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„Market entry of foreign companies in China through strategic alliances in eco-industrial parks (EIPs): a blend of know-how transfer and political interests"

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Dedicated to my family and friends,

To my younger brother Paolo,

To Wen, who brings color and joy everywhere, never stop dreaming

Contents

List of abbreviations:

- JV: Joint venture
- WOS: Wholly-owned subsidiary
- EIP: eco-industrial park
- CE: circular economy

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Abstract

As internationalization of operations has rapidly increased over the last decades, forming alliances with foreign players in order to enter certain markets has become a common business strategy for many firms. Although there are a plethora of entry modes available, joint ventures represent the most suitable solution for approaching profitable, yet culturally and institutionally distant countries. Indeed, global players can implement their resources and know-how in the foreign country while taking advantage of their local partner's networks and insider advantages. The People's Republic of China has steadily offered fertile ground for research into the matter of strategic alliances. The giant country has experienced relentless economic growth since it opened up to free trade and foreign direct investment.

As a result, more and more big as well as medium-sized players have set up operations in the East Asian country. However, augmented wealth and economic power have borne significant collateral effects on the land. Over the last decades, pollution has plagued China and prompted its civil society to push for the gradual shift to innovation and green technology. Along the lines of circular economy, the Chinese government and large business conglomerates have backed the construction of eco-industrial parks all over the country. At the beginning, these parks were concentrated in the populous East, but they are nowadays spreading westwards. Foreign players, such as the PSA Group, have disclosed the opportunity represented by eco-industrial parks and have initiated valuable projects with local players to operate, and sometimes even found new parks.

Abstrakt

Da die Internationalisierung der Geschäfte in den letzten Jahrzehnten rapide zugenommen hat, ist die Bildung von Allianzen mit ausländischen Akteuren, um in bestimmte Märkte einzutreten, für viele Unternehmen zu einer gängigen Geschäftsstrategie geworden. Obwohl es eine Vielzahl von Marktzutrittsmöglichkeiten gibt, sind Joint Ventures die geeignetste Lösung, um mit profitablen, jedoch kulturell und institutionell entfernten Ländern umzugehen. In der Tat können globale Akteure ihre Ressourcen und ihr Know-how im Ausland einsetzen, während sie die Netzwerke ihrer lokalen Partner und deren Insider-Vorteile nutzen. Die Volksrepublik China hat kontinuierlich fruchtbaren Boden für die Erforschung strategischer Allianzen geboten. Das riesige Land hat seit seiner Öffnung für freien Handel und ausländische Direktinvestitionen ein zügelloses Wirtschaftswachstum erlebt.

Im ostasiatischen Land haben sich deshalb immer mehr große und mittelgroße Akteure niedergelassen. Der wachsende Wohlstand und die zunehmende Macht auf der Weltbühne haben dennoch schädliche Auswirkungen auf das Land ausgeübt. In den letzten Jahrzehnten hat die Umweltverschmutzung China heimgesucht und die örtliche Zivilgesellschaft dazu veranlasst, den schrittweisen Übergang zu Innovationen und umweltfreundlichen Technologien voranzutreiben. Im Sinne der Kreislaufwirtschaft haben die chinesische Regierung und Großkonzerne den Bau von Öko-Industrieparks im ganzen Land unterstützt. Zu Beginn konzentrierten sich diese Parks auf den bevölkerungsreichen Osten, heute breiten sie sich jedoch nach Westen aus. Ausländische Akteure wie die PSA-Gruppe haben die Chance offengelegt, die die Öko-Industrieparks bieten, und haben mit lokalen Akteuren wertvolle Projekte initiiert und manchmal sogar neue Parks errichtet.

1. Introduction

The present paper is devoted to the observation and systematic analysis of strategic alliances as a form of entry mode in a foreign market within a peculiar type of business unit, specifically in the industrial conglomerates known as eco-industrial parks (from now on referred to as EIP). The concept of eco-industrial park originated in Europe in the 1990s along the lines of "industrial symbiosis," whose aim was to enhance industrial productivity while simultaneously protecting the environment. Nowhere were the main tenets of sustainable growth and green economy felt to be necessary as in the People's Republic of China, which has risen to become an undisputed world leader in both production and consumption of industrial goods mainly at the expense of its once prosperous natural environment. As a result, the paper will concentrate exclusively on the case of strategic alliances, first of all JV (from now on referred to as JV), between foreign players and Chinese players within EIP. This particular topic has been chosen because of its concrete importance as well as for its relevance within the field of international management and the theory off the international firm, not to mention the study of international market entry. We may hold that EIP can be a very original and insightful context to carry out research on, especially when strategic alliances are concerned, since the host government often determines the very hierarchy within EIP and fixed regulations that might be very difficult or even impossible to negotiate on. Furthermore, China has been at the center of myriad of papers and case studies already, given that it has enticed many foreign players to increase their FDIs since its liberalization reforms with the promise of lower labor costs and looser regulations (Johnson & Tellis, 2008). However, this huge country may be regarded as the most intriguing example of a transitional economy, due to its clear intention to steer towards greener means of production after bleak decades of environmental decay (Weng et al., 2015); generally speaking, EIP play a crucial role in this bigger scheme of things, making it an ideal field for research on organization and hierarchies. This master thesis is written as the requirement to complete the Master of Science at the University of Vienna. An exhaustive literature research has been carried out, contributing to the existing works in the field of organization and strategy. The introduction will provide an overview of the topic and the issue we will tackle.

By itself, the paper will lead along a clear and concise structure. After the introduction, there will follow some brief insights into the theory of the international firm and strategic alliances from an economic point of view. This will represent the theoretical backbone of the phenomenon that is tackled later on. Afterwards, we will deepen the reader´s understanding on EIP though an encompassing description of the concept along with its history and application with a special focus

on the Chinese experience. At the same time, the reader will get exposure to a wide range of political, societal and economic factors making up a rightful PEST analysis, that is a tool global players often resort to in order to gauge the macro-environment of a country or region they wish to enter. Following this premise, I will put forward a more accurate inquiry of strategic alliances within China´s EIP along some practical examples that have been observed by both Western and Chinese scholars, such as Peugeot´s involvement in the Chengdu Eco-friendly city, the case of Tianjin Economic-Technological Development Area as well as the establishment of the Zhongde Metal Eco City in Southern China. As it can be quite clear since the beginning, this topic is relatively recent, so that the figures extracted from our sources may be subject to change as the reader goes on with the paper. Anyway, this section will be devoted to the scrutiny of foreign firms´ role in the EIP mentioned, including the way they are reputed to cope with ownership and control of their activities while being involved in strategic alliances. The last considerations as well as the results of our findings will be summarized in a conclusion. For this paper, sources from disparate journals and academic publications have been taken into consideration. Classical business literature dealing with strategic alliances and JV largely constitutes the bulk of such sources. Nevertheless, sundry papers by Chinese scholars and political thinkers as well as policymakers have also proven to be a valuable resource for the inception of this paper.

2. Foreign entry modes

As of 2018, there are 195 countries and territories in the world according to the definition of the United Nations. In the last century, overseas trade has grown remarkably, completely shifting trends in the global economy. Today, well over one fourth of total global production is exported. Discerning the main characteristics of this process is relevant because trade has brought about new opportunities, while having a long-lasting impact on world society. Overall, historiography identifies two distinct waves of globalization. The former started in the late 19th century, and came to a tragic epilogue with the outbreak of World War I. On the other hand, the latter ensued after World War II, and is continuing to this day (Horowitz, 2004). Trade transactions typically consist of both goods (tangible products whose ownership is physically transferred between trading parties) and services (intangible commodities often seen as the outcome of human activities, such as healthcare and tourism). Not only the marketplace, but also the value chains for such goods and services have got increasingly global and complex. Indeed, over one-third of the value of worldwide export is estimated to stem from foreign input (Johnson, 2014). Furthermore, new opportunities have created space for former local players to engage in international marketing or, as Hollensen states, to enhance "*the firm's*

commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition." (Hollensen, 2011).

As such, internationalization has concerned plenty of ambitious firms. There are many reasons to go international, but academics sharply distinguishes between proactive and reactive motives (Wesley et al., 1994). The former indicate the firm voluntarily and courageously wishes to embark on new endeavors abroad, often because of factors like improved economies of scale, better growth opportunity in determined markets or the impulse to capitalize on a new, unique competency elsewhere. In contrast, the latter imply "forced" internationalization due to factors external to the firm, such as domestic market saturation or pressure from the competition. However, this delicate process is also associated with a plethora of relevant business decisions, like the required competencies to succeed on the global stage, which markets to enter based on a macro- as well as micro-economic analysis, and finally how to enter these market. The way to enter a foreign market, often following an attentive and exhaustive market research, is often defined as an entry mode and that plays the central role of this paper. Before moving on to the actual entry modes, we will quickly revise the most relevant theories regarding this phenomenon.

2.1. The theories of internationalization and choice of entry mode

Since the days of David Ricardo, most theories of international transactions stemming from economics sources have focused on propellers of comparative advantage to justify their decision to trade intensively. Such theories start from the assumption that all sovereign entities can gain from trade if each specializes in marketing what they are relatively more efficient at producing, depending on their unique assets, like specific resources or technical know-how (Carbaugh, 2016). Even though practical evidence demonstrates that comparative advantage is indeed quite relevant, it is not the only force giving impetus to specialization and international trade, nevertheless. This macroeconomic view of international trade putting forth nations as main actors has been substantially reinterpreted on the microeconomic level by developing the theory of the firm. In the late 1930s, Ronald Coase stated active individuals begin setting up their production in organizations (firms), by the time the transaction costs of coordinating production through basic market exchange are higher than within the organization itself (Coase, 1937), mostly due to asymmetrical information and risks of opportunistic behavior, that can be defined as "*self-interest seeking with guile*" (Williamson, 1993). Moreover, according to the Coase theorem, ubiquitous institutions such as contracts and regulations would not matter at all in an ideal world, but they are necessary because of transaction costs and uncertainty (Coase, 1960). Anyway, early models concerning the firm´s organization largely

neglected the outside world and the possible ways to explain internationalization. By the way, as global trade soared throughout the second half of last century, scholars have increasingly become keen on formulating sundry theorems of internationalization.

The most relevant theories for this paper, however, are the ones dealing with the choice of entry mode of each firm, which has to be assessed carefully in accordance with some compelling criteria. In theory, a foreign market entry mode is "*an institutional agreement that makes possible the entry of a firm´s production, technology, human skills, management and other resources within a foreign country"* (Root, 1987). In addition, March deems organizations to subsume two main functions: exploration and exploitation of resources (March, 1991). Therefore, internationalizing firms may be said to define entry modes as a method to devise coordination and knowledge. Thus, target market structure and organization´s resources lead to a determined strategy to pursue; in turn, specificity and uncertainty of transactions have to be taken into consideration to select one entry mode rather than another in the end (Andersen, 1997). In sum, the choice of entry mode encompasses choice of location and level of control. Notably, control indicates "t*he ability to influence the systems, methods and decisions*" (Anderson and Gatignon, 1986). In the following sub-chapters, I will sum up the main tenets of four important theories of entry mode choice. One has to note these are often complementary to each other and thus not mutually exclusive. For the sake of succinctness, I will treat the ones that can be related to the subject of entry mode in Chinese EIP, thus withholding minor ones.

2.1.1. Contingency theory

In Gao´s contingency theory, the organizational setup of the firm hinges upon situational factors that can be found within the firm itself as well as in the external environment (Gao, 2004). Such determinants are clearly responsible for the final decision between an equity vis-à-vis a non-equity entry mode (see chapter 3.1.2). In other words, the firm is supposed to work out an entry mode choice adept at carrying through a specific reconciling function, or a *fit* between the firm´s resources, its proposed market strategy as well as the external environment. Multiple elements constitute the firm´s internal and external environments, both of which are equally important for a thorough analysis preceding the actual choice of entry mode. For the former, we could take unique, inimitable capabilities, reputation and international experience as valid examples. As for the latter, we can name local institutions, language barriers and country instability risk.

Even though the impact of the aforementioned, often unmanageable factors on the choice of entry mode is irrefutable, preferable traits of entry mode such as the degree of control and ownership in the

new venture as well as the extent of resources a firm is wishing to commit are also decisive. In fact, the firm actively strives to optimize its technical activities and shape organizational processes in order to enhance those activities and preclude external factors from harming them at the same time (Gresov, 1989). Hence, it protects its interests in the foreign country through a consistent combination of degree of control and resource commitment, translated into reality with the choice of an appropriate entry mode.

2.1.2. Transaction theory

The transaction cost theory of governance modes perpetuates the long transaction cost tradition initiated by Ronald Coase in the first half of the century to explain the concoction of organizations. Specifically, he and Williamson deeply researched on this topic and have expanded the related theories over a period spanning almost three decades. At the beginning, he distinguished between coordination on markets and hierarchies inside organizations, pinpointing higher risk in the former context. He then took heart in defining transaction costs for the first time as "*costs of using the price mechanism*" (Coase, 1937). In a few words, transaction costs can be divided between ex ante and ex post costs, referring to the point a transaction (mostly a contract) is carried out. The former represent the search and negotiation costs a firm requires to collect all available information on the other party and the business environment as well as to come to an acceptable agreement for the cooperation to take place. Conversely, the latter correspond to monitoring and enforcing costs needed to verify whether the parties involved in the transaction are abiding by its main points (Dahlman, 1979). After an initial focus on the microenvironment of the firm, later academicians proceeded ascertaining the mechanisms of network governance (Williamson, 1993). By this point, it was not difficult to extend the observations to networks operating overseas. In short, the transaction cost theory of entry mode centers around the transaction as the main unit of analysis, rather than any internal or external factors, for understanding how organizations decide to approach overseas markets.

There are other underlying elements making up the bedrock of this well-known theory in addition to the transaction. First, the concept of "*homo oeconomicus*" and its famed rationality have been a cornerstone of economic theory for decades. Simply put, the model revolves around a self-interested, profit-driven individual characterized by a seemingly unlimited rationality, allowing him to make optimal decisions all along (Persky, 1995). In contrast to this improbable view, advocates of the transaction cost theory have formulated the concept of bounded rationality, along which human behavior is "*intendedly rational, but only limitedly so*" (Simon, 1957). Thereupon, individuals´ discerning power is not only restricted, but also irrational for the most part, often leading to

unpredictable outcomes. Such uncertainty is already a salient issue for firms on the domestic stage, let alone while dealing with foreign markets, where a lot of information on political, legal and cultural concerns is often unavailable or hard to acquire. Another top factor of the theory is asset specificity. Essentially, this term designates the extent to which the firm´s resources, often unique, can be redeployed for targets other than a particular transaction (Joskow, 1988). If the resources invested in determined operations are rather specific, the transactions related to them also increase in specificity, generating higher transaction costs. According to Williamson, high specificity and transaction costs result in decreased reliance on market mechanisms and thus in higher propensity to choose hierarchical entry modes such as wholly controlled subsidiaries (Williamson, 1991). Going along with the assumption that transaction costs have a decisive impact on the choice of entry mode, other findings have added new wisdom to the theory over time. In the first place, when a firm decides to enter a new market, factors such as its own size and prior international experience as well as cultural distance and specific country risk all engender uncertainty. The higher this uncertainty, the more the firm will be prone to turn to high-control entry modes to reduce risk and ensure long-term efficiency of operations as a consequence (Brouther, 2002).

2.1.3. Resource-based theory

Strictly related to the concept of asset specificity, the resource-based theory focuses on the concepts of resources, organizational capability and rents to try to explain how firms determine entry modes. Indeed, firms have to develop a set of unique resources, be they tangible or intangible, in order to remain competitive and thrive on the market. The main feature of these resources is supposed to be their non-imitability, which would generate profits for the firm while keeping its competitors at bay (Cashian, 2007). The increasingly unique resources of the firm largely contribute to its specificity. Even though possessing non-imitable resources might spark immense returns, their correct deployment heavily depends on the firm´s organizational capabilities. In fact, these affect the firm´s degree of effectiveness in managing its resources to gain an advantage over its competitors. In turn, resources and organizational capabilities both shape the core competencies of the firm, comprising anything it does well that improves business and differentiates it in the market (Spanos & Prastacos, 2004). Finally, said core competencies bring about competitive advantage, often quoted in academics by the term of strategic rent. These are profits, which are typically earned in disequilibrium (Foss & Klein, 2002). Given that many kinds of economic rent exist, the theory focuses mainly on Ricardian and Schumpeterian strategic rents. The former arise from the diversification of assets and organizational capabilities the firm has at its disposal, whereas the latter stem from the successful

spread of innovation, as Schumpeter stated that the sole "*kind of competition which counts is the competition from the new commodity, the new technology, the new source of supply, the new type of organization*" (Schumpeter, 1947). Sharma and Erramilli have authored a paper in 2004 that is now regarded as a milestone of the resource-based theory. Since it is very important for the topic of market entry in Chinese EIP, I believe it is worth summarizing the article in detail (Sharma & Erramilli, 2004).

This famous paper seeks to lay out a plausible theoretical framework of the so-called resource-based theory of firms and its impact on their foreign entry mode choice. The authors state from the very beginning that the aforementioned topic has been one of the most prominent objects of study of the last decades. However, the theories mostly adopted for explaining it within the academic community used to belong to paradigms, which eventually focus on the market as well as the surrounding environment rather than on the firm itself. On the other hand, the resource-based theory is contrived out of the necessity to develop a new view that is dynamic in nature and can illustrate its significance for a firm's strategy as well as its deployment of existing or completely new resources. In their article, the authors try to make a sharp distinction between the resource-based theory and its antecedents, before finally discussing its implications for the most popular foreign entry modes. Sharma and Erramilli first define entry modes as structural organizing processes favoring the introduction of market strategies abroad either by conducting only marketing operations or both marketing and production; moreover, they single out location and ownership as key strategic decisions thereof (Sharma and Erramilli, 2004). They list six main preceding theories, classified in three different analytical paradigms, which they go through one by one in chronological order.

The first one is the market imperfection paradigm, whose main tenets date back to 1956 Bain's industrial organizational theory. In Bain's view markets are imperfect because industries with few competitors and high entry barriers tend to spawn an oligopolistic environment, where a few large actors buy off newcomers and enjoy disproportionate revenues. Hence, they try to boost their quasi-monopolistic advantages (Bain, 1956). According to Hymer's theory, when these large companies decide to cross their domestic market's boundaries, they will attempt to set the same very conditions abroad. As such, market imperfections will serve the companies' monopolistic advantages in the ownership dimension. Hymer focused particularly on FDIs and licensing modes, neglecting exports and other forms as a result. On the contrary, the international product life cycle theory strongly focuses on exports and on, of course, product life cycles. In fact, firms first approach foreign markets through exports. When the products offered enter the maturity phase and substitutes emerge, firms directly enter these markets to have more control and preserve their shares. Even if this theory was somehow related to the theme of location, it still omits many other forms of entry modes such as JV.

The second paradigm is the behavioral paradigm, which posits firms acquire knowledge over time, but are quite risk averse and short-term oriented due to market imperfections. As a result, they gradually invest more and more in the market and tend to rule out high commitment of resources while operating with partners. The internationalization model, or Uppsala model, aligns with this paradigm. The model copes with an internationalization process based on purported psychic distance between countries and experiential knowledge. It predicts companies gradually enter foreign markets with increasing knowledge of them through different steps, among which sporadic and regular exporting, sales subsidiary and wholly owned subsidiary. The model is dynamic and explains both ownership and location, but it does not include other entry modes such as JV (Johanson & Vahlne, 1977).

