Global integration or local responsiveness? Insights from the case of Chinese MNEs in India

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Abstract

In the 1980s, the global integration and local responsiveness (the I-R) framework was first proposed for multinational enterprises (MNEs) to deal with the dilemma of delivering standardised products and services at subsidiaries across the world or tailoring their products and services to the context of different countries. Researchers suggest MNEs make a trade-off between the two ends of global integration and local responsiveness rather than pursue either extreme of the dichotomy. Based on this trade-off, our study aims to explore the degree of I-R that a subsidiary of MNEs chooses. We argue that this depends on the internal dynamics within the company (e.g. ownership structure) and the external environmental factors (e.g. institutional distance and competition intensity). To illustrate the I-R framework, this study undertakes a comparison between two Chinese MNEs and proposes the argument that the strategic investments made by Chinese firms vary in motivations depending on the firm ownership structure. In this case, the firms analysed in this study are Sany Heavy Industry (a private Chinese enterprise) and CRRC Corporation Limited (a state-owned enterprise (SOE)). Our study contributes to the literature on the I-R in MNEs as well as to the growing literature on MNE subsidiaries in emerging economies.

1. Introduction

Scholars (Hamel and Prahalad, 1983; Bartlett and Ghoshal, 1989) have explored the global Integration-local Responsiveness (the I-R) framework from different perspectives. Hamel and Prahalad (1983) introduced the concept of the I-R framework suggesting that multinationals usually provide standardised or localised products and services. Multinationals follow integration because of economies of scale, customers' preferences and coordination of subsidiaries. On the other hand, these firms follow responsiveness, because of host country's product/service preferences and resource advantages. Bartlett and Ghoshal (1989) broadened

this classification to identify a three-step typology for different kinds of international firms. Global companies usually adopt high standardisation (integration, globalisation), multi-domestic companies pursue high responsiveness (localisation) and transnational companies pursue both integration and localisation. This research is going to explore how this framework is implemented by Chinese MNEs in India using the cases of Sany Heavy Industry and CRRC Corporation Limited. Chinese MNEs in India are selected as case study because India is set to make strides with the injection of funds into its failing infrastructure. Investment combined with the application of new technologies and job creation will boost Gross Domestic Product (GDP) and economic growth, however, problems such as population growth and corruption are likely to be topics on the policy agenda for a long time to come. India needs to move quickly by adopting innovative policies with a clear focus on infrastructure development; however a lot more remains to be done despite needing urgency.

This study provides three key contributions. It provides insights on how Chinese MNEs in India implement the I-R framework. Second, it fills a gap, as research on this theme in India has not been addressed in the scholarly literature before. Finally, it provides valuable input to practitioners, as the study provides both recommendations and challenges for global firms planning to establish in India.

This paper has three parts. It begins with a review of the literature review relating to the underlying determinants identified by previous conceptual and empirical studies and proceeds to formulate the main research question. The study then proceeds the detailed case analysis with the factors affecting the I-R framework being discussed in relation to three themes, namely, global integration and local responsiveness factors. Finally, implications are derived from case analysis and directions for future studies are advanced.

2. Theoretical background

As firms evolve to become international companies, how they configure their activities across borders is largely dependent on how they deal with the fundamental tension between the opposing demands of globalisation and localisation (De Wit and Meyer, 2010). This theoretical background begins with a clarification of the concepts of global integration and local responsiveness. Subsequently, attention will turn to strategy issues in an international

context. The discussion of theoretical background is based on the work of Chen and Kim (2016)

Global integration and local responsiveness

C.K. Prahalad, Yves Doz, and Chris Bartlett developed the global integration and local responsiveness (the I-R) framework to enable worldwide companies to consider various strategic and organisational responses to changes in their environment. Global integration is generally defined as integrating the activities of the MNE across international markets, and local responsiveness refers to resource commitment decisions taken autonomously by a subsidiary in response to primarily local competitive or customer demands. The need for integration arises in response to pressures to reduce costs and optimise investment. The need for local adaptation of products or differences in distribution across national markets indicates a need for local responsiveness. The I-R framework shows these two pressures as orthogonal, and that companies need to judge the degree of strategic emphasis on both dimensions simultaneously, rather than treating them as alternatives. Bartlett and Ghoshal (1989) used the I-R framework not only to map the industries they studied, but also the companies within an industry, the functions within a company, and the activities within a function.

