) \*

	Não tem conhecimento	Sem relevância	Pouca relevância	Relevância média	Relevância considerável	Relevância máxima
Troca de presentes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Organização de eventos informais (por exemplo, jantares)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recorrer a um intermediário local	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Recrutamento de indivíduos com uma extensa rede de contactos	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Alianças empresariais	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Doações a entidades locais	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Considera que existem outro tipo de estratégias eficazes no desenvolvimento de relações interpessoais na China, para além das apresentadas na pergunta anterior? (Em caso afirmativo preencha o espaço em baixo com as mesmas)

A sua resposta \_\_\_\_\_

Que outro tipo de estratégias (para além das abordadas previamente: recorra a apoio institucional e cultivo de guanxi) têm vindo a ser adotadas pela sua empresa com vista a um maior sucesso no processo de internacionalização para a China? (Procure, por favor, cingir-se a um máximo de 150 palavras)

A sua resposta \_\_\_\_\_

Anterior

Seguinte

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## Section V.

### V. Conclusão

Como avalia o compromisso da China em abrir ainda mais o mercado chinês ao investimento estrangeiro? (Classifique, tendo em consideração a escala apresentada) \*

0 1 2 3 4 5

Compromisso nulo       Compromisso sério

No cômputo geral, como avalia, até ao momento, a experiência da sua empresa no mercado chinês? (Classifique, tendo em consideração a escala apresentada) \*

0 1 2 3 4 5

Não satisfatória       Extremamente satisfatória


A sua empresa planeia continuar a desenvolver atividades no mercado chinês nos próximos dois anos? \*

- Sim
- Não
- Por decidir ou sem conhecimento

Muito obrigado pela sua disponibilidade e contributo para o desenvolvimento e conclusão deste estudo.

[Anterior](#)

[Submeter](#)

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