The last paradigm, the most popular one, is the market failure paradigm. Along its assumptions, firms have to internalize economic functions since markets are unapt at it because of transaction costs, information asymmetry and risk of opportunism. The internalization theory explains growth of firms going global through internalization of intermediate products such as knowledge. The eclectic theory highlights the importance of ownership, location and internalization advantage in exporting, licensing and FDIs (Dunning, 1979). The transaction cost theory of entry mode choice, similarly to Williamson's main premise, differentiates between high- and low-control entry modes. These are selected depending on the uncertainty and the transaction cost risk present in foreign markets. Even though many points of this paradigm are included in the inception of the resource-based theory, its stubborn focus on the environment as a cause of choice rather than on the firm deprives it of a valuable perspective.

The resource-based theory places the firm at the center. Indeed, it formulates its long-term aims looking at their resources and at the competition. According to its main tenets, the competitive advantage of firms translates into a bundle of valuable tangible or intangible resources at its disposal. In order to enhance a sustained competitive advantage a firm needs its unique resources to be heterogeneous in nature and deeply embedded within itself. As a result, firms' unique resources are neither wholly imitable nor substitutable without great effort. Moreover, as opposed to other theories having them act, or better react, as passive entities to the market, the resource-based theory posits firms' primary aim is the securing of long-term profit maximization along with their very survival. Since the market is imperfect, firms try to put themselves forth as monopolistic player striving for the sole disposal of their unique advantages in face of the competition, even if it may not be the case in real business life. As postulated by Peng in many works, the varying attitude of firms mostly hinges on their capability to exploit their resources as well as the generation of new sustainable competition

advantage in light of the fact they tend to behave as monopolists in regard of their resources (Peng, 2014).

Along with the two main concepts of location and ownership, Sharma and Erramilli eventually describe the most frequent types of foreign entry modes by placing them in the perspective of the resource-based theory. In order to achieve that, they first establish four constructs, along which their analysis is carried out. In fact, firms decide on location and ownership according to their likelihood of establishing competitive advantage in production operations in a host country, likelihood to establish competitive advantage in marketing operations in a host country, and ability to transfer advantage generating resources in host countries, be it either production or marketing operations. In the end, the authors come up with some important inferences.

1. Firms are bound to choose indirect exporting if they hold it is highly unlikely to establish competitive advantage in both production and marketing activities in a foreign country.
2. Conversely, if firms suppose it is possible to establish competitive advantage in marketing operations as well as transfer advantage generating marketing resources to partners abroad, they are more likely to choose direct exporting through business intermediaries abroad. As a result, if transferring advantage to foreign partners were regarded as low, companies would choose direct exporting by employing their own export channels within the host country.
3. Concerning franchising and licensing, firms are more prone to rely on them if they are convinced they can establish both advantage types in a host country as well as successfully transfer them to partners.
4. On a slightly similar note, firms will choose to form a JV with foreign partners if they conclude they can establish both kinds of advantages but the chance to transfer advantage-generating resources is clearly higher either for production operations or for marketing operations, thus trusting the partner for the other one firms have some limitations in transferring.
5. Finally, if firms deem the idea of establishing both forms of competitive advantage to be feasible, but not to transfer advantage-generating resources of any kind to foreign partners, they will carry on by themselves and select the WOS mode for that market.

The paper by Sharma and Erramilli offers a very good and comprehensive summary of one of the most controversial and revolutionary theories of foreign entry mode strategy. By introducing a new complete analytical framework, they were able to develop a new view in which the firm could be regarded in its quintessence. Moreover, they not only differentiate the resource-based theory from other paradigms adopted so far, but also effectively present a set of assumptions for explaining decisions of certain entry modes based on the theory itself. One straightforward merit of the theory is

to be effortlessly quantifiable if fitting measuring scales are employed. In fact, operationalizing competitive advantage in terms of resources (except maybe the notion of knowledge) and weighting benefits and costs of certain entry modes rather than others is easy to carry out. Additionally, Sharma and Erramilli succeeded in integrating their reasoning with the entry mode strategy's core conceptions of Peng and York of 2001. Indeed, firms taking the right entry decisions and outperforming others are the ones, which can not only exploit their unique competitive advantages, but also generate new ones. Overall, the paper significantly contributes new viewpoints and a handful of useful insights in the world of foreign entry modes.

2.1.4. Institutional theory

The last theory we handle in this paper attributes most of the decision-making reasons concerning entry mode choice to the extant institutions. Semantically, institutions refer to a configuration of organized superstructures whose purpose lies in guaranteeing social relationships between individuals, society and the State through rules, norms and contracts. According to North, "*institutions provide rules of the game that structure interactions*" (North, 1990). One can generally classify institutions along with two subdivisions. On one hand, they can be either formal, such as written regulations and contracts, of informal, such as intrinsic cultural norms. On the other hand, they can also be either visible, such as the family and state-controlled organizations, or symbolic, such as conventional mores and religious rituals (Douglas, 1986). According to the aforementioned Coase theorem, institutions arise out of the necessity to reduce risk associated with transaction costs. As a result, Coase implies that institutions would not matter anything under the assumption of non-existent transaction costs (Coase, 1960). On the contrary, in his later publication Williamson introduces transaction cost economics as an approach to studying economic organization by applying it to work and labor as well as the firm itself. Furthermore, Williamson explores its growing implications for public policy, including its potential influence on policymaking. In other words, for Williamson institutions do matter (Williamson, 1985).

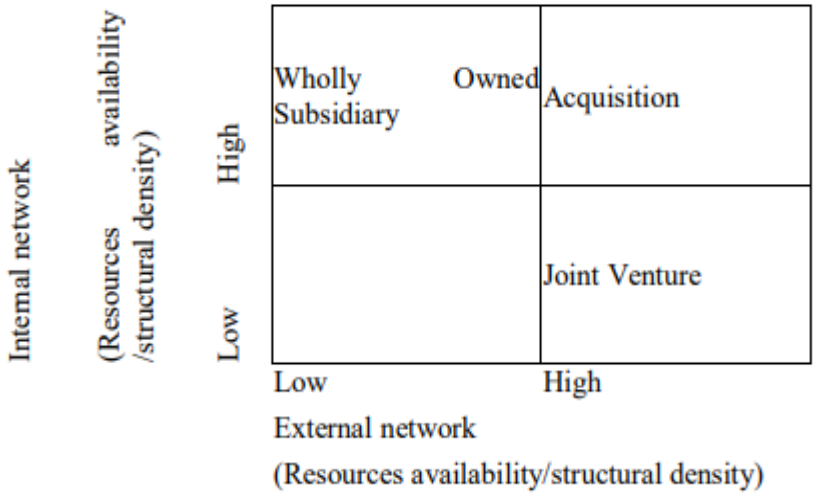
Following the institutional theory, the firm has to think on three different levels whenever it wishes to enter a foreign country. First, it has to take local culture and social conventions into account. In fact, understanding informal institutions such as social norms and religious traditions of the target country are often a key factor in becoming successful while approaching new markets. On the second level, the firm has to get to know the local formal institutions, like the bureaucratic environment and property laws as well as specific regulations for market entry. It ensues bearing knowledge of the legal and political climate has to be considered a competitive advantage in itself. Just as in similar

cases, a PEST analysis is a valuable tool for this purpose. On a narrower scale, the firm has to appraise the institutions revolving around business and transaction governance, such as contracts and other relevant charters (Meyer & Peng, 2005). Furthermore, this one last level has much in common with Williamson's transaction cost economics (Williamson, 2008). It follows that the firm has to internalize knowledge of institutions on the three levels mentioned above in order to devise a suitable governance structure abroad. Hence, in comparison to other theories, the institutional view of market entry posits institutions as the starting point from which a firm has to work out a strategy and consequently come up with a fitting organization structure. In particular, anyone researching has to admit that the study of foreign entry mode choice has been based almost exclusively on the transaction cost theory. As described above, this theory focuses mainly on the effects of company- and industry-specific factors on the choice of entry mode, taking the impact of country-specific contextual elements as constant or less important. In opposition to that, the institutional perspective underlines the importance of the influence of both institutional forces embedded in national environments and decision makers' cognitive constraints on the founding conditions of new ventures (The Choice between JV and Wholly Owned Subsidiary: An Institutional Perspective, Daphne Yiu & Shige Makino, Organization Science, Vol. 13, No. 6, 2002, pp. 667-683). According to Peng, institutions outline market entry strategies together with the firm's unique resources and organizational capabilities as well as the competition. Subsequently, market entry strategies are largely to credit for the performance of the firm abroad (Peng et al., 2008).

On a more practical note, the way institutions are enforced mostly determines the choice of entry mode a firm is likely to undergo. As we will see in the following chapters, institutional frameworks are responsible for transaction cost levels, and thus indirectly for the existence of high-control as well as low-control entry modes. Essentially, strong institutions reassure stability for the firm to implement its resources and engage in transactions on the market with little risk, while weak ones do not guarantee for any market stability, resulting in uncertainty and higher transaction costs (Shenkar & Xu, 2002). Indeed, it is widely acknowledged that transaction costs are inversely proportional to institutional stability. Generally, weaker institutions call for lower control modes, ranging from export to JV, as it will be discussed later on. Conversely, stronger institutions swerve market risk and fear of failed investments by clearly defining the rules of the game, thus encouraging the establishment of higher control modes such as acquisitions or even greenfield projects.

One could also extend the topic of institutions leading to determined choices of entry mode to firms' participation in networks, whose linking agreements are institutions of their own accord. In that respect, under a dense internal network, firms will tend to choose WOS, followed by acquisition and JV modes. In fact, given that dense internal networks provide more information and reduce risk,

WOS are bound to perform better than acquisitions and JV. Things differ radically when observing external networks. To simplify connecting to a dense external network, often due to the impending necessity to acquire country-specific capabilities, firms will tend to choose acquisition or JV entry modes rather than WOS, since the former are likely to perform better than the latter (Liu & Tang, 2011). This is extremely relevant for the context of market entry to China. As it will be pinpointed further, due to cultural reasons the Chinese market is characterized by large local networks displaying high density, resulting in a lack of opportunities to acquire external resources. In such a case, JV and acquisitions, providing the firm with knowledge of the local market that are hard to get otherwise, will perform better than WOS (Bunch & Smiley, 1992).



Liu & Tang, 2011

These are the main theories of market entry mode choice. Even though they use different methodologies and have a different focus, one cannot but ignore the fact that their main tenets are widely interdependent. In conclusion, we shall state that the correct interpretation of choice of foreign market entry mode entails the combined utilization of all theoretical frameworks described above. Having thoroughly analyzed the most important theories of entry mode choice, we will move on to the more concrete topic of the forms of market entry.

2.2.The choice of entry mode: non-equity versus equity modes

The second main column of the introductory chapter regards the entry modes available to a firm wishing to internationalize and run its operations abroad. An entry mode can be defined as an institutional arrangement necessary for the entry of a firm´s product into a new foreign market (Calof, 1993). These entry modes typically vary with increasing degree of complexity and resource commitment. As put forth in the Uppsala model, they can go from sporadic exporting called upon by some unsolicited order to the establishment of production operations in WOS abroad. At the beginning of the second wave of globalization, internationalization and entering foreign markets only involved state-sponsored or capital-rich players, which sought out to acquire raw materials in Third World countries with wholly-owned ventures, somehow trying to replace the old colonization patterns (Bennett, 2002). However, with the end of the Cold War and the opening-up of the world markets, new technologies and increasing informatization brought about a tremendous hike in born-global ventures, which often rely on extant networks and start off global thanks to industries digitalization and the Internet (Oviatt & McDougall, 1994). In fact, nowadays even small and medium enterprises, characterized by parsimonious resources and limited economies of scales as well as informal organizational patterns and high flexibility, are fully able to go international (Mintzberg, 1987).

Anyway, since internationalization has risen in important over the last three decades and has become prominent in most sectors, there is a set of market entry modes that represent the staple for business literature. Bearing in mind the factors delineated in the entry mode theories, firms typically choose an entry mode to a foreign market along with a range of reasons that can determine their success abroad. The most important of them, which may be the criteria for their selection are the:

- extent of capital commitment
- extent of management commitment
- scope of control
- outlook of risk
- range of potential profits
- range of input costs

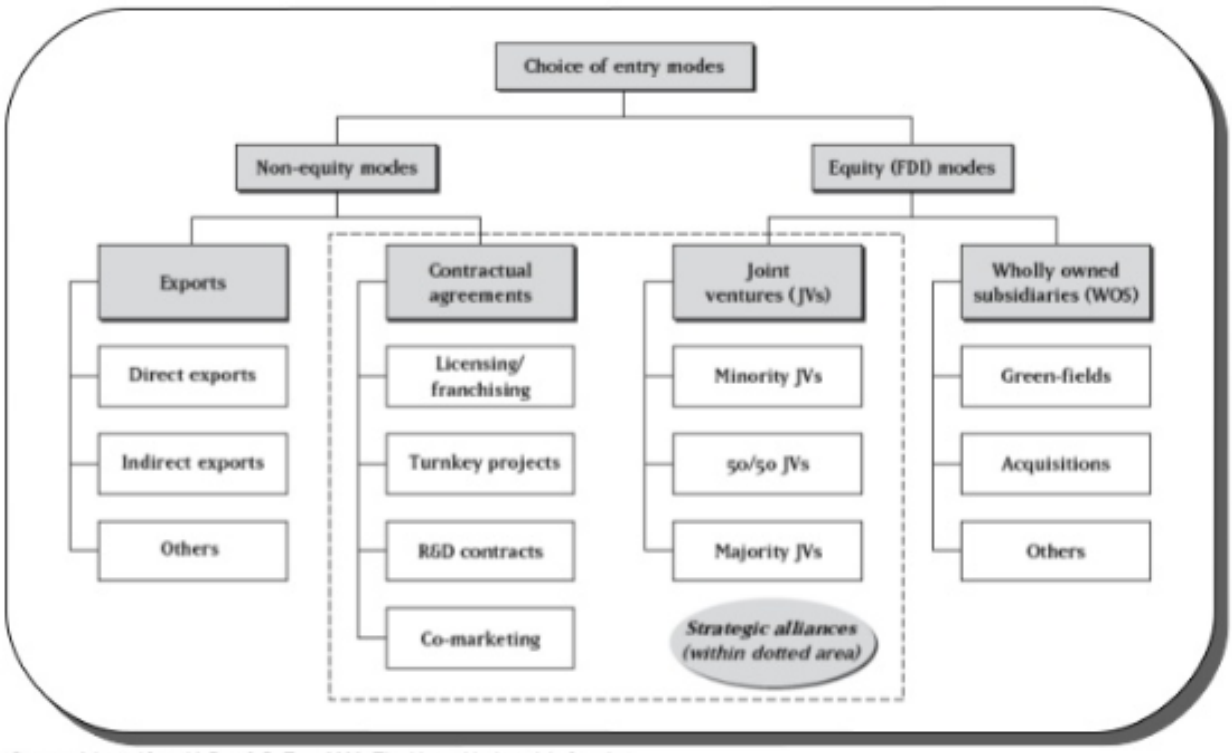
These criteria are a natural way to determine the choice of entry mode (Wach, 2014). Conversely, major questions concerning capital resources of small and medium-sized firms in particular, make it almost impossible to select more advanced modes of entry in overseas markets. Traditionally, choice of entry mode has originated from a fit between the firm’s own resources and capabilities and the political, legal, economic and cultural environment of the potential host country. In his acclaimed

work on marketing, Hollensen introduces three distinct rules firms might use to select the ideal entry mode (Hollensen, 2008):

1. Naïve rule: the firm always chooses the same entry mode in every market it intends to enter. That implies no specific PEST analysis is taken into account as the differences of the single countries are neglected. As a result, the firm does not rely on any ex-ante or ex-post research of the host countries, but has confidence in luck only.
2. Pragmatic rule: the firm chooses the most workable entry mode available for each foreign market. Therefore, internationalization managers will tend to select the mode that is more likely to generate positive returns depending on the business stage and their own international experience in a pragmatic manner. This principle could be compared to the Uppsala model as the firm tackles foreign market entry gradually, often starting by exporting to the target country up to the setting up of its own installations. Since a limited amount of resources can be employed for research of different factors, small and medium enterprises are more likely to capitalize on the pragmatic rule.
3. Strategy rule: this last guideline entails a systematic scrutiny of all market entry chances available and a final decision based on the most promising outcome. Deepened and costly application of Porter's five forces, SWOT and PEST analyses is very common at this stage. Because of the high cost in both time and financial resources, only big corporations are believed to afford the expenses to implement the strategy rule.

By any means, entry modes are broadly classified by a plethora of criteria. In fact they differ in the degree of risk they are associated with, the degree of control on the operations, the aforementioned commitment of assets as well as their potential return on investment. First of all, market entry to a foreign country can be direct, whereas the firm delivers its products to a customer in another country, indirect, whereas the firm handles its products with a domestic buyer that in turn exports them later on, or cooperative, implying agreements between a number of domestic players are carried out to design goods to export overseas (Wach, 2014). However, what concerns this paper above all is the main subdivision of entry modes between equity and non-equity modes. In financial terms, equity can be defined as the value of capital or resources one firm contributes to a venture (Globerman & Nielsen, 2007). Even more simply, equity is often indicated as the difference between assets and liabilities a firm possesses in a certain endeavor. In our circumstances, equity or lack thereof mainly pin down a certain allocation of ownership and decision rights, with the former being granted by a more generous (and riskier) endowment with assets in the case of a form of equity mode. In the following sub-chapters, I will tackle a quick and succinct description and demarcation of the main entry modes according to them falling in either category. For some more interesting examples, I will

be examining summaries of some relevant articles that are also important for the central topic of our paper. However, the sub-chapter will see its climax with the definition of JV and how they have been chosen as the main entry mode of interest for the study of entry in EIP in China.



Pan & Tse, 2000

2.2.1. Non-equity entry modes

Often recognizable as the most trivial set of entry strategies, non-equity modes are defined as modes that do not call for major investment by the internationalizing firm. Along with limited extent of resource commitment, they also encompass low degrees of ownership and control over operations, which are shared with or almost entirely delegated to business partners or intermediaries. Dunning defined non-equity modes as being basically contractual modes (Dunning, 1988), thus ruling out export, which in reality often serves as the first step towards internationalization for most firms. When compared to equity modes, they do bear less risk, but also fairly moderate returns (Welch & Loustarinen, 1988). In sum, non-equity modes of entry allow firms to approach foreign markets with minimal investment and reduced risk. Moreover, such firms can take advantage from non-equity modes to enter these markets much faster than with equity modes, as business processes such as

exporting and licensing are much swifter than looking for direct investment opportunities or devising and monitoring JV agreements. That is also a reason why non-equity modes are becoming increasingly popular among service firms that do not need excessive investment to maintain a physical presence abroad. Licensing additionally offers firms better rates of return on their investment and diminishes the quantity of trading barriers and regulations the licensee must surmount in order to gain profits from its endeavor. However, a major drawback of non-equity entry modes consists of the potential host market's consideration of the foreign investing company as an intruder, a concept known as "*liability of foreignness*" (Gaur et al., 2011). This is often the case in emerging markets. Along with that, promising consumers and partners might be reluctant to cooperate with a foreign firm that is not willing to contribute enough money, time and effort needed to establish a tangible presence on that market. Exporters also have to endure high transportation costs and put up with costly underlying regulations from the host country. In addition, licensees must face challenges posed by lack of control over goods and restraints within the terms of the licensing agreement (Wach, 2014).