Bartlett (1986), Prahalad and Doz (1987) and Ghoshal (1987) have all extended the conceptualisation of industry pressures to incorporate generic strategic responses. Both sets of scholars have used variations of the I-R framework in their work. Perhaps the clearest explication of these pressures is the Prahalad and Doz (1987) model, where each pressure in the I-R framework is represented as a separate axis comprising a 2x2 Matrix. Prahalad and Doz (1987) applied the I-R framework to analyse the management of relationships between headquarters and subsidiaries. The managers of MNEs face the requirement for the strategic integration of their operations in various countries in the presence of strong forces for national responsiveness and fragmentation. Strategic integration needs usually stem from the economic, technological, and competitive conditions of the firm's activities. Integration usually involves the development of a network of subsidiaries in which R&D, manufacturing, and distribution tasks are centrally allocated and coordinated. 'Locally responsive' strategies will be emphasised, if managers perceive industry pressures predominantly at the domestic level. If managers perceive industry pressure for 'global integration' within global industries,

a global strategic coordination will be recommended. Finally, when perceptions of environmental pressures indicate a need to respond simultaneously to both local responsiveness and global integration pressures, 'multifocal' business strategies would need to be adopted.

Bartlett (1986) stated that the increasing manufacturing economies associated with global- or regional-scale demands, or the need to spread escalating technological development costs over short product life cycles, have tended to create the need for greater global co-ordination of efforts and integration of operations. On the other hand, national differences in consumer tastes or market structures, or host government protectionism or regulation, have increased the need for more local differentiation and responsiveness. The search for the balance between integration and responsiveness is influential in shaping the organisational strategy of the MNE.

Roth and Morrison (1990) and Johnson (1995) extended the I-R framework with empirical surveys. In the study by Roth and Morrison (1990), businesses competing in global industries were categorised into three groups according to the I-R framework for conceptualising industry pressures confronting businesses competing internationally. The three groups are named as global integration, locally responsive and multifocal business. Roth and Morrison's (1990) study showed that a group of businesses were able to maintain a 'non-global' competitive position through emphasis on a focused set of competitive attributes, which were directed towards being highly responsive to each local environment in which they operate. The second extension of the integration-responsiveness framework was in the area of proper matching between the organisation and its context, which plays an important role in the businesses' overall effectiveness. Roth and Morrison (1990) also found that being responsive to the customer, through quality customer service, is the most important competitive attribute, regardless of the strategy pursued.

Johnson (1995) extended Roth and Morrison's (1990) test of the Prahalad and Doz (1987) model in the study of a single global industry. His study confirmed the validity of earlier work, as well as the performance difference across each of the groups of businesses within a global industry. It suggested that competitive attributes are differentiated in integrative and responsive strategies within a single industry context. The main conclusion of his study was that there seems to be a strong relationship between the role an MNE assigns to a subsidiary,

and the level of coordination that is then required. As the requirement increases for the integration of the subsidiary's activities with those of the rest of the MNE, there is a heavier use of mechanisms of coordination, both formal and subtle, up to a point regardless of its level of localisation. The other finding is that the subtle mechanisms of coordination seem to play a more important role, once the formal ones have been put in place. The research showed that an increase in the firm's integration level has to be accompanied by an increase in coordination, with the increasing importance of subtle mechanisms of coordination over time.

Gupta and Govindarajan (1991) built on Porter (1986) and Bartlett and Ghoshal's (1989) notion of the MNE as a differentiated network. Gupta and Govindarajan (1991) treat a MNE as a network of capital, product and knowledge transactions among units located in the different countries. They focus on knowledge transactions and study where the knowledge flow between a subsidiary and the rest of the MNE is defined as the transfer of either expertise (such as skills and capabilities) or external market data of strategic value (such as key customers, competitors and suppliers). Subsidiaries are different in knowledge flow patterns, namely those of global innovator (high outflow, low inflow); integrated player (high outflow, high inflow); implementer (low outflow, high inflow); and local innovator (low outflow, low inflow).

Martinez and Jarillo (1991) studied the relationship between the strategy of an MNE (which is defined as its choice of integration and the mechanisms of coordination) and differentiation levels across its geographically dispersed organisational unit. Multinational enterprises can attain a sustainable competitive advantage by integrating the value chain activities performed in their subsidiaries around the world. However, Martinez and Jarillo's (1991) study showed that MNEs face globalising and localising pressures. Globalising pressure is concerned with raising the level of interdependence among subsidiaries; designing narrow product lines to be sold worldwide; concentrating production in a few plants in order to capture economies of scale and reducing input sources to the most efficient ones. Localising pressures might be caused not only by political pressures (such as to create employment, to improve the host country's trade balance, etc.), but also a strategy of localisation (such as tastes differing for many products across countries; local regulations, etc.). For these reasons, some industries still show a multi-domestic pattern of competition (Porter 1986) that calls for nationally

responsive or differentiated configurations (Prahalad and Doz 1987; Bartlett 1986) of value chain activities as a primary source of competitive strength.

Factors affecting global integration and local responsiveness

The determinants of the I-R framework have been subject to vigorous conceptual consideration and empirical evaluation (Bartlett, 1986; Ghoshal, 1987; Gupta and Govindarajan, 1991; Jarillo and Martinez, 1990; Johnson, 1995; Luo, 2001, 2002; Prahalad and Doz, 1987; Roth and Morrison, 1990; Taggart, 1997a, 1997b). Empirical studies have identified a number of factors (e.g. technology and investment intensity, pressure for cost reduction, forming common demand market across the global, differences in customer needs, differences in distribution and knowledge creation) that influence decisions relating to I-R issue and identified factors that impact on the degree of global integration and/or local responsiveness. Studies have also concentrated on the degree of either local responsiveness or global integration though Luo (2001, 2002) has conceded the factors that influence integration and responsiveness are not necessarily the same or are inversely related and advised that "future studies should incorporate various factors into an integrated model assessing integration and responsiveness simultaneously" (Luo, 2001, p. 472). Fan et al. (2008, 2011) conflated all factors identified by 15 previous empirical studies into factors solely affecting either global integration or local responsiveness, and hybrid factors that affect both global integration and responsiveness. In their works, they identified factors that affecting global integration include standardisation, centralisation, technology intensity, economies of scale, information flow, competitors' action and country specific advantages. The factors that affecting local responsiveness include environment complexity, cultural distance, domestic competition intensity, local trade barriers, established network, government support and local business infrastructure.

Meyer and Su (2015), in an empirical study of 345 subsidiaries in two emerging economies (Poland and Hungary), suggested that the I-R framework cannot be delineated into specific dimensions as earlier studies have typically done. Instead, important contextual factors at the subsidiary level (talent, cost factors and competitive advantages) have also to be examined in the final implementation of the MNEs' strategy.

China is rising as an influential political and economic power and Chinese MNEs are China's engines of international business (Rasiah et al., 2010). Zhang (2007) indicated however, that inadequate local responsiveness and strategic planning are among the key problems of Chinese MNEs. In some countries, local fear or dislike of Chinese investment has been evident (Hanson, 2009; Hanson and Shearer, 2009). The growth of Chinese foreign direct investment (FDI) into The Organisation for Economic Co-operation and Development (OECD) countries has become an issue of policy interest. For instance, Australia has introduced a "national interest" test in managing Chinese investments in the Australian resource sector (Drysdale and Findlay, 2009). On the other hand, Rugman and Li (2007) and Rugman and Oh (2008) expressed that China has not had the management talent required to manage huge and complex multinationals due to the nation's short history of internationalisation. For example, Luo and Tung (2007) argued that MNEs from emerging economies, especially Chinese MNEs, face post-springboard/post-acquisition "integration difficulties". Thus, exploring what factors influence the I-R framework in the context of the biggest emerging market country's MNEs has become an important research theme.