The very first basic form of internationalization is exporting, roughly indicating the transfer of goods to a foreign country with the goal of sales. This phase is normally associated with low risk. At the beginning, a firm could only fulfill foreign orders as they are solicited. For most small and medium enterprises, this is the only form of engagement in international business. This stage often represents a natural aftermath of company growth and takes place whenever the firm has exploited all of its capabilities in the home market and attained such an outstanding volume of production, frequently prompting a surplus of capacities, that it is eventually forced to expand its scope and start exporting overseas (Rowden, 2001). However, the motivation for the firm to go international has not to be passive in nature. On the contrary, one of the main explanations for approaching foreign markets is the purported strength to impose its own offerings and make profits there, as the firm gains more and more market shares in its domestic market (Darling & Seristö, 2004). Exporting activities come in sundry flairs, including indirect export, direct export, as well as other specific forms of exporting. Even though the paper focuses more on example of JV in Chinese EIP, getting some insights in the world of exporting can be pretty useful, as this kind of entry mode has played an astonishingly important role in the recent economic history of that country. While they represented a miniscule part of the country's business as it was secluded and detached from the rest of the world up until the late 1970s, Chinese exports account for 19.8% of the country's GDP and over 17.0% of the world total trade as of 2018 (World Bank Data, 2018). Even today, China is widely regarded as an export-oriented economy.

At last, I would like to go deeper into the gist of one special type of exporting, which has been the first way for many global players to enter the Chinese market, that is exporting through

intermediaries. In 2001, Peng and York outlined the booming phenomenon of intermediation in export trade in great detail (Peng & York, 2001). The two authors start off from the premise that exporting has got so ingrained in the routine business activities of nowadays' market participants, that it has brought along the rise of new relevant figures, namely the export intermediaries. To sum up, these middlemen deal with intermediation services between trading parties operating in different countries. As such, they ideally fix problems and add value to transactions that would be difficult to carry out for the exporter alone. As for a deluge of other sectors, exporting middlemen have come into being out of the necessity to overcome market imperfections such as information asymmetry and the transaction costs stemming thereof. Peng and York carry out a painstaking description of export intermediaries as well as an explanation of their existence through economic theories from both exporters and agents´ point of view.

Conventionally, academic literature has companies deciding between exporting directly or indirectly to one or more foreign countries (Yaşar, 2015). The former entry mode conceptualizes a situation in which firms sell directly to foreign clients through their own sales representatives, or alternatively to distributors and retailers operating in the foreign country. The latter form, on the other hand, involves trading goods to or through separate domestic entities acting as links between companies in the home market and customers in foreign markets: the export intermediaries. It must be noted that a binding condition to be fulfilled for them to be regarded as such is to come from the same country as the enterprises they provide services to (Peng & Ilinitch, 1998). Intermediaries fill the gap between potential trading partners that would have not been involved in any transactions otherwise. A heinous situation of uncertainty, distrust as well as purported inadequacy engulfing both small and larger firms are mostly due to lacking expertise or fear of the challenges posed by exporting (Cavusgil and Czinkota, 1990). In this scenario, a number of companies displaying determined resources and know-how come into play to aid firms in successfully establishing a strategy to enter the foreign countries they have previously set their eyes on. Indeed, despite possessing more assets, numerous bigger firms might be unwilling to focus on some markets, too. In such cases, instead of vertically integrating some export office, they could be prone to hire other firms setting up channels interfacing local firms and remote clients. Several kinds of intermediaries exist, be it in the foreign target market (a typical example thereof would be wholesalers) or in the exporting country.

Another major type of non-equity mode is licensing. This entry mode consists of a contractual agreement by which a local firm grants certain utilization rights in the domains of technology, design, patents, logos, trademarks, branding and miscellaneous intellectual property to a foreign entrant to the home market. In short, it can be defined as the act of leasing an intangible asset (Manton, 2005). From the point of view of the licensing company, this represents an acceptable ordeal to make profits

with a unique, but legally protected asset. On the other hand, the licensee can access a new market with local know-how and relatively light expense and low involvement. Generally, the concrete costs for a licensing agreement are those required for finalizing the deal and enforcing its implementation afterwards. Moreover, the licensee is liable for paying the licensor a fixed licensing fee plus a percentage on sales (Reinert, 2011). However, even though the costs of licensing appear to be quite unchallenging, risk posed by uncertainty and asymmetric information always lies behind the corner, threating the achievement of a prolonged licensing partnership. Genuinely, the local licensing firm always faces the danger that it may lose aspects of licensed technology or other intellectual property to the foreign licensee.

A special form of licensing is known as franchising. In yet this other type of entry mode, the local franchisor bestows on a foreign franchisee the right to use its production process or its brand and distribution system by paying a royalty. The franchisor is used to retain the intellectual property rights to its brand offerings and will often assist the franchisee in setting up operations abroad to guarantee brand consistency. As a result, a franchisee gets more support than a licensee does. However, a franchisor exerts more control over a franchisee than a licensor does over the licensee, meaning the franchisee has to run its operations in accordance with the franchisor´s standards (Windsperger, 2006). This form of forcefully binding exchange between the two parties is similar to the one existing in hierarchical entry modes such as JV or acquisitions. Indeed, the difference in uncertainty and specificity between licensing and franchising have been often compared to a “hostage model” (Marco Weiss, Efficient Organizational Design – Balancing Incentives and Power, Palgrave Macmillan, 2007, pp. 17-30).

Just like other entry modes, franchising comes in a wide variety of flavors. First, franchising contracts can be very different from each other according to their level of equity. Then, a sharp distinction is indisputable while telling direct from indirect franchising modes (Duniach-Smith, 2004). In most cases, direct modes entail high control that is proportional to significant contract enforcing and monitoring costs. However, direct modes are only recommended to firms wishing to internationalize when the market growth potential is relatively limited and local circumstances are well known. A final variant of this entry mode worth mentioning is master franchise. In this situation, the master franchisor remains the owner of the brands as previously; however, it grants exclusive franchising rights to a single firm (the master franchisee) wishing to coordinate sub-franchising activities on a determined territorial entity. This delegation of functions simultaneously relieves the master franchisor of undergoing many single transactions while lowering the share of control on its brand (Windsperger & Jell-Ojobor, 2013). Engaging in master franchising to explore new markets is a costly operation that small and medium enterprises may rarely sustain in the long run. For larger

players, this entry mode can be advantageous when they have little international experience, inasmuch as to enter emerging countries with wide geographic and cultural diversity, remarkable growth potential but high political instability as well as generally high uncertainty drivers. These business relationships have flourished in the restaurant and hospitality industries over the last decades. For instance, the ubiquitous brand of McDonald´s has been often quoted as "*the gold standard of franchising*" (Nickels et al., 2010).

The last form on non-equity mode we are going to gauge in this paper is strategic alliances. This term entails a broad range of cooperative agreements between individual firms that might also have been competitors in the past in order to pursue common aims while retaining a certain degree of independence (Niederkofler, 1991). As a consequence, this entry mode comprises business partnerships ranging from short-term contractual agreements to actual private equity alliances roughly corresponding to JV, although strategic alliances are usually less binding than them. Indeed, the parties involved share some assets or processes but do remain separate entities, despite the fact that expenses and risk are split more or less evenly (Pekar Jr. & Margulis, 2003). The chance to form a strategic alliance with a target market firm may look alluring to international players because of a plethora of reasons. First, they can be speed up entry into a foreign market owing to the acquisition of adequate knowledge and potential participation in a local network. From an economic standpoint, they permit firms to share both costs and risks of developing new opportunities on the target market, allocating complementary unique resources and organizational capabilities that neither party could have refined without the support of the other. Finally, the foreign firm can get accustomed more easily to the host market and set up branding and technological standards suitable for the new environment. However, partaking in a strategic alliance also bears the peculiar drawbacks of a prisoner dilemma. Literally, the firm needs to be wary of information dissemination and not to contribute more than it obtains because it can never know how the other party could behave. The favorable outcome of a strategic alliance hinges upon the selection of a reliable partner with a similar vision and social compatibility, the structure of the partnership itself, which should limit the risk of opportunism through contractual protection, and its management, often involving coping with intercultural misunderstandings (Ladegård, 1997).

The last considerations about non-equity modes and a comparison with JV are present in a 2000 paper published by American and Israeli scholars. They sought to investigate the outcome of employing strategic alliances between firms such as licensing, franchising and JV by analyzing them in the context of the hospitality and restaurant industries in Israel. First, the authors have found hotels, restaurants and fast-food chains to be a suitable benchmarking unit for their study. Moreover, they point out strategic alliances are much more common in the Middle East than elsewhere, mainly due

to cultural distance and political risk. As a result, although alliance forms such as franchising are relatively new in Israel, they are preferred over exports and direct ownership, since they combine foreign resources and local knowledge. As already mentioned, companies tend to form strategic alliances in order to boost their overall profitability as well as to attain competitive advantage in the marketplace. This objective is accomplished by sharing resources and compensating one's own shortcomings with the assets of the partner organization. Such resources may include location, such as in the case of Israeli firms that act as an optimal channel for entering the Middle East, brand name and customer base. Other abilities searched for in partners may be human resources, know-how, structures and systems. Since Israeli business culture is much different from the Western one, goods and services shall undergo a costly adaptation process to better suit local needs (Jensen & Szulanski, 2006). As a result, the urge to set up a strategic alliance with a local firm that will definitely aid to reduce entry risks emerges.

Israel ranks as an advanced economy and a high-technology hub, remarkably in the semiconductor, computer software, telecommunications, and biomedical equipment industries. Even if most of its population of 8.3 million is unevenly split between Jews and Arabs as of the last years, Israel could be regarded as a multi-ethnic society as the country's 75% Jewish majority could mark its roots to a large number of countries ranging from the former Soviet Union to Ethiopia. The variety of Israel's melting pot reflects itself in the multifaceted taste of its population and consequently influences the hospitality and restaurant industries. In fact, Israeli cuisine is characterized by a blend of Middle Eastern and European tastes. While one could find traditional kosher eateries in most towns, major cities also showed an increasing trend in renowned international restaurants offering Italian, French, Chinese food, etc. Conversely, Israeli street food still resembles the traditions of the region, being mostly made up of kosher or halal falafel and similar snacks. This scarcity of variability paved the way for American fast-food chains such as McDonald's, KFC and Subway to enter the Israeli market. The Israeli population's appreciation of their standardized menus has been reportedly quite high. Again, the most common entry mode adopted by these chains has been that of strategic alliances via licensing and franchising. As for the hospitality industry, the 90s have witnessed the surge of tourism activities in Israel. Indeed, tourist hotspots are plentiful and comprise important religious shrines, seaside resorts, deserts, archeological sites, modern cities, etc. Simultaneously, the country's overall infrastructure has been improved and modernized over the 70s and 80s, making multiple destinations easily accessible. In 1995, the ministry of tourism recorded a figure of over 2.2 million tourists who had visited Israel that year. All these interesting facts make Israel an ideal target market for foreign investments.

Hereby, foreign companies prefer setting up alliances with local firms while entering the Israeli market. Hence, most international companies that have started operations in Israel have entrusted stable, professional business partners with their assets. Conversion and master franchising have been confirmed to make for viable options for most entries. On one hand, the foreign company benefits from the partner's know-how and customer base; on the other hand, the Israeli firm is able to use its international partner's brand name and services, such as reservation systems. Master franchising revealed itself to be a success in the case of French hotel chain Meridian, which teamed up with the Israeli Fattal Inc., a management company acting as a sub-franchisor. By delegating operations, Meridian was able to achieve high margins and market share while staying well within its own budget expenditures forecasts. The same very tendency has manifested itself in the fast-food industry. For instance, McDonald's had 36 outlets scattered over Israel as of 1999. Initially, McDonald's established a JV with an Israeli partner that further contacted other organizations to offer them a franchisee position. As a result, McDonald's was able to quickly penetrate the market and position its brand name, at the same time benefitting from the knowledge and understanding of the socio-political system that made it overcome major hurdles in terms of Jewish religious kosher laws, as well as potential import-export disputes. Conversely, Domino's Pizza chose to enter the Israeli market through master franchising. The American corporation brought along its strong brand name and advanced operating systems for aiding in managing its several outlets. The Israeli master franchisor contributed his knowledge of the market and business culture in order to recruit franchisees and adapt to the local taste (Preble, Reichel & Hoffmann, 2000).

2.2.2. Equity entry modes

As already indicated, equity and non-equity modes are set apart according to their degree of control and ownership as well as their required resource commitment level. Hennart's distinction between equity and non-equity entry mode sheds light on the evaluation of firms' internationalization process in entering foreign markets in the same sector (Hennart, 2000). Equity modes entail higher involvement and commitment of resources in the internationalization endeavor, which are associated with increased risk. However, this is compensated by ownership and high degree of control along with conspicuous returns in case of success (Woodcock et al., 1994). The equity modes of entry into overseas markets comprise both direct investment in physical structures in the foreign location (FDIs), as well as JV with local firms from the same industries with solid knowledge and networks in the target market. Foreign direct investment is a measure for ownership of productive assets, such as facilities and land. For the country that is luring the investment, the firm is regarded as a "foreign

direct investor". The latter can influence the management of the operations invested in directly. Direct investment favors the internationalizing firm in retaining more ownership and direct control over the business operations, whereas a JV allows the firm to take advantage of the local partner's knowledge of governance regulations, business culture, networking and even consumer marketing. Moreover, equity modes of entry modes facilitate firms to be closer to its customers. Conversely, among the major shortcomings of equity modes of foreign entry there is the obvious higher amount of resources necessary for the investing company to set up operations in the target market. Such a commitment does not imply only financial resources, but also time in finding proper contacts and building business relationships with either foreign direct investment or JV partners in the host market. Furthermore, the firm has to take political and legal factors into analysis, as engaging in direct investment can expose business operations to high risks if the target market becomes unstable (Duarte & Marta, 2010). On the other hand, firms partaking in JV often end up renouncing to exclusive control over operations to their local partners. Direct investment includes a handful of entry modes, namely acquisitions, brownfield and greenfield investment, whereas on the other end of the equity spectrum lie JV. The latter will be examined in detail, as it is going to be very relevant to the analysis of entry to Chinese EIPs.

In their 2010 article, Benito and Welch defined the fit between external factors and required internalization of operations as the main premise for the successful establishment of an equity mode (Benito & Welch, 2010). More specifically, their paper deals with the foreign operations internalization process of multinational firms. The main arguments herein put up with the assumption that organizations' management often incurs trivial transaction costs in entering a market through strategic alliances and partnerships which gradually soar as time passes by. Consequently, the authors investigate how a set of management tools can be successfully implemented in order to gradually internalize foreign operations and exploit former partners' intellectual assets upon establishment completion. Doing so, companies may drastically reduce operating costs, as hinted above. As such, the real objective an internationalizing firm ought to pursue resides in attaining full independence and operation costs savings owing to internalization of activities in spite of the obvious managerial challenges. The scholars split the main dynamic drivers of gradual internalization into two groups: on one hand there are the factors that trigger externalization costs whereas on the other hand there are the factors lowering governance costs of internal organizations and hierarchies. Of the former, the most important might be:

- Increasing asset specificity, which envisages the tendency of raising transaction costs implied for negotiations and monitoring of independent affiliates. In fact, the more specific a company's resources, capabilities or operations abroad, the more strenuous and costly

relationships with external operators will be. In some way, one could affirm specificity and transaction costs are directly proportional to each other. As a result, skyrocketing externalization costs will lead a firm experiencing increased specificity towards internalization of specific activities.

While other factors are more varied:

- Increasing sales volume or market size. Mathematically, Buckley and Casson have already conceptualized a sort of "switch point" by which internalizing business operations abroad gets actually less expensive than entrusting other entities with their management via contractual modes. Moreover, an increasing market share generally ensures an organization may have more equity at its disposal, thus enabling the setup of fully-owned subsidiaries (Buckley & Casson, 1981).
- Experiential learning. Drawing its main tenets from the Uppsala model of 1977, this concept revolves around the idea that a firm's experience in a foreign market corresponds to a diminished degree of uncertainty and therefore to a more confident governance decision-making. Indeed, such firms would dare evolve their presence through a stepwise process whence they slowly internalize most of their activities. According to Johansson and Vahlne, firms tend to approach a market through indirect exporting and end up setting up their own production facilities with sufficient knowledge of the market later on (Johansson & Vahlne, 1977).
- Release of management resources. Hence, expanding operations scope may result into more managerial assets to devote to boosting internalization and setting up a subsidiary.

As described above, internalizing operations has to be gradual as carrying out such decisions straight away may turn out to be detrimental to the organization. The paper's authors have conceptualized schemes and formulae to delineate a good way to identify an optimal area of profit gaining which is aptly separated from the one where maximum profit is achieved with externalization. Therein, pressure for internalization is bound to get higher as experience in the target foreign market is consolidated. Internalizing operations too soon is supposed to bring about very high switching costs since channel choices are difficult to change, whereas slowly incrementing commitment and equity steps favor high margins and cost reducing. Going along with the aforementioned drivers, the authors have conceived a formula embodying marginal benefits of supplementary internalization efforts, which equals the cost reduction gained by a single step multiplied by the marginally calculated and halved average of steps taken into account in a predetermined time period. In short, benefits experience an irreversible decreasing trend with time; however, so do marginal costs. If the profits

finally outweigh transaction costs imposed by partnerships and alliances, the times are mature for more internalization (Buckley & Casson, 1981). Going further, they single out tangible assets, such as facilities and machinery, as well as intangible, non-financial assets. The two forms are tightly interrelated, yet the former is quite straightforward and easily calculable. Conversely, the latter cover a wide spectrum of resources. Indeed, the term can refer to customer base, knowledge of the market, technical know-how and intellectual liabilities such as licenses and patents. The appropriation of non-financial resources can take place along three distinctive value chain dimensions:

I. Internalization of product-specific assets. As a firm may hand down licenses to a number of affiliates while entering a market, it can circumvent some difficulties. However, when times are ripe, not renewing licensing concessions would result into retaking its own intellectual property and managing operations on its own.

II. Internalization of activity-specific assets. This aspect consists in acquiring personnel or marketing resources of former affiliates. In other words, it is nothing but vertical integration of value chain activities.

III. Internalization of customer-specific assets. This last dimension refers to the takeover of local operators' goodwill assets in the form of tying in customers. As such, the firm would improve its reputation and raise awareness by internalizing more service, marketing and PR activities.

Finally, the paper discusses some ways to implement internalization of operations. Internalization of financial assets is said to be frequent with JV and is regularly handled through purchases of equity shares or planned buy-out options which makes the foreign firm the sole or the pivotal entity within the venture. Inversely, non-financial resources do retain high specificity and should be acquired with caution and not at a firm point in time like the former ones. Product-specific assets such as patents and licenses could be handed over via contracts and agreements in a time-restricted fashion in order to get more control over their utilization. The concerned affiliate should abide by the agreement's conditions and accept the internalizing firm will acquire or withdraw its bestowed rights at some point. Internalizing activity-specific assets can be aided in advance by assisting local operators with tangible assets such as machines or products, but not handing over the know-how necessary to replicate the parent firm's performance. Moreover, introducing expatriates and firm's staff to handle major operations may be a helpful stepping stone towards the eventual internalization. Plus, internalizing activities can also be pointed out in agreements before the establishment of an alliance or partnership. The last remark the authors make regards the interdependence of drivers and resources a company has to bear in mind once it has resolved to internalize operations. Thus, the three authors attempt to succinctly summarize and further gauge the phenomenon of operations internalization of firms

approaching foreign markets. To sum it up, internalization of operations is particularly important for equity modes.

Going back to these, the term wholly owned subsidiary refers to the direct ownership of plants to manufacture and offer a firm´s products in another country, meaning it has achieved its own business in that market. Problems arising from that are the capital costs and all the risks associated with international transactions borne by the firm alone. Indeed, establishing a WOS is undoubtedly the most costly entry mode available. Expenses other than purchasing the premise and facilities required for operations include acquiring local personnel and knowledge. Finally, its own scope might be inadequate to cover the market profitably. At the same time though, a WOS secures the highest degree of control over all operations, thus reducing uncertainty and opportunistic behavior. Anyway, the most beneficial perk of this entry mode is the outright internalization of profits, since their redistribution is no matter of dispute hinging on ownership as in the instance of shared-control entry modes (Wooster & al., 2016). WOS can be established in three ways, which are acquisitions, brownfield and greenfield investment.

In greenfield operations, the internationalizing firm launches a new venture in a foreign country by establishing new operational facilities from scratch. That grants the firm the capability to set up the ideal subsidiary, making the transfer of unique resources, organizational capabilities, skills and knowledge from the headquarters to the new subsidiary a lot easier. Besides the aforementioned control over operations, greenfield investment often enhances firms owing to incentives such as subsidies or tax breaks offered by host countries welcoming such projects to bring in capital or employment to their domestic market. In fact, a large number of greenfield investment has taken place in developing countries lately (Burger & Ianchovichina, 2017). On the downside, greenfield operations are more complex and slower to organize. Among other, the firm has to acquire all knowledge regarding local culture and business regulations by itself, calling for prolonged time investment. Finally, since greenfield is usually a costly long-term commitment, one cannot neglect the greatest risk being the potential deterioration of the relationship with the host country itself. If the understanding of local culture is lacking, issues with the local labor force, regulations concerning access to resources or obtaining building permits can lead to great losses (Byun et al., 2012). In addition, critical circumstances like economic or political crises might destabilize the market and force the firm to pull out, possibly proving to be financially devastating.

In order to reduce spending on aggregating knowledge about the target market drastically, an internationalizing firm may speed up things by acquiring an already existent entity in that particular market. By definition, through an acquisition, the firm buys most or the target company’s entire ownership stake in order to assume the sole control on the target firm. As a result, acquisitions are

faster to implement and allow the global firm to rapidly affirm its presence in the target foreign market. Whenever a firm acquires an existent host country firm, the risk associated with doing business in a different culture decreases proportionally. Generally, the foreign firm will transfer its organization capabilities and core competences, while maintaining the original structure and staffing (Distler, 2016). Nevertheless, acquisitions also augment the chances of conflict between the two firms because of potential divergence due to their different cultural values or visions. Mergers and acquisitions can vary according to their traits:

- Horizontal: acquired and acquiring firm operate in similar industries
- Vertical: the acquired firm supplies for the acquiring firm
- Concentric: the acquired and the acquiring firm share some common knowledge that may generate benefits for both parties
- Conglomerate: The acquired and the acquiring firms operate in different industries

When they wish to enter foreign markets through FDIs, some firms have to weigh different factors to decide between acquisitions and greenfield investment. Hennart and Park have found out that global players relying on high research and development intensity are more likely to enter through greenfield, since protection of intellectual property is enhanced by absence of potentially opportunistic partners´ behavior. In this case, the reason for the firm to go global would be taking advantage from their unique technological resources abroad. Conversely, if a firm wishes to enter a market with a high growth rate in order to make profits due to high demand, it will tend to enter through acquisition in order to gain knowledge and proximity to local distribution networks and consumers. In addition, acquisitions generally look attractive to late movers to a particular market. Likewise, if the firm needs more local human resources, it is more likely to enter the target markets by acquiring an existing entity displaying large size (Hennart & Park, 1993). Successively, other scholars confirmed the thesis that greenfield investment brings about lower integration risk, resulting in firms choosing this entry mode over acquisitions in the case that country risk is high. On the contrary, a global player is more likely to select acquisitions when it wants to access local resources or when the host market promises significant growth rates (Meyer & Nguyen, 2005).

The last type of FDI is brownfield investment, which can be defined as a hybrid of greenfield and acquisition. In short, through brownfield a firm purchases existing production facilities to launch a new production activity. Indeed, the global firm acquires an extant local player while launching operations anew, as if it were a greenfield investment (Bedi & Kharbanda, 2014). Meyer and Estrin outlined brownfield as "*a foreign acquisition undertaken as part of the establishment of a local operation. From the outset, its resources and capabilities are primarily provided by the investor, replacing most resources and capabilities of the acquired firm."* (Meyer & Estrin, 2004). In their

2001 article, Meyer and Estrin defined brownfield and sought to explain when the firm should choose this entry mode over greenfield.

Starting off from the observation of several Western European companies in the recently opened up markets of former socialist Eastern Europe over the 1990s, the authors argue this new entry mode has rapidly gained in prominence and spreading in emerging markets. To sum up, brownfield teems with acquiring an extant company overseas, so it simultaneously implies the restructuring process can be so costly and wide-ranging that it ultimately resembles a greenfield project. This is especially the case in most emerging markets, as the core competences, infrastructure and technology of bought out affiliates may be significantly lagging behind the standards of the new parent firm, that in turn has to transfer its unique resources and discern a suitable fit-developing program between the two organizations. The authors recognize that most companies have required a benchmarking value of two years to withstand this transition. In the case of foreign market entry, internationalizing firms have to weigh transaction and integration costs to pick either acquisition, greenfield or brownfield. Hereby, they carry out their investments by determining their objectives in advance. In fact, the theory distinguishes between market-oriented and resource-oriented foreign direct investment. In either solution, firms attempt to exploit resources located in specific markets or in some organizations they can take up through acquisition. If such resources are already at disposal of their affiliates, they can opt for acquisition. On the other hand, if resources are in the market, but organizations there lack infrastructure or facilities, greenfield may be the optimal choice. The brownfield decision fits in between the two, namely when it is less costly to take over a foreign company over a subsidiary establishment, nevertheless said company has underdeveloped organizational resources that have to be reassessed and improved from the start. Both greenfield and brownfield entry modes are feasible for internationalizing companies handling resources that can be transferred internally and can make up core competences of the new affiliate. Of these resources, three kinds are of particular relevance:

- Firm-specific assets. These can include know-how and networks membership
- Excess managerial resources that can spill over into new ventures abroad
- Financial resources

The aforementioned resources are related to the internationalizing organizations only. However, enticing resources can be already in the market or under control of other firms. Furthermore, the transaction cost theory has internationalizing firms gauging costs and benefits of choosing between greenfield and acquisitions, too. By choosing greenfield, firms have to take the emergence of a handful of transaction costs into account, such as the search and information costs for finding an adequate location, for having the required registration paperwork done and employing personnel as

well as negotiation costs, etc. Although some of these can be entirely avoided by picking an acquisition, integrating another company within one's own requires high costs anyway. Greenfield projects avoid the costs of integration, but are more susceptible to relocation costs associated with the international transfer of resources (Basile, 2004). Although some of these costs can be reduced by picking an acquisition, integrating another company within one's own requires high costs anyway. A firm choosing acquisition thus has to successfully coalesce domestic and foreign resources with each other regardless of the choice of entry mode. Its ability to integrate this set of resources is dependent on a series of factors. Such a capability is reinforced through experience with acquisitions. Moreover, integration is accelerated by synergy between two organizations in both strategic and organizational terms. Albeit frequent, international acquisitions can be highly affected by the rift between two different cultures. Psychic distance between two cultures increases communication problems between the firm and its affiliate in the long run (Simonin, 1999). Firms with little or no experience in the host country thus face more obstacles to integration and are more likely to choose greenfield entry. In conclusion, certain resources can be underdeveloped in emerging markets, favoring neither option.

Brownfield, representing a way to combine acquisition and greenfield, somehow fills this gap. As already discussed multiple times, the choice of entry mode mainly depends on the resources required and the costs incurred by the firm for expanding abroad. In this context, brownfield, as a combined mode, ensures the internationalizing firm can gather resources by gleaning them from different sources, making possible such projects that would have been unfeasible otherwise. Nevertheless, brownfield normally implies high integration costs, since the acquiring firm needs restructuring the new entity transferring its own resources as well as amalgamating them with the new ones. This process resorts to high managerial resources for the intricate post-acquisition period. The present literature has the brownfield option chosen in two situations. First, traditional acquisition can be hindered by local firms' insufficient assets or by high transaction costs concerning control and ownership degree. In this case, managers should choose to further expand and add new facilities to an acquired firm. This need may be recognized while preparing for the acquisition. This would be therefore regarded as an external expansion strategy. On the other hand, a brownfield is embedded in an internal expansion strategy if contemplated projects are discouraged by crucial resources that are indispensable, but not freely available. If such resources were readily accessible, choosing a greenfield would spare integration costs of acquisitions, but in the case of unavailability relying on the existing know-how and infrastructure of an existing acquired firm makes sure such impediments can be circumvented (Meyer & Estrin, 2001). All in all, brownfield can be deemed as a fitting strategy for firms that combine highly competitive resources or high organizational integration with some

critical foreign assets and it is perfectly plausible to assume it will become the most prominent entry mode strategy in emerging markets.

The last entry mode to describe is JV. Hereby, two companies customarily pool resources to constitute a separate business entity. Even though a JV is de facto an equity mode, it still involves the foreign firm engaging in a contractual agreement with a local firm, which maintains its independence and ownership shares, unlike the above case of FDIs analyzed. Despite the fact that percentage shares can be defined in the initial agreement proportionally or arbitrarily according to the capabilities or the explicit willingness of the partners, ownership and decision rights in JV are often split evenly between partner firms. As a result, the burden of partnership clashes and potential risk of opportunistic behavior linger on (Harrigan, 1986). JV are a preferred entry mode in some emerging countries where perceived psychic distance is quite high, as the internationalizing firm could be motivated to look for a partner abroad to grasp local culture and to enter a network. Thanks to the presence of a local partner, risk posed by political and legal factors such as unfairness towards foreign players and distrust of local suppliers as well as consumers is greatly downsized. Moreover, reduced investment contributes to moderate risk, if compared with acquisitions.

In most cases, JV formation entails a fixed sequence of stages. First, the firm has to devise a mission for the new venture, be it for risk reducing or maximum market penetration, as well as minor objectives to accomplish. Following that, weighing costs and benefits of a JV venture versus other equity modes should be an imperative for every broad-minded planner, as both of them imply long-term commitment, but could generate a very different outcome (Yiu & Makino, 2002). Important factors to contemplate during the weighing stage are financial commitment, chances of synergy, control, risk reduction and long-run market penetration. Even more concretely, the firm ought to concoct an effective business plan, which can be appropriate for the target market, and select the most fitting venture partner accordingly. This is probably the phase where the firm faces the most uncertainty and risk. Indeed, a suitable partner should share the same objectives and display a high degree of transparence in its operations and general financial well-being and business history. Moreover, communication should be enhanced and menacing cultural differences played down (Luo, 1997). Going along with the transaction cost theory, contract signing and monitoring costs have to be taken into analysis. Finally, the entrant firm is supposed to evaluate the performance of the new JV at regular intervals.

In short, there are five common objectives in a JV:

1. Market entry
2. Risk as well as reward sharing
3. Technology sharing
4. Concerted product development
5. Connections and distribution channel access

Such agreements are likely to turn out positively if the partners' strategic goals converge while their size, assets and market power are still meager if compared to the leaders in the sector. Furthermore, it is beneficial for partners to be able to learn from each other while restricting access to their own intellectual property (Oxley, 1999). As specified before, in a JV the main issues are slightly different than in an FDI or a non-equity strategic alliance. In fact, a firm has to evaluate carefully how wide its handling capabilities will be in a JV in terms of ownership rights, control of operations, long-term agreement, pricing and profits redistribution, technology transfer, local partner's organizational capabilities and assets as well as effects of political instability. Upon mentioning these important elements of success, one can easily single out potential difficulties arising from clashes between the parties. These typically include conflicts of interest concerning new investment, mistrust over the possession and transfer of unique intellectual property, disputes over division of revenues according to the performance of either party as well as mutual accusations of lacking resource commitment and, beyond any doubt, more or less superficial cultural misunderstandings (Hennart & Zeng, 2002). Paradoxically, firms creating a JV usually find themselves in the distressing position to get pressure to cooperate and compete with each other (Park & Russo, 1995). Undeniably, in accordance with the strategic imperative of profit maximization, firms intend to maximize gains due to the JV while improving their own competitive position at the expense of their partner. Likewise, although the JV aims at developing common resources each firm will try to insulate or restrict access to its own proprietary assets. At last, most economic theories such as game theory would acknowledge the expansion of a JV as a sort of zero-sum game, whereas the venture is managed through common coordination and predefined control rights, but each partner wishes it had hierarchical control over business operations and the other firm as a subordinate player (Talman, 2008).

In practice, JV as an entry mode receive ample appraisal by global firms willing to enter emerging economies. The main features of these countries are vague legal infrastructure and relative enforcement, shortage of financial capital but swift economic and demographic growth as well as rapid urbanization (Hoskisson et al., 2012). Such emerging economies may be either former

command-economy markets or countries with seemingly unsurmountable cultural and language barriers (Duarte & Marta, 2013). There are countless instances of both cases. Western European enterprises have often entered Eastern European countries over the 1990s and the 2000s by JV. Romania embodies this trend, as the country has been known to attract foreign investors. For example, in the 1980s Citroën established the automobile manufacturer Oltcit S.A. together with local state-run entities (Gatejel, 2017). After the French corporation had withdrawn all stakes from it, the venture decided to team up with Korean Daewoo in 1994 in a 49%-51% agreement. The latter case concerns JV set up in faraway Eastern and Southeastern Asian countries such as South Korea and Thailand. However, many scholars argue that these international JV phenomena exhibit two contradictory trends. On the one hand, a thorough analysis of the number of new JV in Asia discloses that they are becoming increasingly popular as a mode of overseas market entry and expansion. On the other hand, nonetheless, the relevance of such a consistent growth trend is outweighed by the ill-fated incidence of high failure (Julian, 2005).

Withdrawing from a JV or even from the target market is often a result of clashes with the local partner due to cultural and language misunderstandings rather than the consequence of financial insolvency. China also represents a major example of a country with high perceived psychic distance (for Westerners) and a very specific political and legal environment. Since China is both a prized market for production and marketing of products and an enigmatic host country to deal with to foreign firms, it is evident how significant JV have become for market entrants over the last decades. Most emerging economies possess specific legislation managing the development of JV between their fellow local firms and foreign entrants. Such regulations aim at safeguarding the interests of the people and the economy of the host country itself, maximizing benefits the JV will deliver despite using resources from the host country. This condition turns into a sensitive issue when the host country is perceived as a weaker economy compared to the economy of the motherland the foreign comes from. As for the People´s Republic of China, the immense country has arranged policies requiring all foreign firms willing to do businesses on national soil to undertake JV before settling down with FDIs. China has enforced such policies out of a merely protectionist purpose, making sure any foreign firm is prevented from seizing any industry from Chinese players (Shenkar, 1990). India has comparable policies on its own accord, since this other Asian giant has recently coerced global firms capable of establishing FDIs into founding JV (Zahra, 2005). In cases like this, the foreign firm has to estimate the benefits of tackling market entry against the risks associated therewith and eventually take a crucial decision.

3. The economic rise of China and the spread of EIPs

"Quand la Chine s'éveillera, le monde tremblera[1]". With this enigmatic sentence, Napoleon Bonaparte, former general and emperor of the French, received a visitor in 1816 who had recently been in China for state affairs, during his exile in the Atlantic Ocean. The quotation was used several times in the 20th century to evaluate the unexpected rebirth of the Middle Kingdom. When Beijing hosted the Olympic Games in 2008, the People's Republic of China confirmed its role as an emerging economic as well as political power hub (Giulianotti, 2015). A position that today seems increasingly corroborated by facts and figures. Chinese primacy in today's East Asia, with its booming economy, growing productivity, and, above all, increasing influence on the region's governance, has contributed to the rise of the Asian giant into a major player in global politics. In fact, Western countries are as affected by China's rapid growth as their Asian counterparts (Wu & Landsowne, 2008). The Chinese have thus succeeded in transforming their homeland from an almost isolated third world country into a global center of power within one generation, clinging to its own position in the international system through its capacities and its modern diplomacy.

After meticulously describing sundry foreign entry modes and the economic theories thereof, the third chapter of the paper will be devoted to the direct observation of China' s economy and its craving for the establishment of EIPs. The first part of the chapter will be an introduction to the Chinese economic miracle occurred during the 1990s and 2000s and going on to this very day. Some salient figures will be taken as examples for the unprecedented rise of this huge player in terms of both industrial production and quality of life. However, just like in other advanced countries, such a rapid development brought about unwelcome collateral effects such as increased income inequality, from the sociological point of view, as well as a tremendous surge in pollution. As of 2016, China topped a World Health Organization list for deadly outdoor air pollution (2018 WHO Data). The incredible rise of China has hus showed its ugly face.

These unhappy records call for firm actions from the side of China's government and civil society. One of the most interesting measures the country has taken to counter pollution and ensure continuous growth while sparing the environment has been the adoption of circular economy. Therefore, the second part of this chapter will be entirely dedicated to the notion of circular economy as well as the main issues pertaining EIPs in China. Hence, some selected works by affirmed scholars will be used as sources for a comprehensive analysis of how these peculiar industrial parks are reshaping the

1 French: When China awakens, the world will shake (readily translated by the author of the paper).

Chinese economy. At the same time, there are various hints at how such parks are managed from an economic point of view and how firms and other organizations can enter them. The third chapter is posited as a valuable practical base for the final estimation of JV initiated by foreign firms in EIPs.

3.1. China's new economy: from astronomic growth to controversy

Unbeknownst to many Westerners, the history of China has been marked by numerous revolutions and changes of government that have profoundly affected Chinese society as well as its economy and business culture. Just to name a few, it is enough to mention that the country has been involved in three revolutions, one long civil war and two bloody world wars during the last century (Meissner, 1997). At the eve of 1978, China was yet to recover from the mismanagement of the Maoist era. Collectivization and suppression of private property as well as the excesses of the Great Leap Forward or the Cultural Revolution years had left deep scars on the country´s economy and civil society. Indeed, the huge, once advanced civilization still counted as an underdeveloped, agrarian society. Since the stress of the (often failed) five-year plans of the past decades was on the primary sector, industrialization severely lagged behind other developing countries (Cheng, 1983). At that point, China was one of the poorest countries in the world, since the average income of a Chinese laborer was $ 200 - less than in Uganda, Malawi or Afghanistan (Xie & Zhou, 2014). Up to the end of the 1970s, the great potential of the Chinese nation was still hidden to the outside world, as the country was mostly isolated diplomatically and economically as it had been during the imperial era (O' Leary, 1980). Nevertheless, 1978 was a major turning point in Chinese history.