In summary, achieving an organisational structure that would succeed in increasing regionalised or globalised markets is not easy and there is no simple solution. The transnational form of an organisation may provide an alternative solution to the fundamental problem of configuring global integration to achieve the optimal levels of scale and scope economies, coupled with sensitive local responsiveness (Bartlett and Ghoshal 1989; Ghoshal 1987). At the same time, the decision of where to locate and how to manage each subsidiary will be made by the MNE's top management on the basis of contingent circumstances and specific cost benefit trade-offs (Segal-Horn and Faulkner 1999). The different organisational structures and strategies are, therefore, appropriate for certain specific conditions. To iterate, prior conceptual and empirical studies have identified factors that affect the I-R framework based on the perspective of MNEs from advanced economies. By contrast, in this paper we explore how Chinese MNEs perceive factors affecting the I-R framework.

3. A case study 1: Chinese State-owned enterprise CRCC and the Belt and Road Initiative: A complex globalised strategy

3.1 The One Belt and Road Initiative

In 2013 Xi Jinping visited Kazakhstan and Russia and announced the plans for creating an economic belt and corridor that would link China with Central Asia, Russia, and Eastern and Central Europe (Ferdinand, 2016). Shortly after this announcement, Prime Minister Li Keqiang announced plans for a maritime Silk Road which links China with Southeast Asia, India, the Persian Gulf, the Mediterranean, and further into Europe (Ferdinand, 2016). Both these projects make up China's One Belt One Road initiative (BRI) - a massively ambitious development which involves over 60 countries and over 4 billion people being connected through railways, highways, ports, and pipelines (Summers, 2015). China calls this a modern silk road that will to boost economic integration and will mark a new era of multilateral cooperation and globalisation (NDRC, 2016). Nordin & Weissmann (2018) on the other hand argued that this initiative is a concrete manifestation of Xi Jinping's "Chinese dream" of rejuvenation from national humiliation.

"With the Belt and Road Initiative paving the way, we will give greater meaning to the notion of opening up, increase our level of openness, and coordinate efforts to strengthen strategic mutual trust, investment and trade cooperation, and cultural exchanges…we look to undertake practical and mutually-beneficial cooperation in multiple sectors with countries and regions involved in the Belt and Road Initiative, with the aim of developing a new picture of all-around opening up in which China is opened to the world through eastward and westward links and across land and sea"

– adapted from 13th Five Year Plan, NDRC (2016)

China hopes to build a comprehensive trans-Asian network to form what Xi Jinping calls a "community of shared destiny." A culturally and politically diverse but economically integrated economic orbit. This also includes a shared destiny includes shared beliefs and norms, mutual respect and trust (Callanhan, 2016). Others have argued that the BRI is designed to create transport infrastructure to permit China to import energy and resources, while exporting goods to parts of Eurasia without relying on coastal areas that is vulnerable to Western sanctions of naval blockades (Mitsuru & Kishimoto, 2019).

The countries along the Belt and Road route totals over sixty, and with over fifty having already signed the BRI corporation endorsements. These endorsed countries will link their

development strategies to the BRI. Ultimately the BRI will change the way economic centers are connected, thereby impacting productivity, competition, market opportunities, transport and logistics. The estimated cost of this project is $8 trillion with expectations on the timeframe to be approximately 35 years (Hillman, 2018). In 2014 Chinese Premier Li Keqiang has signed bilateral cooperation agreements worth over $140 billion to advance Chinese interest in exporting railway and port infrastructure construction, therefore creating transportation access and boosting Chinese exports throughout Eurasia and Europe. By 2018, China had committed over USD $1 trillion to begin developing the infrastructure links in western China (Bruce-Lockhart, 2017).

In understanding the BRI, many claim that it will be revolutionary and will create a new global order in both politics and economics - arguably where China will be at the center of global networks. Infrastructure and geographic space will be transformed and connected to grow new areas of economic activity (Macaes, 2018). T*able 1* provides examples of the key deals and pledges made by the Chinese to facilitate the development of BRI internationally.