By that year, China would undergo a relentless path of opening up and economic as well as social development that had never taken place in human history. The resurgence of the millenarian empire is rightly attributed to Deng Xiaoping, who became paramount leader of the People's Republic of China after two years of political turmoil following Mao Zedong's death in 1976. The enlightened political figure from South-Western China launched an ambitious political stance mixing up socialist ideology with elements of pragmatic free-market economy, naming it "*socialism with Chinese characteristics*". His slogan about the primacy of performance over ideology embodied in by far the most famous among his quotes sticks out due to its prominence in economic and political thinking: "*It doesn't matter whether a cat is black or white, as long as it catches mice*" (Jones, 1993). Deng promoted economic reforms endorsing liberalization in nearly all economic sectors shaped after successful results obtained in small-scale pilot experiments as well as the experience of the Four East Asian Tigers (Jia & Chao, 2016). Hence, the government supported private initiatives on a small scale, primarily in villages and small towns, in order to extend new regulations to large cities and provinces

gradually. This bottom-up approach differed considerably from the top-down one adopted by Soviet cadres in defining their attempt at economic reform noted as "*perestroika*", which eventually failed and led the country to its tragic collapse (Lai, 2005).

However, development of local economies was not enough for modern China. The country leaders quickly realized industrialization and subsidization of technology would play the key role in the upcoming post-Cold War world. By hook or by crook, they deduced that the Maoist experimentation of the socialist centrally planned economy had not only led efficient economic growth astray, but also had brought China to lag far behind the advanced nations of the West as well as Japan and the new East Asian Tigers, namely South Korea, Singapore, Taiwan, and Hong Kong. In sharp contrast to Japanese and Hong Kong industrial prowess challenging North American and European countries in advanced technology, Chinese citizens still had to rely on barely sufficient food supplies, rationed apparel, lacking housing measures as well as an inefficient and primitive service sector. All of these deficiencies compromised China's position on the international stage. However, political and economic think-tanks knew the country would have not been able to pursue modernization by itself so easily, meaning it would have had to acquire them from overseas players (Guthrie, 2000). To speed up things, Deng realized the country should have progressively opened up its borders and welcomed trade and foreign investment, breaking an isolationist stance China had imposed on itself since the very foundation of the empire more than 2000 years earlier, if not for brief intervals (Zhang, 2015). Attracted by the opportunities of a new, immense market to make profit in, the first Japanese and Western players approached China. Owing to strict regulations and the sole possibility to make business in special economic zones (SEZs) at the beginning of the 1980s (Stoltenberg, 1984), only capital-rich corporations were capable of entering the new market. One major example is given by the spread of American fast-food chains through franchising agreements (Yu & Titz, 2000). Although challenged by a strong national culinary identity and widespread stereotypes about foreign food (De Garine, 2001), KFC opened its first establishment in 1987 in Beijing, while Pizza Hut and McDonald's followed suit three years later after meticulous market research about local preferences and business culture (Zhuang & Jiang, 2016). As of today, fast food has sneakily become an integral part of contemporary China. Besides fast food, many other foreign players with fewer financial capabilities entered the country through JV or other strategic alliances to capitalize on the manufacturing and technology sectors.

In sum, thanks to the advent of groundbreaking economic reforms since 1978, China has been the world's fastest-growing economy until 2015, recording yearly average growth rates of 10% and more for decades (Paul & Mas, 2016). As mentioned earlier, the success of the modern Middle Kingdom represents one of the most effective and fastest economic achievements in world history

(Wu, 2004). Nowadays, the country is the world's second largest economy with a nominal GDP of $ 13.457 trillion (IMF Report on China, 2018), amounting to around 16.8% of the world's GDP. Chinese people rejoiced upon overtaking Japan in 2010, and economic speculations have the country forcing the United States out of the first position in the coming years. Conversely, if one measures GDP based on purchasing power parity, China has already reached the top placement among all nations, covering 18.2% the world total (2017 World Bank Data). Furthermore, since it has long been the largest manufacturing economy, China has also become the first trading country in the world after supplanting the United States in 2013 (Monaghan, 2014).

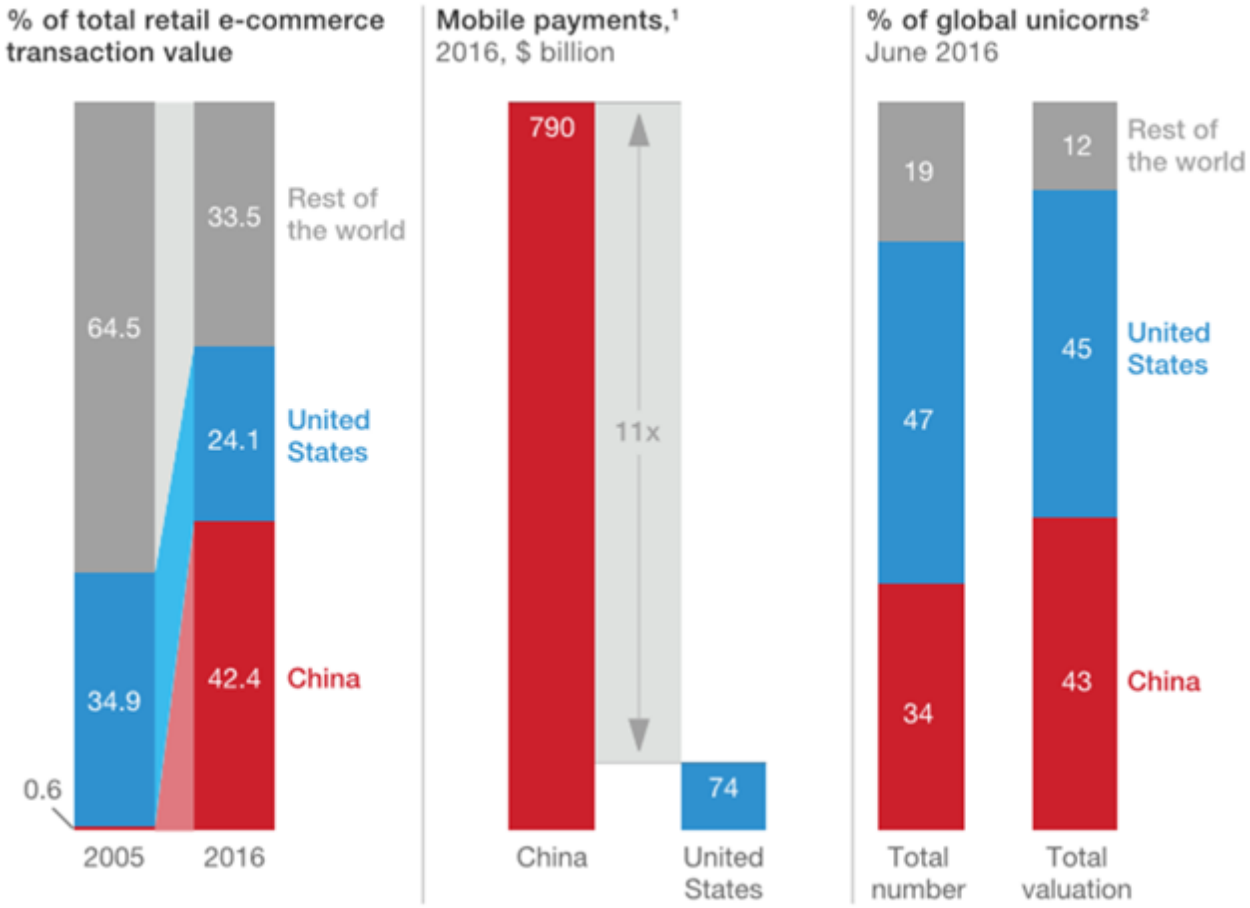
Such achievements have also benefited life quality of the average Chinese population. For instance, the famous British economist and development policy expert Paul Collier concluded that world poverty has dropped in the last two decades because the living conditions of one billion Chinese have improved significantly over the recent years (Collier, 2008). In addition, the various indices of the United Nations Human Development Index have demonstrated that China's ranking lies roughly in the middle of the world standard and will definitely increase. In 2017, the United Nations calculated China´s Human Development Index tallying at 0.752, which is regarded to be high (Human Development Indices and Indicators: 2018, United Nations Data). Nowadays, the yearly average wage in China amounts to $ 9,720 - more than 20 times as much as in 1979 (2018 statista.com Data). Thanks to generous state support, increased investment of domestic and foreign players, steady urbanization and the mere fact that it has an enormous territory and the world's largest population, the People's Republic of China competes in almost every production sector worldwide. Though being endowed with a massive domestic market, China´s capacity utilization remains mostly export-oriented, just like for many other East Asian countries. In fact, the invasion of Chinese goods on world markets has symbolized the Chinese boom. The promotion of foreign trade encourages the giant country to constantly search for new sales markets. In addition, China's constantly undervalued currency, the Yuan Renminbi, is extremely beneficial for trading transactions. For example, at the beginning of March 2013, 6.22 yuan were necessary to exchange one US dollar (2013 xe.com Figures). However, the recent developments of world politics together with rising pressures from the United States could break this imbalance in the future. In addition to the currency advantage, the Chinese State Bank holds impressive reserves of gold and foreign currencies, especially US $, that make China a good lender (Holmes, 2018).

However, rapid industrialization and rising living standards have added several difficulties to the aforementioned admirable achievements from an economic point of view. As the country´s economy relies heavily on export of goods, it is easy to realize to what extent the slowdown in aggregate demand in several markets has had a negative impact on Chinese manufacturing due to crisis and

uncertainty in the US and in the EU. These complicated circumstances are clearly reflected in the current sinking trade account surpluses and can be illustrated by concrete data. In fact, the export share of GDP declined from over 30% in 2008 to little over 20% of GDP in 2016 according to IMF calculations (2017 IMF Data). In addition, the Chinese currency is also affected. Falling surpluses in the current account lead to a decline in appreciation expectations for the yuan. In 2011, there was a nominal appreciation of the yuan against the US $ of about 4.8%, whereas the real figure amounted to about 8%, and eventually it closed in 2016 to a much lower percentage (Data from the Foreign Office of the Federal Republic of Germany, September 2016). The recent fluctuations on the market represent a primary source of concern from the perspective of the cautious West and therefore play a fundamental role in the course of China's current international diplomacy. As the Chinese economy is tightly intertwined with the world, these data and the reactions of the outside world have led the new Chinese leadership to take urgent action. Although China today seems to be economically unbeatable, so was Japan, the "chained power", until 1997 (Tsutsui & Mazzotta, 2014). In order to remain competitive, the economy must be further modernized and supported by appropriate reforms. As a result, Beijing is planning to restructure the domestic economy from an investment-oriented and export-oriented economy to an innovation-driven one (Lardy, 2012).

Innovation plays a significant role in the conception and spread of EIPs, as we will see in the next section. Following the American example, Chinese players have increasingly concentrated their efforts on innovation-driven projects as well as digitization. In less than a decade, Chinese informatics and electronics giants such as Huawei, Tencent Holdings and Xiaomi have proved to be a rising force to reckon with (McKinsey Report, August 2017). Even though digitization of several industries in China still looks flawed if compared to that of the United States by a sizeable extent, this gap is diminishing in scope very quickly. In 2013, the United States was estimated to be 4.9 times more digitized than China; in 2016, that figure had dropped to 3.7 times (2017 McKinsey & Company Data). Media, finance and communication technology belong to the sectors, which promise the most innovation returns. Another key component of Chinese contemporary society is e-commerce. Economic behemoths such as Alibaba and Baidu have gained billions in less than a decade thanks to competent media campaigns coupled with government grants, which made buying online a trend going hand in hand with the spread of mobile phones and laptops for most young Chinese people. China´s share of e-commerce surpasses 40% of the world total. Therefore, the overall value of e-commerce transactions is reputed to be larger than in Germany, Japan and the United States combined (McKinsey Report, August 2017). Moreover, mobile payments among China’s netizens spread at a greater and much faster rate than in any other advanced country, thriving from just 25% in 2013 to 68% in 2016. In the same year, the value of mobile payments related to private consumption amounted

to 790 billion $, that is eleven times as much as in the United States (McKinsey Report, August 2017). Lastly, the Chinese government is also investing massively in research and development, hoping to lead the country to fully advanced nation by 2049 (Lu, 2016).



McKinsey & Company, 2018

Nevertheless, whopping growth and increase of material wealth came at a high price. Among the most serious repercussions on Chinese civil society there is rising inequality. Just as in many other former socialist countries in both Asia and Eastern Europe, the majority of China´s population used to live under the poverty threshold through the 1970s and 1980s. According to national statistics, approximately 250 million people lived in nearly absolute poverty in rural areas (China Statistical Abstract, 2002). In consonance with communist principles, the people rule the country via the state, which clusters all resources and means of production to ensure a fair redistribution. Hence, equality among citizens should be valued above all. However, with the introduction of market economy life conditions improved for hundreds of millions of Chinese people. Indeed, various estimates suggest

Chinese population living in poverty has decreased by 22.29 million yearly during the 1990s (IMF Report, 2002). In spite of the obvious beneficial effects, these economic changes indirectly widened the gap between the rich and the poor in China. In 2015, the Bureau of National Statistics of China reported a Gini-coefficient figure of 46.2, roughly corresponding to a high income inequality (National Bureau of Statistics of China Data, 2018). Several studies have indicated China´s Gini-coefficient has increased from 0.30 to an astounding 0.55 between 1980 and 2002 (Xie & Zhou, 2014). Furthermore, China is now home to 476 billionaires (The World´s Billionaires List, 2018), thus representing the second country with the most billionaires after the United States, in spite of large shafts of rural areas where people are still poor by international standards. In addition, the country´s prosperity is still plagued by geographical gaps. Altogether, there is a great inequality in affluence between coastal and inland provinces. Even more importantly, policy and budgetary efforts of the Chinese government are mostly directed at the development of cities, further triggering social disparity between rural and urban areas (Benjamin et al., 2005). Moreover, the chasm between rural and urban populace is honed further by flawed institutions such as the controversial *hukou* system.

By any means, the most essential controversial issue for this paper is undoubtedly the appalling upsurge of pollution. This is a collateral effect of the blind stress on industrial growth and productivity optimization that brought about so much wealth in China. Since the 1990s, the country has experienced a disturbing increase of pollution of almost every sort. Therefore, environmental issues such as deforestation, endangerment of once pristine natural habitats, depletion of rivers and soil contamination have risen to become a major concern for China´s future (Zhang et al., 2010). Air pollution in major Chinese cities ranks among the highest in the world (Bell & Brauer, 2017). Particulates stemming from industrial processes have heavily contributed to smog in most urban areas, spreading as far as the Americas. As a result, high danger announcements on air pollution escalation have multiplied over the years. Such grim circumstances have rewritten the rules of civil society in modern China and become a constant of Chinese urban life, with housing prices of cleaner districts skyrocketing, thus broadening underlying social gaps (Liu et al., 2018). At the same time, the establishment of industrial facilities close to bodies of water has affected China´s waterways, sometimes in an irreversible way. Some streams and rivers have displayed sever shortages of water when compared to twenty years ago, whereas other bodies of water have become unfit for sustaining animal and vegetal life due to extreme pollution. In addition, many of them are now inadequate for human utilization, such as in agriculture, forestry, fishing and simple household consumption, like in the case of the tributaries of the Yangtze River. In the 1990s, roughly 14 years after the launch of economic reforms, it was calculated that approximately 20 large waterways in China were unsuitable

for irrigation because of pollution (Xie, 1992). Just as for air pollution, contamination of water resources has had a nefarious impact on the health condition of Chinese citizens.

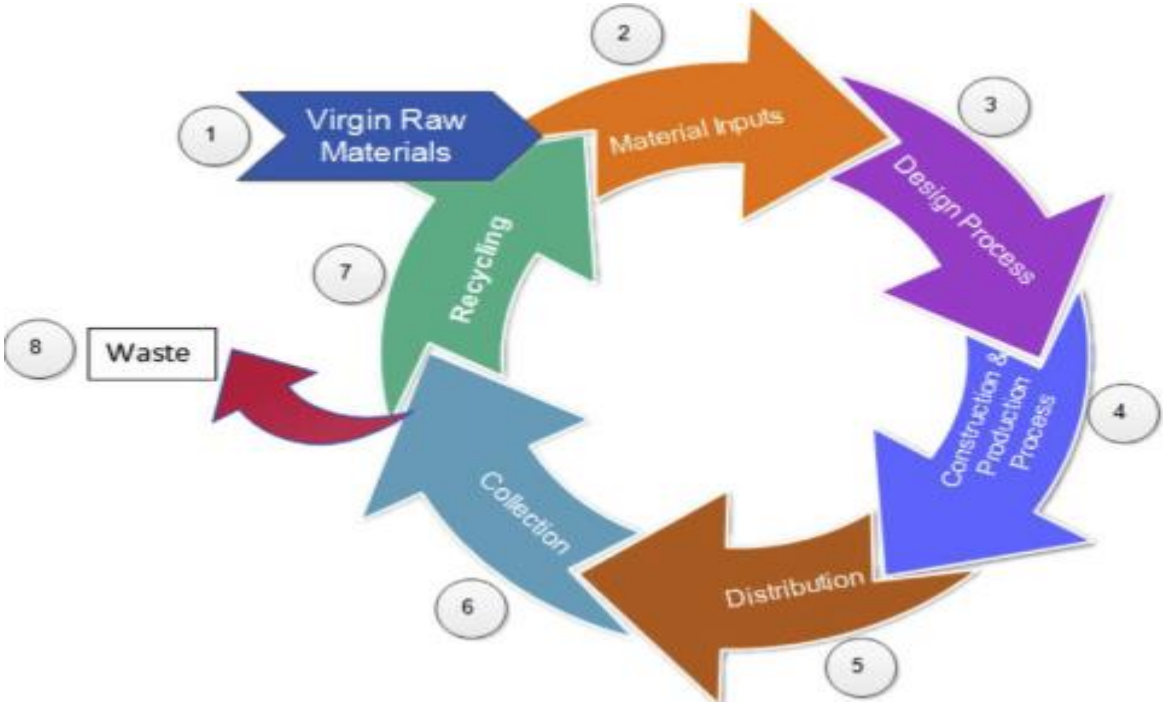
Predictably, severe air and water pollution have increasingly worsened living conditions in big cities as well as in areas characterized by intense industrial activity. Therefore, more and more Chinese people are diagnosed with cancer every year, mostly due to high concentrations of lung-damaging, ground-level ozone, caused in part by traffic congestion, in part by industrial combustion. In 2008, lung cancer became the first cause of death among people with malignant tumors in China, as its mortality rate rose by an astounding 465% over the last three decades (She et al., 2013). Furthermore, stomach cancer and liver cancer represent China's fourth and sixth leading causes of death, respectively. Together with other digestive tract cancers, they make for over 11% of all fatalities and thus almost one million deaths yearly (World Health Organization Data, 2017). Sundry media outlets as well as government agencies have shed light on incidents involving polluted river water by nearby productive facilities bringing about outbreaks of cancer in villages and townships in rural China (Ebenstein, 2009). Besides, scientists have researched correlations between water quality and excruciating water-related diseases such as typhoid and diarrhea; moreover, proximity to contaminated water may have foiled local governance attempts to lower child mortality (Galiani et al., 2005).