Table 1 Key regional pledges made to facilitate the BRI

Key BRI Regions	Key pledge /deal
South Asia	Xi Jinping pledged USD$20 billion to upgrade India's railway infrastructure and to feasibly test a HSR between Delhi and Chennai, a port city on the bay of Bengal. This will be the world's second longest HSR covering a total of 1754km. Rumoured between China Railway Corp and Rail Vikas Nigam Ltd (Zhong, 2014).
Southeast Asia	China also pledged USD $10 billion in loans for the China-ASEAN infrastructure investment. Including for projects in Indonesia, Laos, Malaysia and Philippines (Megha, 2015). Further pledged USD $6 billion to finance infrastructure connectivity in the Greater Mekong Subregion involving Myanmar, Laos, Thailand, Cambodia and Vietnam (Hua, 2018).
Central Asia	Drafting of USD $27 billion worth of economic cooperation (rail, port, and pipelines) and infrastructure construction agreements between China and Kazakhstan from 2016 – 2022 (Bisenov, 2018).
Europe	China signed agreement to finance 85% of a new China-built railway linking Hungarian capital Budapest to the Greek port of

Piraeus while passing through Serbian capital Belgrade. This project is worth USD $3.8 billion and will open Western, Central, and Eastern Europe to container traffic with China. Work commenced in November 2017 (Liu, 2018).

3.2 A global integrated strategy

The BRI aims to address infrastructure connectivity to accelerate the economic development primarily across Asia, Eurasia, and Europe. The structure of the BRI is geopolitically centered around several land corridors and maritime silk routes thus spanning across 60+ countries and stretching as far as Oceania and East Africa. It is therefore expected that upon completion, the BRI will mark a new era for global connectivity, collaborative efforts, and cooperation – totalling 40% of the global GDP. Studies have forecasted the BRI to require USD $900 billion of infrastructure investment per year in Asia alone.

China cannot simply fund the initiative on its own, it therefore has taken an outward collectivist globalized approach, and will need infrastructure driven investments over the next decades in order for the BRI to be realized. Evidence in taking a globalized strategy, China has established financial institutions such as the Silk Road Fund, and the Asian Infrastructure Investment Bank (AIIB). Keen to make the BRI an inclusive global collaborative program, China has also welcomed membership from many Asian and European heads of state. As of 2019 members of the AIIB include 80+ nations including, UK, Germany, and Australia.
In fulfilling the BRI vision, rail projects funded by Chinese state-owned enterprises (SOEs) in neighboring South and Southeast Asian countries are currently underway. These include, rail projects between China and India, as well as Bangladesh, Laos, and Thailand. China argues that upon completing these ambitious infrastructure projects, it will act to strategically create more connectivity between the Asian countries; thereby resulting in the deepening of human and economic relations between these regions.

Not without its controversy, many argue that these BRI related projects are a strategy for China’s quest for greater influence in Asia. Potential implications of China’s BRI diplomacy would result in tipping the regional status-quo in favour of China as a key regional power. Thereby permitting Beijing to push forward with policies and initiatives that China champions.

It is further argued that expansion in the form of global connectivity could ultimately lead the way for China to become a global dominant figure in the form of hard power. Afterall, the strategy of securing economic resources such as natural resources and energy are critical strategic goals for any global leader (Gao 2015). Acquisition of key economic resources can ultimately be achieved through global connectivity, with the BRI being a key driver to achieve such a goal. The BRI facilitates connectivity of different nations from different geographical region, and binds all these countries together through policy, trade, finance and mobility of people. As Gao (2012) and Butt (2016) pointed out, often, 'institutions of concertation and coordination' are the basis of hegemony and international hierarchy. Beijing has responded to fears by insisting that the BRI is a commercially viable and economic venture open for all to participate. The BRI has been promoted by Beijing as an inclusive project i.e. it is an initiative and not a strategy. Furthermore, Beijing has emphasized that it is a global program that was initiated by China but is not a Chinese project.

3.3 CRRC's failed HSR bid in India

CRRC's history

CRRC is one of China's largest conglomerates (www.crrcgc.cc/en). Its parent company CRRC Group is a national SOE under direct control and supervision of China's governing body State-owned Assets Supervision and Administration Commission of the State Council (SASAC). CRRC is world's largest supplier of rail transit equipment, including a full product line and leading rail technology. It employs over 180,000 people and in 2015, CRRC ranked in the Fortune Global 500 with over USD 37.8 billion in revenue. Resultantly, CRRC is one of the key SOE providers of Chinese railway activities both domestically and internationally. CRRC has fully utilised its monopolistic position to further seek the internationalisation of its rail transit systems and solutions, this is includes provision of various locomotives and rolling stock transits within Asia, Europe, and the Middle East and Africa.

The SOE has already announced in 2019 that China is planning a record-high number of rail overseas investment. This is supported by the state's push for the furthering of Chinese rail investment, which is expected to be in the region of USD $125 billion and with new construction projects are expected to rise by 45%. These investments are made in spite of the SOEs in the rail industry reporting net losses and debts exceeding RMB 5 trillion in 2018. Resultantly, these investments are only made possible by the strong financial backing and

cheap access to credit from the state. The rationale behind this type of spending is two-fold, firstly an outwards FDI (OFDI) is treated partially act as a stimulus to spur the slowing domestic economy. Secondly, an OFDI strategy is considered an national strategy championed by the state council. The 'going out' strategy is considered important stimulus for Chinese enterprises to catch up with the west, and thus SOEs are given priority over state funding (Zhao & Han, 2016). This is further strengthened by the state council and the NDRC whom released a guide to specifically encouraged BRI related investments overseas (*see Table 2*). Given the state ownership of CRRC, the SOE not only has a moral duty to follow state orders, but given the easy access to credit, CRRC also has a large incentive to carry out overseas investments.

Table 2 Prohibited, Restricted, and Encouraged categories regarding China's overseas investment (Reproduced from State Council, 2017)

Prohibited	**Restricted**	**Encouraged**
Overseas investments involving the export of core technologies and products of military industry that have not been approved by the state	Investing in foreign countries and regions that have not established diplomatic relations with China, or engaged in wars, or bilateral, multilateral treaties or agreements concluded by China, which requires restrictions	Overseas infrastructure investment that is conducive to the construction of the "Belt and Road" and connections with neighbouring infrastructure
Applying overseas investment in technologies, processes, and products that are prohibited from exporting in China	Overseas investments in: Real estate, Hotels, Cinemas Entertainment, Sports clubs etc.	Investments that drive the output of superior production capacity, quality equipment, and technical standards
Overseas investment in illicit industries such as gambling and pornography	Establishing an overseas equity investment fund or investment platform without specific industrial projects	Investment and cooperation with high-tech and advanced manufacturing enterprises and to encourage R&D centers abroad
Foreign investments prohibited by international treaties provisions concluded or participated by China	Carrying out overseas investment using backward production equipment that does not meet the technical standards of the country of investment	Exploration and development of overseas oil gas, minerals resources, and other resource's on the basis of careful assessment of the economic benefits

Other overseas investments that are harmful or may endanger national interests or national security	Overseas investments that do not meet the environmental protection, energy consumption, and safety standards of the country of investment	Expanding foreign cooperation in agriculture, mutually beneficial win-win investment cooperation in agriculture, forestry, animal husbandry, and fishing

Source: Constructed by the author based on State Council

CRRC in India

In 2013 India announced its plans to build its first bullet train line, a 500km high spend railway (HSR) line linking Mumbai to Ahmedabad in two hours. The project is valued at USD $19 billion and scheduled to complete in 2023, and is an ambitious plan to upgrade its existing 165 year old dilapidated network ((Dasgupta, Jain, & Obayashi, 2018). CRRC submitted a bid to undertaken the construction of the HSR, however ultimately lost out to Japan's Shinkansen for a number of reasons. The Japanese Shinkansen technology was deemed a big victory over China's CRRC.

CRRC's loss was deemed one that was politically motivated. Firstly it is argued that CRRC proximity to the central state was primarily the reason why CRCC failed at securing the bid for India's first bullet train. It is speculated one of the principle reasons for CRRC loss was the colluding between Japan and India in order to combat growing presence of China in the region (Pandit, 2018). As it stands, there has been political tension between India and China, wherein both leaders have struggled to strengthen ties between their respective countries, particularly given China's push for towards BRI related projects. This has not been without controversy particularly involving the projects in close proximity to India's borders - namely infrastructure projects: the China-Pakistan Economic Corridor (railway construction); BRI projects in Bangladesh (rail transit provision); and Nepal-China Trans-Himalayan Connectively Network (project bidding stage). All the aforementioned projects entail infrastructure developments by the Chinese SOE in regions under Indian territorial dispute, and thus fuelling India's strong opposition against Chinese led projects (Kuo, 2019).