At last, one has to recognize the government has promulgated environment-friendly regulations and launched several awareness campaigns all over China, together with the introduction of sterner attitudes and auditing methods in regard to polluting industries in contrast to the 1980s, when performance was valued above everything else. On March 4, 2014, the Chinese premier, Li Keqiang, stated before the delegates of the National People's Congress and live audience on state television: "*We will resolutely declare war against pollution as we declared war against poverty.*"(Greenstone, 2018). This year, the government of the People´s Republic of China has also unveiled its new Ministry of Ecology and Environment, formally superseding the Ministry of Environmental Protection of the People's Republic of China (MEP) and the State Environmental Protection Administration (SEPA), which is now directly responsible of defending the country´s air, water and soil from the vicious effects of pollution and contamination. In spite of diffused criticism within the international community, China´s government under Xi Jinping has been credited with being successful in tackling pollution over the last few years. According to a recent study, levels of high pollutants such as sulphur dioxide and carbon monoxide have been cut remarkably since 2013 in 74 key cities in China (Huang et al., 2018). However, attempts by Chinese firms and local authorities to cover up illicit practices still plague the well-being of China´s civil society. This summer, the state has launched a new campaign to curb smog with a focus on 46 high-risk cities in response to deteriorating air quality in

Northern provinces. Anyway, this time extra efforts will be devoted to detecting and punishing players caught circumventing the new measures adopted ("The Japan Times", 2018). To further counter this problem due to uncertainty and asymmetrical information, China is taking additional measures such as rapidly building better infrastructure and increased regulation as well as exploring a set of potential technological solutions. Among these solutions there is the gathering of productive activities within EIPs.

3.2. The case of EIPs in China: from necessity to innovation trigger

The Chinese experiment with EIPs originated from two main lines of thinking. First, just as in the beginning of its disproportionate growth, China´s think-tanks were aware of the necessity to glean knowledge from foreign business concepts, one of them being environmental protection. Second, wealth and improved life conditions came at the price of pollution and diseases. Thus, the usual linear economic system based on production, consumption and waste had to be radically modified. Already in the early 2000s, China decided to rely on circular economy (CE). This is now a popular concept backed by the European Union, where it actually originated, and many major global players. Basically, CE fully endorses a closed-circuit production system where reutilization of discarded goods (essentially waste) in the production process after consumption helps prevent dissipation of resources as well as pollution, in consonance with the precepts of sustainability (Korhonen et al., 2018). Along the words of its early Northern European advocates, CE is relevant for its power to entice both the business community as well as policy-making community to work together for the sake of sustainability. Indeed, producing and consuming goods along CE principles is deemed to be extremely beneficial to the environment. Preston stated that CE: "*involves re-modelling industrial systems along lines of ecosystems, recognizing the efficiency of resource cycling in the natural environment*" (Preston, 2012). The ideal place for enforcing CE has been often defined as a gathering of businesses profiting from a conjoint synergy of their activities, also known as industrial symbiosis, meaning waste of one firm could become a building material for the other firm (Chertow,2000). Thanks to a strongly diminished pollution rate and far-fetched positive consequences on society as a whole, EIPs came slowly to existence. Conventionally, the first EIP to run business operation was established in Kalundborg, Denmark, in 1972. This first experiment attracted the interest of several other countries, including the United States. As for China, the first steps were taken in the late 1990s.



Akanbi et al., 2017

There have been many eager promoters of CE and EIPs in China. Zhu Dejian is among a group of Chinese scholars describing the dynamics of CE and the 3Rs in a famous 2008 paper (Zhu, 2008). Herewith, the prospects of China's future handling of CE strategies are discussed in a rather brief, yet thorough manner. Since the economic rise of the People's Republic of China in the 1990s, astonishing growth rates and life quality improvements have been achieved along an accelerated central planning, loosely defining some of its main steps. This mostly unaltered process has eventually led the billion-people-strong giant country to reach a gross domestic product figure of 11,5 billion $ as of 2017 (IMF Data, 2018). However, breathtaking growth of economic drivers, industrial production, infrastructure and public as well as private consumption coupled with unheeded leapfrogging of previously established limits to certain activities have left little to no space to an enhanced assessment of some collateral effects of rapid development such as increased pollution. As a result, Zhu and other prominent Chinese as well as international scholars have long argued over the validity of introducing CE patterns into the country's institutional and economic build-up in order to boost ecological measures to growth and favor innovation. The aim of CE is largely to make economic development sustainable.

Zhu's support of the CE does not only focuses on preventing further ecological catastrophes, but also on the optimization of productive processes. In his works, he reports a handful of data concerning China's overindulgence in using fossil fuel that brought about severe pollution and degradation of

entire regions. For example, he states how China's consumption of coal, steel and cement in 2006 accounted for 15%, 30% and 54% of the world's totals, respectively (Zhu, 2008). Furthermore, these figures are likely to have increased since then. Thus, the author roots for decoupling economic growth from resource consumption and environmental pollution with the objective to carve out a large chunk of China's GDP activities for innovative and green sectors following the turn of the next decade. In accordance with his views, Zhu individuates and singles out three main economic patterns China shall tackle by 2020 to accomplish this ambitious task. These three patterns are based on works by Professor Lester R. Brown, the founder of the Worldwatch Institute. The first one (or Pattern A) is characterized by a high resource consumption and a resulting high environmental pollution. This is ostensibly the path China has undergone since the liberalization occurred in the 80s and carries on to this day. In fact, this pattern is also prevalent in other developing countries such as Bangladesh, India and Nigeria. Should China ever go along with this line of thinking, the future for a sustainable development would look quite bleak, unleashing a string of social unrest altogether. The second one (or Pattern B) entails the already mentioned decoupling of economy from the environment, which China has already envisioned along the examples of Germany and Japan. However, it implies a higher level of green technology implementation and infrastructure has already been achieved in a particular country.

In Zhu's opinion, this part will take a lot of time in China, since the environmental target would strongly deviate from the economic one set by the country's highest organs of power. In this scenario, resource productivity shall be adjusted to a higher environmental sustainability, although that may hamper the two-digits growth rates China has experienced this far, so Zhu believes this pattern to be unfit for China's current situation. Conversely, the third one (or Pattern C) sees an improved resource productivity followed by an increasing environmental pressure, thus allowing the country to meet the targets set by its planners and make environmental conditions better at the same time. This solution would also encompass the modernization of China's coastal regions and a consequent development of eco-friendly industrial parks and infrastructure that would contribute to enhanced life quality standards.

Afterwards, the scholar decisively argues in favor of the 3R concept to tackle the issue of waste and pollution, that is to increase recycling, reusing of certain materials and components and reducing consumption by means of alternative materials or renewable energy sources. Especially recycling of certain waste should be an impending issue in today's China. At the same time, Zhu advocates for the establishment of ecological industrial parks and recycling islands which should get governmental funding and protection. As a result, the government, be it the central party organs or local actors, should play a crucial role in pushing towards a more sustainable circular economic system by drafting

an economic law regarding this topic, leading policies enhancing green economy experiments and initiatives as well as setting new targets for the development of the country in this direction.

In the end, the People's Republic of China passed the first Cleaner Production Law in 2002. Then, following enthusiastic debate among scientists, businesspeople and policy-makers, China finally promulgated a CE law in 2008, even though it was primarily intended as a form of economic legislation (Geng et al., 2012). In the main corpus of the legislation, the concept of CR as a "closed-loop of material flows in the company" along with its literary antecedents is introduced. One of the main objectives of the law is to make firms' activities ecology-friendly by reconverting output into input for new operations. Finally, the law puts forth an elaborate evaluation index for the cooperation between state-sponsored entities, namely the MEP, the National Development and Reform Commission and the National Bureau of Statistics. In contrast to the later Chinese law, Germany was the first country to implement such legislative measures for sustainable development and environmental conservation in 1996, rather than for forming new guidelines on economic development, closely followed by Japan. The two economic powerhouses aimed at developing a recycling-based system that would reduce the immediate and external effects of waste and pollution considerably.

Shortly after devising the twelfth five-year-plan in 2011, China's leadership explicitly pointed out its support for the conversion of the national economy into a more green, sustainable one, whose main tenets correspond to the ones of the circular economy. A great emphasis is thus put on means of attaining these goals such as the 3R principles (recycle, reuse, reduce) or the push for an improved fuel economy. These measures seem to fit China's case perfectly, as its further growth is deeply undermined by resource depletion and environmental concerns. In doing so, China should have devised a strategy in three main dimensions (Su et al., 2013). First, the micro level, comprehending the single producers from the most disparate sectors, has seen recent improvements, although many analysts argue that is hardly enough for the time being, mostly due to lack of awareness, technological barriers and poor incentives to comply with the eco-friendly line. Second, the meso level pertains eco-industrial parks and eco-agricultural systems, that is economic conglomerates functioning through a synergy of its main actors and a subsequent symbiosis with their surroundings. With the right enforcement of eco-friendly policies, these conglomerates may well build up the backbone of China's future eco-cities. Finally, the macro level entails the administrative entities such as cities and provinces where the meso and micro levels are embedded. This level must provide the other two with the right resources and even audit them upon the enforcement of adequate policies and the 3R principles. Each of these three levels carries out its activities in the production, consumption, waste management areas and other support. The symbiosis between the macro level and the remainder

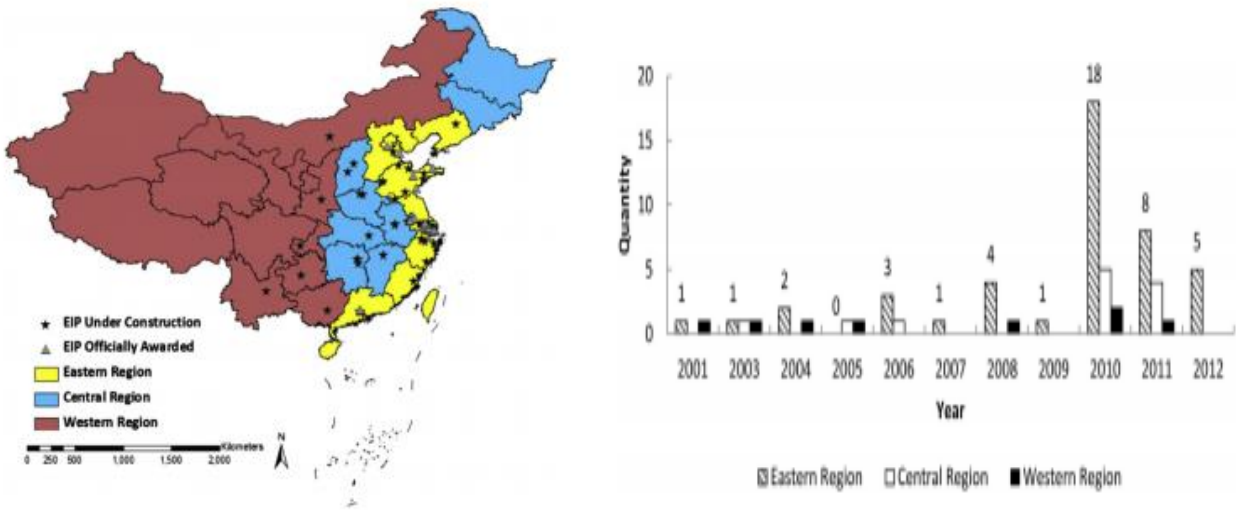
would be the optimal state to attain as an economic unit, even though this view might be a bit too optimistic or far-fetched onto a remote future. Already at this stage, many Chinese scholars have pointed at the necessity to integrate foreign knowledge in the new CE concept for China.

EIPs represent the most suitable place where to implement CE in practice. The first pilot projects started in 2001. Since then, over 60 parks are scattered all over the national territory (Zhang et al., 2010). Conveniently, a group of Chinese authors offer a short summary of the history and processes of the renowned EIP phenomenon in the People's Republic of China based on a 2014 article. Overall, the group of Chinese authors succeed in conveying their main message in a succinct, yet enticing manner (Bai et al., 2014). This piece of writing's main objective resides in shedding a light on the initial origin and then confirmed success of eco-industrial parks throughout China's national territory, with a subsequent analysis of their distribution in sundry Chinese provinces as well as their subdivision by business sector. Along with the main tenets of the paper, China's experience with EIPs ought to be considered the most interesting case among all countries, mostly due to its immense geography and economic prowess, which has eventually led to controversial developments in the economic and environmental spheres, as well as its recent focus on CE policies. After stating the first projects concerning parks have been launched in 2001, they go on pointing out the National Demonstration Eco-Industrial Parks as the most relevant program in China nowadays, with well over 60 parks included within its jurisdiction as of 2012.

Even though many private actors have contributed to and gained from the foundation of such EIPs, one of their main features is the strong government support, which also resulted in the clear concoction of a set of performance indicators and regulations. To analyze and compare the significance of EIPs in Chinese society, the authors have collected comprehensive data from 33 parks scattered across the country and processed them by statistical analysis along a handful of general performance indicators, such as the total energy consumption intensity, fresh water consumption intensity, emission and waste generation intensity, etc. Before even getting into data collection and analysis, they concisely hint at the development process of EIPs, which mixes up private economic interests with ecological governance concerns. Indeed, the first EIPs in the early 2000s were largely regarded as pilot projects under the supervision of the National Development and Reform Commission. Shortly thereafter, the so-called National Demonstration Industrial Parks were launched by the Ministry of Environmental Protection, later aided by the Ministry of Science and Technology and the Ministry of Commerce. The first of such parks was instituted in 2001 in Guangxi.

Today, National Demonstration Industrial Parks represent the majority of ecological industrial parks nationwide. After an exploration stage between 2001 and 2006, this kind of EIP boomed both

at the state and province levels, coming to its height in 2012, when over 60 parks were counted. However, the Ministry of Environmental Protection has issued a generic document of application for industrial parks wishing to be labelled as “ecological” due to the complex structure of technology, infrastructure and green production, indicating bureaucracy revolving around eco-industrial parks has increased because of its relevance within the discourse on national CE (Zhu et al., 2014). The application process reportedly entails two subsequent stages of development so far, which can be passed only upon successful inspection by experts. Finally, ongoing management of such parks should be carried out accordingly. As specified above, performance indicators are vastly technical in nature. The government has subdivided China into three macro-regions for the purpose of measuring regional development: East, Center and West. As expected, the richer and more densely populated eastern provinces, such as Jiangsu, comprised the most parks on their territories, with Jiangsu, Shandong, Zhejiang and Shanghai having 54,69% of the national total (Bai et al., 2014). The western part of China showed more modest developments. Even most parks under construction are located in the East. Over 80% of parks are sector-integrated, whereas heavy industry, electronics, automobile and equipment manufacturing make for the majority of business sectors; a figure, which is evenly distributed through the three economic regions.



Bai et al. (2014)

All in all, per capita value added of industrial and general economic development was unmistakably higher in the East than in the West, which largely explained the success of eco-industrial parks in those provinces, maybe also because of the concentration of high-tech parks, major

universities and labor force in these regions. The difference of energy consumption among the three regions was not significant, whereas water utilization and waste generation were higher in the East, maybe also due to higher output. Western parks also performed well in terms of green production (Bai et al., 2014). All in all, even though eco-industrial parks in China have mostly contributed to the increase of wealth, there still exist regional imbalance and mismanagement, which can be altered by new structures and policy instruments.

The topic of industrial symbiosis coupled with CE and sustainability, which is of vital importance to the political and social debate of modern China, can be further exemplified by the analytical breakdown of a concrete case. We can refer to the EIP known as REDA, which stands for Rizhao Economic and Technology Development Area, located in Shandong Province. First of all, the strategic importance of REDA among other EIPs is quite high, since it is located at the crossroads between Beijing, Shanghai and the Yellow Sea facing Korea and Japan. Its surface has more than doubled within twelve years, whereas its industrial output value has multiplied more than tenfold between 1994 and 2011, even though one should bear in mind the Chinese currency has undergone a drastic cycle of depreciation and reestablishment in that period which makes this claim rather vague. Today, many prominent Chinese companies work close to each other in REDA, with industries as different as the production of cement, lubricant oil, biological pharmaceuticals, machinery, pulp and paper, cereal oil and food as well as the refinery and brewing of wine and beer (Yu et al., 2014). Analysts identify 3 stages of industrial symbiosis 1991, 2003 and 2007 with over 31 practices thereof. That meant some application companies acquired byproducts from source companies and used those as substitutes for their own products, minimizing costs and maximizing ROIs as well as the environmental score of the park itself. The inventory utilized for the data collection from REDA included byproduct output from source companies and inter-firm flows. The data were gathered through questionnaires and survey aimed at 80 enterprises, of which 65 responded, indicating a more than optimal return rate (Yu et al., 2014). As already mentioned, experts found astonishing evidence of multiple practices of industrial symbiosis along the three phases of REDA expansion, culminating in the sharing of infrastructure and increased energy co-generation, listing a set of quantitative data pointing at the increased efficiency of the REDA eco-industrial park.

Aside from actual EIPs, the Chinese government's main intention was to run experiments in large urban conglomerate in order to transform them into eco-cities, even though such an ambitious project would take years and billions in research on new technologies. Dalian, situated in North-Eastern China, has been one of the first major Chinese cities to implement green regulations in respect to production and waste management, contributing to a strong increase in the quality of life (Shin, 2004). In 2016, five Chinese scholars published a paper containing results on the ecological development of

Suzhou, a historical city situated next to the hub of Shanghai (Fei et al., 2016). Their paper focuses on the ubiquitous influence of informal recycling systems in developing countries such as China, as well as government efforts to integrate them into official, regulated practices. As the Chinese authors contend, domestic recyclable resources, which make for the recyclable portion of solid waste, represent a consistent amount of municipal solid waste generated every year in major Chinese cities. Recycling of waste such as plastic, paper or metal components has got to be a conspicuous and profitable sector within Chinese economy, bringing forth a handful of opportunities as well as a string of concrete dangers, such as the environmental pollution that stroke the country from the 1990s and ongoing.

However, while recycling in developed countries is managed by the state, this activity is yet to be regulated in China and other developing countries. This has brought the sector to be unevenly split between official institutions and informal channels made up of waste pickers, scavengers and sweatshops improvised to work as processing and recycling plants. This underworld sector has defined the economy of wide geographical areas of the country, such as the plastic waste recycling installations in Wenan, as specified later, and the dumpsite and recycling borough of Dongxiakou in Beijing (Tong & Tao, 2016). In the paper, it is explained that recycling of municipal solid waste was successfully organized in the 1950s with the installation of numerous plants in major cities. This system was well-adjusted to the exigencies of a plan economy, but things turned bleak with the rise of GDP and the resulting consumerism. Despite countrywide programs and policies put forth during the last 20 years, waste management and recycling remains one of the biggest challenges to China's economic miracle. In this context, choosing the city of Suzhou for a pilot project was a perfect decision of the Chinese government. Suzhou is a fairly developed city located next to Shanghai with a vibrating economy and a large amount of waste. The city administration has established 49 recycling sites and 4 processing centers in the last years (Fei et al., 2016). While describing their research methodology, the authors define the business cycle of household garbage recycling, comprehending scavengers, recycling sites, processing centers and reuse factories (the last ones mostly under government control). Their case study aims at discovering what factors affect the informal sector and how that can be instrumental for a possible integration in the official recycling channels as well as some crucial data about recycling rates in Suzhou. In order to do so, the researchers have carried out questionnaire surveys and face to face interviews with people working at every step of the value chain. The methodology for the data elaboration abides by the tenets of the "Pressure-State-Response" model, whereas "Pressure" indicators refer to the elements which impact on the recycling od domestic recyclable resources such as demography, economic, social and market factors; "State" indicators, on the other hand, represent the factors influencing the system at the current time of writing; finally,

"Response" indicators attempt to point out some policy suggestions for the integration mentioned above.

Upon data analysis, the authors find out that, from the demographic point of view, most informal waste pickers and scavengers have little professional knowledge or legal awareness of their sectors, often due to their poor education. Moreover, they see prices as the most relevant decision factor for their activities and value family or long-standing relationships the most, often bypassing official channels, as it is often the case in China or other countries where power distance id perceived as being very high. Finally, important market factors detected were the information flow, again preferring familiar relationships, market competition and density in a geographic area. Additionally, the surveys and field data produce reliable insights about the information and cash flows moving across sundry groups of actors. In sum, it is disclosed that over 60% of the flow amounts in the processes of collection and separation as well as the processing centers belong to the informal sector, while official installations make for almost the entirety of re-use plants. According to the paper, the interaction of informal and formal waste recycling activities generated 137 million yuan renminbi per year as of 2013. At the end, the authors give some advice on how to improve the conditions of the informal sector and perhaps even its further integration within official channels. On one hand, they suggest government agencies may offer professional training to informal waste pickers and recyclers as well as set up information centers throughout the urban area. On the other hand, they hold the state should promote the formal sector by bestowing incentives and price advantages, thus trying to bring more informal recycling centers on its side. Finally, the state should also consider carefully where to set up new recycling centers in order to avoid a scattered distribution of informal plants. The results of this study are up-to-date and apt at reflecting the situation of Suzhou.

All in all, this research has a high informational potential since it is backed by field data related to one of China´s major cities and so delivers many useful insights on the matter of waste recycling and the informal economy. The last relevant contribution to this paper concerning waste management and EIPs in China is given by an article by the American scholar Joshua Goldstein, discussing the inception, ascent and final collapse of Hebei's plastic scrap recycling sweatshops centered around Wenan County, in Northern China (Goldstein, 2017). All in all, Wenan, which was known as "North China's Waste Recycling Capital" until its demise, represents a perfect example of Chinese unheeded capitalism and stalwart striving for economic growth at all costs. To sum up, the story of Wenan stretches across almost three decades, starting during the time of economic reforms in the 1980s to the government-led dismantling occurred in 2011. The author chooses a fresh and edge-cutting style of writing while coupling official facts and figures with his own experience in the field during the 2000s. His aim is to point out how an informal economic underworld has generated an extremely high

turnover in a resource and labor-intensive sector such as plastic hoarding and recycling at the expense of the surrounding environment. Moreover, the tragic epilogue of Wenan reveals the ironic truth of policy ineffectiveness, which is endemic to some Chinese provinces and often represents an impediment to foreign firms' market entry, among others (Niu et al., 2012).

The paper itself starts off as some kind of newspaper article. Indeed, the author mentions the 2011 crackdown on Wenan's informal recycling activities by local authorities under the direction of party secretary Li Keliang in great detail and how this together with a reprisal in 2012 have uprooted such activities almost entirely. In this section, the reader is offered a comprehensive outlook of Wenan's capacity and business volume. Situated equidistantly between Beijing and the harbor city of Tianjin, it is estimated that at the time of the 2011 shutdown, Wenan County's plastic recycling industry was likely to be worth between 0.7 to 1.5 billion US $, handling 1.3 to 2.5 million tons of waste plastic yearly (Minter, 2013), attracting materials from many countries other than China. Afterwards, it elucidates how the County came to be plastic byproducts' recycling regional hub starting in the late 1980s, when local peasants decided to take advantage of the newly introduced economic freedoms and started hoarding plastic waste coming from Beijing in order to seek for possible sale or reuse. Through the early 1990s, wide areas of Wenan around the Xiaobai river developed into a concentrated conglomerate of small, independent recycling companies, where many if not all processes of plastic reworking took place via rudimentary means. The activities of such small businesses were not de facto illegal, even though they were regarded as informal by the local authorities. Anyway, almost none of these used to be registered or paid any taxes, nor used to follow safety and environmental protection standards (which, nevertheless, became important only later on in the process of Chinese economic modernization). The government had known of the rural County's revenues for years and willingly chose to turn a blind eye on them till the early 2000s, when the first string of stricter regulations came into force and sporadic shutdowns in the County occurred. However, they turned out to be irrelevant, as local business not only did not stop, it also increased fourfold in volume over the next years, expanding its range and scope. As most of plastic byproducts arrived to be processed straight from the source without any pompous paperwork or just a receipt, the majority of local businesses never saw the incentive to get registered and abide by the laws because of the possible losses incurred due to the value added tax.

Another chapter is devoted to the downsides of such developments. Even though the County inhabitants' livelihood apparently improved thanks to incessant demand, the result of such hazardous practices took the toll on the local environment and on the health of the people themselves. Since almost no sweatshop had regular waste disposal machinery, processing byproducts and wastewater were regularly dumped in the soil or in nearby streams, thus affecting crops and the local waterways,

including the Xiaobai river, which is severely polluted to this day. The state intervened when it was already too late. Trying to impose costly regulations on the often unaware peasants only proved to be fruitless on more than one occasion (Goldstein, 2006). Today, many residents suffer from enlarged livers and lung problems due to contaminated water or inhalation of toxic particles. As increased control failed, the state tried to organize local businesses into an Environmental Protection Industry Park that would have been known as Dongdu. The park was modelled after the nearby Ziya park, which was specialized in copper production and had undergone a similar course of events. However, high relocating costs and mismanagement only made it possible for a handful of recycling companies to move to Dongdu. Finally, in 2011 the area of Wenan was the theatre of an extensive crackdown on plastic waste recycling activities that seemingly put an end to the history of "North China's Plastic Waste Recycling Capital". However, in the end the author argues the crackdown has naively brought about the dispersion of formerly concentrated illicit activities across a wider geographic scope, and that only an appropriate fit between good policy-making and civic sense may prevail against corruption and illegality (Steinhardt & Wu, 2015).

From the last article, it can be concluded to what extent Chinese governance entities are eager to bring together production and waste management operations in EIPs in order to have better control and combat illegal practices, which have massively contributed to pollution over the last years. As such, many foreign firms have seen the spread of EIPs as the perfect chance to enter the Chinese market while aligning their activities with the interests of the Chinese government, whose often protectionist regulations in turn have been an impediment to foreign market entry. Thus, EIPs have created new opportunities for ambitious and farsighted players.

4. Foreign market entry to Chinese EIPs: two examples and implications

This last section will be devoted to actual examples of entry mode of foreign players into Chinese EIPs through strategic alliances. Entering a foreign market can be a daunting endeavor to any firm, regardless of its financial prowess. The institution of EIPs entails a set of advantages and drawbacks at the same time. While the promotion of activities operated in EIPs represents a great incentive for firms willing to contribute to the development of the host country, the austere government control and auditing structure of businesses therein can bring about risks that would not be contemplated in other contexts (Thierot & Sawyer, 2015). I have prepared the ground for this analysis with the previous two sections. Indeed, while the second chapter has served the purpose of laying out the theoretical foundations for this section, the third one has to be regarded as a meticulous description of the background foreign players have to cope with.

As a matter of fact, various elements of the last segment are among the first steps to conduct an appropriate PEST analysis. From a political point of view, the People's Republic of China is a stable country where risk of coups and unbridled turmoil is rather low. However, from a legal standpoint, the Chinese state is also famous to favor domestic firms and pass protectionist laws, hindering market entry of foreign entities outside determined areas such as SEZ and EIPs (Jindal, 2006). Moreover, severe scrutiny, fines and even expropriations at the expense of foreign players have not been unheard of. Culturally, China is a very distinct country with hardly accessible language patterns and business practices, such as the famed concept of *guanxi*, defined as the system of social networks and influential relationships which facilitate business and other dealings (Gao et al., 2012), thus prompting necessity for cultural mediation within ventures. However, the economic and technological advantages to gain from market entry in China are simply too sizable for global players to ignore. Therefore, one may conclude that entering China is a hazardous, yet fruitful decision.

What follows in the ensuing pages is based on the international experience of two large European players that have entered the Chinese market through JV with Chinese players in local EIPs. First, I will examine the formation of Shanghai Volkswagen and the Dongfeng Peugeot-Citroën Automobile Co. Ltd. from their inception in Shanghai and Hubei, respectively, to the establishment of a joint division in a Sichuanese EIP. In the second place, we will discuss the fairly recent inauguration of the Metal Eco-City in Jieyang by the Sino-German JV Metal Group Co. Ltd., which originated out of a prior waste management project. Both cases will be described according to official sources available as well as evaluated from a theoretical point of view. For this purpose, I will resort to a set of experimented hypotheses elaborated by a team of Asian scholars for the analysis of internationalization and entry mode choice of foreign firms in transitional economies (Kaynak et al., 2007).

4.1. Shanghai Volkswagen and Dongfeng Peugeot-Citroën: cases from the automotive industry

The first steps taken by a foreign car manufacturer in China were taken by the American Motors Corporation, now part of Fiat-Chrysler, in 1983, as it formed a JV with Beijing Jeep Corporation. The JV agreement envisaged that the experienced American car-maker would produce big engines cars for 20 years in the Chinese capital city. This first international alliance in the car-making industry was followed one year later by Germany´s Volkswagen and France´s Peugeot, which signed 25-year agreements with Chinese manufacturers to assemble passenger vehicles in Shanghai and Guangzhou, respectively. These early experiments entailed limited freedoms for the foreign side, even though that also implied the local firms were not able to access the technology of their partners (Fenwick, 1985).

In terms of business strategy, entering the Chinese market in the 1980s and 1990s represented many opportunities. After the transition to market economy, Chinese private consumption soared tremendously with increasing disposable income, tallying 1,762 billion $ in 2009, making China the world's fourth largest consumer market after the United States, Japan and Germany (Marianera, 2010). In consonance with the decay of communist principles, new values such as financial success and entrepreneurship rose to prominence within Chinese society. As a result, Chinese urban populace sought out to achieve material wealth following Western examples, often distorted by popular culture (Tian & Dong, 2010). Therefore, possessing a car quickly became a sign of increased wealth for family units and single individuals alike, as it had been in the West after World War II. Car ownership has grown by 22.48% annually at the national level from the early 1990s to 2005. In 1985, only 285,000 cars were privately owned in China. By 2006, this number had reached 18.5 million. This unique growth of private car ownership is still ongoing at even faster rates (Li et al., 2010). By July of 2018, China´s Traffic Administration Bureau of the Ministry of Public Security estimated the number of private cars in the country to be at roughly 229 million, second only to the USA (Data from China Automotive Review, 23/07/2018).

Due to the opportunities posed by this enormous and demanding consumer market, the People´s Republic of China has been the world´s largest by automobile production since 2008 (Chin, 2010). Indeed, Chin stated that, according to official state-provided figures, the yearly car production in the Far Eastern giant had overtaken those of the USA, Japan and Western Europe combined. However, the Chinese automobile industry has long been characterized by an ambiguous synergy between local labor and foreign technology. The country´s automotive industry was traditionally dominated by four domestic conglomerates known as the "Big Four": SAIC Motor, Dongfeng, FAW and Chang´an. These coexist with a plethora of smaller entities catering to local niches. The four large manufacturers actually started their operations at the daybreak of motor vehicles in Asia. However, the takeover of the Communist Party widely limited production to agricultural machines and a few models of private cars, also owing to poor purchasing power and demand throughout the 1950s and 1960s. Therefore, once they had to reconvert their activities for a market economy in the 1980s, the "Big Four" suffered from a deep technology gap of their automobiles compared to those of foreign manufacturers, including the Japanese and the newly rising South Korean ones (Vv. Aa., University of Applied Sciences, 2012). Just as it has then happened for many other sectors, prominent corporations belonging to the Chinese automotive industry sought to allure foreign players to form JV on Chinese soil.

As briefly mentioned above, one of the early noteworthy examples of JV in China is represented by Shanghai Volkswagen, initiated by China´s state-owned SAIC (Shanghai Automotive Industrial

Company) and Germany´s Volkswagen in 1984. The latter wished to enter the Chinese market along the example of its American competitors to expand its business scope while curtailing production costs (Holweg & Luo, 2009). Even though cheap labor and an immense population seem to be the major factors for the choice to tackle the Chinese market, many analysts have suggested the German decision-makers also aimed at accessing raw materials such as rare earth metals, of which China is the world´s largest producer (He, 2014). Indeed, these are employed in the production of countless car metal components. Furthermore, foreign investors broadly took advantage from lower energy costs due to China´s monumental state-driven efforts to bring about energy efficiency through countless pilot projects with both hydroelectric and renewable energy. In turn, this spurred economic growth and stimulated investment in the country. This trend goes on to this day in many Chinese provinces. Up to the early 2000s, the German-Chinese JV saw increasing revenues. As expected of a transition economy, the new middle class made up the backbone of Chinese demand for family vehicles and even luxury cars. Many deem the success of Shanghai Volkswagen to be the result of the amalgamation of the two parent firms´ unique competitive advantages. On one hand, SAIC had already been present on Chinese territory for decades, thus having a thick network of distributors as well as deep connections with the government, therefore resolving the issue of "*guanxi*" and relieving the JV of the "liability of foreignness". On the other hand, Volkswagen has been around long before the automotive industry was even a thing in China, assuring its reputation as a prominent German car manufacturer worldwide, partly thanks to the competent stereotypes associated with its country of origin (Fiske et al., 2002). Even more importantly, Volkswagen displayed unique comparative advantages in technology and design compared to its partner firm. Therefore, the JV exploited both SAIC´s network and local presence as well as Volkswagen´s knowledge. This led to a long-lasting success enduring to this day. The first agreement was supposed to last 25 years. However, the two forming parties renewed it in 2009 and then again in 2014. The new deal envisions another 25 years of partnership, foreboding a stable future for the JV. While China is long regarded as the largest automobile market in the world, the Shanghai Volkswagen JV is the leading automotive conglomerate in the country. All in all, the venture has revealed to be a great success for its initiators. Although the original contract requiring that Volkswagen owns no more that 50% stake in the JV still lingers on, market volume of the popular German brand´s vehicles in the global market has developed by 16% thanks to the formation of the JV, whereas Chinese analysts estimate the sales of SAIC automobiles in its own domestic market have more than doubled since the merger (Official Company Data, 2018). It is speculated that the JV manufactures roughly 800.000 vehicles under the Volkswagen and Škoda brands every year; in 2015, it delivered 3.55 million vehicles to customers in China (Data from Shanghai Group China website, 2018).

The relevant instance from the automotive industry I are going to handle further is the particular venture initiated by French automobile manufacturers and Dongfeng Motor Corporation. The latter was founded in the late 1960s and based in Wuhan, then it quickly rose to prominence after Deng's liberalization reforms and was counted among the "Big Four" in the 1980s. Just as SAIC some years before, Dongfeng' s decision-makers realized the potential advantages of forming JV with more experienced foreign players. The first and probably most important venture was launched in 1992 in its hometown of Wuhan together with the renowned French group PSA Peugeot Citroën, which was also interested in an Asian expansion envisioning further mergers and acquisitions in India and ASEAN countries (Andreosso-O'Callaghan & Qian, 1999). PSA had already tried entering the Chinese market in the 1980s by teaming up with the province government of Guangdong and establishing the Guangzhou Peugeot Automobile Company in 1985. This venture, however, was not renewed with contractual means after 1997. Conversely, the new venture with Dongfeng lasted longer and was ultimately called Dongfeng Peugeot-Citroën Automobile (DPCA), pinpointing the foreignness of the French partners that would have exploited their reputation to carve up large market shares in China. Since the early 1990s, the JV has been manufacturing Peugeot and Citroën cars for the Chinese market, often customizing special vehicle models for the needs of local consumers. Just as in the case of Shanghai Volkswagen, the French conglomerate offers its global reputation as well as its technical expertise, while Dongfeng has provided its distribution network as well as the physical production centers to the JV. Moreover, huge efforts have been made by the Chinese partner to carry out market research in the most disparate provinces of the immense country, collecting valuable insights into the needs of the modern Chinese consumer that would vastly contribute to the enduring success of the JV to this day. In fact, vehicles manufactured by DPCA for private consumption are so appreciated by the Chinese public, that its Citroën brand has received one among the highest scores marks in a 2014 customer satisfaction survey conducted in the Asia-Pacific region (Data from Automotive News, 2014). One may infer that reaching out to several cohorts of the Chinese population would have been a very costly endeavor for the PSA group, had it not been for the JV with its Chinese partner. Due to this successful story, Dongfeng signed agreements with other foreign players such as Korea's Kia and Japan's Honda as well as Nissan. Nowadays, it has formed more Sino-foreign JV than any other Chinese automobile manufacturer (Data from "The Economist", September 2018).

However, the most important point for the paper regards the JV's decision to be one of the major forces propelling the construction of one major EIP in Sichuan, in South-Western China. By 2014, the gradual creation of cooperative industrial parks established by Chinese and foreign players in Chengdu attracted the attention of global players and local government officials, alike. As a result,

high-ranking Chinese politicians recommended consolidating political approval of and financial support for the Sichuan-based Sino-Korean Innovation Park into the draft of China's 13th Five-Year Plan ranging from 2016 to 2020 (Li & Peng, 2016). In turn, this would trigger the participation of other countries' players in the inception of new industrial parks. The proposal was highly successful as it was in consonance with the priorities set by Premier Li Keqiang centering on the development of the country's inland provinces through incentives for overseas investment in the region, with a special focus on the establishment of industrial clusters. According to official sources, the current Five-Year Plan entails five main points:

1. Innovation and high technology
2. Coordination
3. Inclusive growth
4. Openness
5. Green Development

The Environmental Agenda appears to be the backbone of the current policies. Indeed, 10 out of 25 numerical targets in the 13th Five-Year Plan are linked to the environment. Therein, energy efficiency advocates vow to cap energy utilization at 5 billion tons of standard coal by 2020, consequently increasing the share of renewables in the energy mix to 15%, above the 11.4% target of 2015 (Meidan, 2016). Likewise, each of the 31 provincial governments pledges to reduce water and air pollution. Finally, the government is committed to support the implementation of such policies financially in order to achieve these goals, provided that they coincide with the industrial blueprint to advance renewable energy and green technology. In this context, one can easily identify fertile ground for the expansion of EIPs.

Following the example of Korean tech start-ups near Chengdu, players from other countries entered China's South-West through EIPs. As a result, Sichuan became home to the Sino-German Small and Medium-sized Enterprise Cooperation Park and the Sino-French Ecological Park. The latter arose out of a national-level project financed jointly by the two countries. Upon its inauguration in September 2014, it covered a preliminary planning area of 8.6 square miles. DPCA chose to locate its fourth cooperative manufacturing plant in this ecological park by allocating 12.3 billion yuan, roughly corresponding to 1.5 billion euros. It was conceived for the production of cars for the Peugeot and Citroën as well as Dongfeng's brands. This new plant would have a planned annual capacity of 360,000 vehicles. According to DPCA's current chairman, Zhu Yangfeng: "*The operation of the Chengdu plant marks a solid step for the development of DPCA and Dongfeng Motor in western China. Chengdu is the gateway for the company to implement its westward growth strategy*" (Zhuan,

2017). Doing so, the JV has sought to stimulate the growth of the automotive industry within the EIP, looking for a suitable trade-off between the production of high-end passenger vehicles and the creation of industrial synergy among the park actors leading to energy saving and environmental protection. As a matter of fact, DPCA is overseeing its own operations in addition to those of other Chinese and French players for cooperation in the fields of new-energy vehicles and smart cars. In the fashion of EIPs, industrial synergy and waste recycling along the lines of CE are among the key factors of the production process within the Sino-French Ecological Park.

Furthermore, DPCA has already outlined sketches for future plans envisioning the planting of trees as well as the construction of an ecological belt meant to surround the EIP. In order to promote the use of clean energy and sustainable production, the players in the EIP strive to run energy-efficient machinery and green technology, also thanks to a stormwater and a greenway system. As a result, the Sino-French EIP has been also referred to as Sichuan's green smart city (Cheng, 2016). The international approach of this park has subsequently enticed other carmakers such as the other French big player Renault, FAW, Volkswagen, Geely, Toyota and Volvo to collaborate with ventures based in EIPs in and around Chengdu. Finally, DPCA is also supporting cultural exchanges between France and China. Along with education programs fostering research on green technology, a range of projects in the domains of culture, art, creative design, culinary and tourism are being gradually put into effect. All in all, both Chinese and Western analysts have conceded the Sino-French cooperation in DPCA's EIP has paved the way to establish Chengdu as China's new industrial hub specialized in green production. In a more concrete manner, the Sino-French Ecological Park pioneered the founding of a joint project between the French region of Champagne-Ardenne and Sichuan province. This is the result of extended negotiation between Sichuanese and French political officials, many of them invited to terms by DPCA executives. The Sino-French Agricultural Science and Technology Park was inaugurated at Meishan in July 2018 with an astounding invested capital of 300 billion yuan renminbi (Li, 2018). The park focuses on architecture, smart urban planning and energy efficiency. Therefore, one can see to what extent France's PSA Group has entered South-Western China and gradually collaborated with local political forces to pursue its own interests.

4.2. The case of the ZhongDe Metal Group

The second entity I would like to take as instance of a successful JV in the Chinese market is ZhongDe Metal Group. Though very recent and therefore remarkably less documented than DCPA, this venture has been of big interest to many authors lately. Just as for the automotive sector, the siderurgical industry has been one of the cornerstones of the Chinese economic miracle, with

ironworks popping up by the hundreds throughout the country. Today, China is the world's leading steel manufacturer. In fact, by 2011 China was already producing 45% of the world's steel, amounting to approximately 683 million tons, increasing by 9% from 2010. Moreover, half of the largest steel producers in the world are from China (Der Heiden & Taube, 2011). As a result, China has been the world's top steel exporter since 2008, with millions of people employed in the sector (World Steel Association Data, 2018). On the downside, metallurgic activities bring about a wide range of polluting processes, thus adding up to already existing environmental issues. Subsequent attempts to concentrate metal-making operations in cleaner industrial conglomerates have brought several players to relocate to EIPs. This phenomenon quickly led to the construction of a proper eco-city.

The conception idea for the Sino-German group arose in mid-2012 out of the intention of the Guangdong-based Metal Enterprises Union of Jieyang to build up a new EIP in Southern China. After a short round of negotiations, the Chinese group signed a strategic cooperation agreement with the German RBSK GmbH in February 2013. On its accord, the German player was looking for a Chinese partner to launch operations in China and expand its market scope. The original Sino-German Metal Eco City was established in Jieyang in the form of a joint Sino-German EIP and the new JV changed its name to ZhongDe Metal Group Company shortly thereafter. Subsequently, the new venture opened representative offices in China and Germany with plans to approach other European steelmakers and offer them stakes in the Jieyang EIP. In early 2018, ZhongDe opened a representative office in Vienna, Austria. Soon after the formation of the JV in 2013, its board of directors quickly engaged in bilateral agreements with both the German and Chinese governments. This clever move guaranteed political support and even subsidies in China as well as Europe. Already one month after the inception of the JV, Guangdong provincial officials visited Jieyang and expressed their formal approval of the joint plans for the construction of a new EIP. Shortly afterwards, as more and more regional players active in recycling and development of green technologies became interested in the project, the regional government endorsed the project to the point of straightforwardly requiring speeding up both the completion and the promotion of the new park. At the same time, the German embassy in Beijing promptly moved to enhance its ties with Chinese officials based in Jieyang to guarantee for RBSK and the involvement of further German steelmakers in the JV (ZhongDe Metal Group Data, 2018). Throughout 2013, multiple Chinese delegations visited Germany. At last, the signing ceremony for the opening of the Sino-German Metal Eco City was solemnly held in November 2013 in Guangzhou. In that respect, the internationalizing side of the JV had to put up with prominent local interest groups from the economic as well as political spheres. In the following years, important political figures such as the governor of Guangdong as well as the mayor of Berlin visited the park and expressed their appreciation for the achievements of the recently established enterprise in developing cleaner

production and implementing CE practices, not to talk of several education programs launched in universities and technical schools. Over 2014 and 2015, the park greatly accrued its surface and its capital strength, enticing more and more German players to set up shop under the aegis of the ZhongDe JV.

Like DPCA, ZhongDe has been able to thrive thanks to a clever combination of local knowledge and political connections together with foreign technical prowess and purported mastery of green production, which is so precious to China's policymakers at present. Therefore, RBSK GmbH and its German partners were highly successful in establishing a partnership with local players and, even more broadly, local politicians. Doing so, they have secured a stable and lasting presence in the Chinese market with all the perks of running production and the marketing in the largest steel-exporting country in the world. On their accord, Chinese ironworks of Jieyang have remarkably increased their bargaining power with the local government and also gained the sympathy of the population owing to the positive impact employment, investment in research and development and the conversion of former polluting operations into cleaner ones has had on the wealth as well as the air and water quality of the province. In fact, one of the pillars of the JV is its promotion of CSR (corporate social responsibility). This is also confirmed by a handful of academic initiatives launched by the JV such as the enduring cooperation between Jieyang-based education foundations and the Darmstadt Technical University in the fields of water supply and pollution discharge.

After all, one should not neglect the fact that the ZhongDe Metal Group has not founded a mere EIP, but rather a proper eco-city. This has been defined by NGOs as "*a human settlement modeled on the self-sustaining resilient structure and function of natural ecosystems*" (Definition of Ecocity Builders Group). In the Guangdong-based Sino-German Metal Eco City, almost 100.000 people work in approximately 700 entities and live together on a surface of 25 square kilometers that accounts for 21 billion € worth of investment in not only steelmaking plants, but also infrastructure and residential areas (Metal Eco City Data, 2018). As a result, the Metal Eco City could be rightfully regarded as a metropolis within a metropolis, de facto embodying all of the main characteristics that are typically attributed to the eco cities China wishes to turn its main urban conglomerates into until 2049. As a result, the main merit of RBSK GmbH and other German entrants for the gist of this paper has not been providing advanced knowledge of steelmaking techniques, but rather spotting the needs of the country they wanted to approach and posing as reliable partners for satisfying them in the long run.

4.3. Testing of hypotheses

From a theoretical point of view in regards to ownership and control, I wish to focus on the choice of the PSA Group and RBSK GmbH to enter China through a JV rather than a WOS. For instance, it is well-known that the French multinational ranks among the largest and most prosperous players in the automotive branch, achieving France's eights placement in terms of turnover at 73.5 million $ in 2017 (Data from "Fortune Global", 2018). Therefore, size and scarcity of resources would not matter for the establishment of a fully-controlled venture. According to the research model theorized by Kaynak, Demirbag and Tatoglu in 2007, there are a set of hypotheses to take into account to discern the factors determining entry choice into transitional economies characterized by high cultural distance and institutional ambiguity. In their paper, the international team of scholars analyzes the case of foreign companies investing in Mongolia, an Asian country infinitely smaller than China in both area and population. However, both nations have undergone a difficult transition from a planned to a market economy and represent non-Western cultures. Gleaning from the transaction cost and the institutional theories, the authors collected a sample of well 1033 firms to verify their theoretical model. All in all, they put forth six main hypotheses. In the case of DPCA and ZhongDe, all but the first hypotheses are met, making this theoretical framework ideal for my paper:

I. Ownership decisions of foreign investors between a WOS and a JV or a lower equity mode vary with respect to the nationality of the foreign investor. In this context, internationalizing firms would prefer lower equity modes in host countries they are familiar with. That would also imply low psychic distance between the global player and the host country and higher probability for a JV to arise. A study dating back to the early 1990s found out that most JV in China came from ethnically related countries, such as Hong Kong and Singapore (Beamish, 1993). On the other hand, Western companies displaying abundant financial capabilities were more likely to set up their own subsidiary. This hypothesis is not met in our case, as the two internationalizing groups have decided to enter China through a JV with equally strong local partners. As we have mentioned in the second chapter, entering JV may easily stir up conflicts between partners. However, it also offers gains in terms of time and resource saving as the local firm is already integrated in its domestic market and offers concrete advantages to its partner firm, just like in the case of DPCA and ZhongDe.

II. The higher the normative distance between home and host country, the more likely that the foreign investor chooses a joint venture or a lower equity mode over a wholly-owned subsidiary. This hypothesis stems from the institutional theory, which defines national environments along the regulatory, cognitive and normative pillars. The

normative dimension typically includes formal institutions as well as values and unwritten norms the autochthonous are encultured with since they are born. Therefore, normative distance refers to the differences in institutions between cultures. According to plenty of case studies, misfit of practices may induce an entering firm to look for a local partner to better tackle potential challenges. In sum, many scholars deem deep regulative normative distances between internationalizing firms and host countries to be the determinant for the choice of lower equity control modes (Xu, Pan & Beamish, 2004). This hypothesis seems to meet the case of DPCA completely. Not only did PSA´s early business dependent on Dongfeng´s connections and knowledge of local institutions in the early stages, but it was also mandatory for many foreign firms to join forces with Chinese players in certain branches. Anyhow, the JV generously rewarded the PSA group, since French executives had delved so much in Chinese policy-making that they were eventually able to influence the founding of an EIP in Sichuan and even contribute to the establishment of a Sino-French transgovernmental project. As for ZhongDe, the very fact the leading political forces of both countries involved were present at the signing agreements represents the extent to which normative distance was crucial for the internationalizing firm to team up with a local player in a JV.

III. The higher the FDI concentration in an industry, the more likely that a foreign investor chooses a WOS over a JV or a lower equity mode. That implies foreign firms would be more likely to establish fully-controlled greenfield operations in an attractive foreign country if there were not many local competitors or a particular sector were not properly developed for whatever reason. This is especially true in resource-rich but less developed countries with scarce capital and unstable institutions, reflecting the so-called "*resource curse*" (Ross, 1999). Therefore, China does not exactly falls into this category of countries. Even though China represents a huge market with a surplus in labor and human capital as a whole, it has not been characterized by unstable institutions and lack of skills to develop certain industries. On the contrary, during the liberalization era local governments undoubtedly struggled to allure foreign firms in order to facilitate know-how transfers, but they also openly sponsored protectionist measures apt at safeguarding the interests of local players and preventing foreigners from dominating any sector. As a result, JV became a popular entry mode for internationalizing firms to tackle the Chinese market. As PSA approached China, the "Big Four" already covered most market shares in their domestic market, thus

validating the hypothesis, or rather its antithesis. Since the ratio of foreign firms to total firms in the Chinese automotive industry is quite low in spite of the massive presence of foreign conglomerates, the assumption that global firms would prefer JV over WOS is met. The forming of DPCA is a perfect example of this phenomenon. As for ZhongDe, the new park immediately attracted local as well as foreign players since its launching. In 2012, a consortium of 700 metal firms from Southern China put together an investment fund of 100 million € (Metal Eco City Data, 2018).

IV. A foreign investor is more likely to choose a JV or a lower equity mode over a WOS when the affiliate is in a resource-intensive industry. As a matter of fact, countless studies have confirmed the tendency of global players to accept the price of coming to terms with local partners to launch a new venture, thus renouncing to full control of their operations if they could gain from access to resources in a particular country (Gomes-Casseres, 1990). Moreover, this complicated step might often be compulsory since in many developing countries access to some industries is intertwined with political interests. In such a situation, a local partner is therefore the only safe way to provide permits and access to resources. In the case of SAIC and Volkswagen, we observed to which extent this partnership has eventually helped the German player to get access to rare earths, which would be very hard to achieve without a Chinese associate. This hypothesis is easily verified in the case of DPCA, too. Not only were the French car-makers able to gain from the size and relevance of the Chinese market alone, but they also accessed completely new niches and resources by entering the Sichuanese EIP in 2014 together with their Chinese partner.

V. A foreign investor is more likely to choose a WOS over a JV or lower equity mode when the subsidiary is located in the developed regions of the host country. Observation of foreign entry in Chinese and other Asian countries revealed foreign investors are more likely to acquire higher equity ownership when the subsidiary is located in metropolitan cities (Pan, 1996). Countless indicators show to what extent both industrial and economic development in China are concentrated in the Eastern coastal provinces revolving around the capital city of Beijing as well as its surroundings, Shanghai and the cities located next to the outlet of the Yangtze river and the southern half of Guangdong province, which directly borders Hong Kong and Macau. Indeed, the far Eastern part of China represents the most populated part of the country by far with over two-thirds of its inhabitants, as well as those regions with immediate sea access, naturally facilitating overseas trade. As already mentioned, the

distribution of EIPs in the country reflects this general pattern. Out of 64 parks in 2014, 44 were located in the East, 12 in the Central region, comprising Hubei, and the remaining 8 were operative in the West; however, none of those reported were to be found in Sichuan (Bai et al., 2014). As a result, this hypothesis is confirmed for the case of DPCA rather than for ZhongDe. Sichuan is a populous province with a vibrant economy, but it is yet to be considered on par with its coastal counterparts, such as Guangdong, where powerful foreign players do often try to establish fully-controlled subsidiaries. Therefore, choosing to team up with a local player to enter an elaborate productive unit such as an EIP in a relatively unexplored market falls in line with the fifth hypothesis of the paper.

VI. A foreign investor is more likely to choose a JV or a lower equity mode over a WOS when the capital size of affiliate is larger. Simply put, setting up any operation abroad may turn out to be a tiresome and costly endeavor requiring substantial resources commitment in the form of capital investment and managerial assets. The higher control the internationalizing firm wishes for its subsidiary, the larger the scale of resources and administrative efforts it has to allocate to the new entity, not to mention the increase of risks to take into account. Potential lack of knowledge of local legal procedures and physical infrastructure adds up to the costs the firm has to bear (Davidson & McFetridge, 1985). Moreover, taking up market entry alone can lead to exorbitant switching costs or even stagnation of further operations (Erramilli & Rao, 1993). It follows that global firms would logically prefer splitting costs and risks with a knowledgeable local partner given that the capital size of the operation might be regarded as barely affordable. Indeed, papers drawing on data from American JV in China provide evidence of foreign firms being more likely to go for a JV rather than higher control modes when the cost for entry is elevated (Shan, 1991). This hypothesis is easily confirmed in both cases taken into analysis. First and most trivial of all, partaking in the activities of an EIP implies collaboration and industrial symbiosis with a number of participants, thus invalidating the very premises for the establishment of a WOS. Entering the Chinese market in general and an EIP in particular is a profitable, yet risky undertaking. Further restrictions imposed by local policymakers make a JV for a far more attractive alternative for market entry than setting up a WOS.

5. Conclusion

The establishment of JV has rapidly increased all over the world with the ascent of globalization and the gradual removal of barriers within the international community. This is especially true in the case of bold global players willing to expand their operations in countries, which are geographically and culturally distant. The People's Republic of China has long been treated as a perfect testing field by business literature for proving assumptions about the formation of successful JV abroad. Indeed, the huge and populous country represents an ideal environment for both production and sales to firms belonging to any sector. First, I have sought to carry out an exhaustive list of theories of internationalization to then single out JV as an entry mode from all other alternatives. Thanks to the final testing of hypotheses from the paper of Kaynak et al., the reader could discern the factors leading the PSA Group and the RBSK GmbH to prefer teaming up with equally strong Chinese partners rather than choosing non-equity modes or setting up WOS in order to enter China.

Since literature about JV formation in whatsoever sector in China abounds, I have decided to focus mainly on partnerships taking place in a very peculiar setting that is EIPs. In fact, from the third chapter on one could have observed inasmuch as the East Asian giant has achieved high levels of industrialization and widespread wealth in a matter of a few decades that, nevertheless, brought about new social issues such as inequality and pollution. The latter has risen to fame worldwide since China is often seen as one of the world´s major hotbeds of environmental decay. However, Chinese civil society and the government have ushered in multiple measures to tackle pollution while retaining high levels of production. Thus, the construction of EIPs throughout the country has followed suit along the lines of CE. This paper attempts to underline the potential of EIPs as a new niche for global firms. Although institutional arrangements of JV with Chinese players have often put foreign partners at disadvantage in the past, the need to implement renewable energy forms and elements of cleaner production to safeguard the natural environment on one hand and appease the masses on the other hand have forced Chinese policymakers as well as large business conglomerates to bestow new benefits and concessions upon foreign partners. In some sense, these developments have been made possible owing to Chinese perceptions of foreign corporations as enlightened, benevolent entities working together with governments to build up a more just and equitable ground where civil society may thrive. Although these views are obviously exaggerated, Chinese players are currently striving to attract their foreign counterparts to EIPs with the aim of sharing their practices and gleaning from their technical expertise. Doing so, they do not only hope to obtain political incentives, but also to gain the consensus of broader society by trying to imitate the modern conception of CSR. According

to new research, it has been postulated that to Chinese consumers a socially responsible company manufactures safe, high-quality products while sparing the environment.

In short, the paper offers appropriate guidelines on how to discern and evaluate the phenomenon of JV in Chinese EIPs due to its multi-faceted approach at detecting the most disparate factors leading to the inception of a new venture in an EIP, including the context, the players and their motives to partake in such an endeavor. For the time being, the reader has received the chance to get valuable insights into the business mission of two among the most prominent Sino-foreign JV out there. DPCA has long carved up large chunks of the Chinese automotive market, whereas ZhongDe can be considered an interesting, yet unexplored new entry into the literature on the theory of the firm. Finally, the gradual passage from EIP to eco city is undoubtedly a remarkable occurrence business publications and scholars from all over the world shall soon reckon with. With the present paper, we intended to shed light on the subject and thus form the premise on which further acknowledgments and models for scientific inquiry can be conceptualized in the future. Indeed, the mere observation of company material and the collection of quantifiable data offer little explanatory power over future developments of eco cities and China as well as how Sino-foreign JV will contribute to them. In sum, going on analyzing eco cities will bear very significant contributions not only to the theory of the firm, but also to other business fields as well as many other branches of human knowledge.

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