The tense relationship between the two nations is further illustrated when India opposed the Bangladesh, China, India and Myanmar Economic Corridor (BCIM). Aimed at increasing transport connectivity between the four countries, the BCIM was an economic initiative initially endorsed by the four leaders in 2013 (Chaudhury, 2019). At the time, all agreed that

the countries would economically gain and benefit from higher levels of trade due to improved connectivity. The BCIM was initially envisioned by China to form part of the BRI vision, however since the announcement in 2013, little progress has been made on this initiative. The BCIM initiative has since been rumoured to have been shelved for sovereignty issues as well as the growing tension due to Chinese involvement in the Kashmir region (Pakistan occupied).

Secondly, the failed bid by CRRC can also be explained by the resultant effect of India's current restrictions on Chinese SOEs involvement (Varma, 2017). As there is a lack of mutual political trust between China and India, with the central state is the largest shareholder/ultimate owner of CRRC, this has made it problematic when attempting to penetrate the Indian market (Ebbighausen, 2018). From India's perspective, the HRS networks are incredibly expensive to operate and require huge government subsidies. Thus this questions the economic sustainability of the proposed HSR lines in India when many parts of India still lack basic transportation infrastructure/conventional railways. This further begs whether these projects will drain the state funds and inevitably be deemed too expensive to run in the long-term. Given the Chinese acquisition of the Hambantota port when Sri Lanka defaulted on loan-repayments to China; should India have accepted CRRC's bid, India would have been at risk of dependency to China. Interestingly, despite the lack of Indian support on BRI related projects, India is currently the largest recipient of AIIB funds which is aimed at funding infrastructure and transportation in India (AIIB, 2019). Moreover as it stands, India is currently the top borrower from the Chinese-led and Chinese-created development bank. Presently, ten Indian projects has so far been approved by the AIIB which totals over USD $1.5 billion worth of AIIB loans (Stacey et al., 2018; Iwanek, 2019). This is a perplexing contradiction given India's concern over being indebted to China and the fears of China's growing presence in the South Asian region.

Lastly, a common complaint on Chinese led infrastructure projects has been that it has primarily benefitted China's SOEs only. Specifically, it is argued that when the Chinese state banks finance projects particularly BRI-related, this funding flows to Chinese SOEs who then use Chinese contractors, and in turn employs only Chinese labourers (Cainey, 2018). This lack of inclusion and widening participation was evidently found in the case of the BRI infrastructure route between Belgrade-Budapest, wherein contracts were awarded to Chinese companies who did not adhere to the EU mandate of competitive procurement processes. In

such scenarios, it raises the question regarding the role in the BRI for non-Chinese players. The Belgrade-Budapest case, as well as several other cases (including the Malaysian East Coast Rail), has since been flagged by Chinese FDI recipient countries, whom are acutely aware and thus are now keen to re-evaluate Chinese related contracts. From India's perspective, it is critical that China adopts an open strategy, in doing so, Chinese led projects will be a larger, more far reaching, and therefore more likely to be supported by the India government (Pant,2017). Taking the BRI as an example, the large scale of BRI as well as the geopolitical and financial risk is indicative that China will need to ensure more widespread participation in the BRI projects. The Chinese should not treat the BRI is not a series of one-off infrastructure projects; but instead as a long journey to improve connectivity between Asia, and Europe. Though Beijing has been vocal that any country or organisation that wishes to support BRI will be considered a part of it, should China want India's support on the BRI, the Chinese SOEs will need to adopt a more inclusive strategy to related projects.

4. Case study 2: Chinese Private Enterprise Sany Heavy Industry: A successful localized strategy

5.1 Sany's history

Sany Heavy Industry Co Ltd is China's largest heavy equipment manufacturers and subsequently in the top 10 of the world's largest multinationals producing construction equipment domestically and internationally (www.sanyglobal.com). Privately owned and headquartered in Beijing China, Sany employs over 90,000 employees across 100+ offices worldwide, it exports its products to over 150 countries. Sany publicly listed in the Shanghai stock exchange in 2003, however the majority shareholding remains with the founder and CEO Liang Wengen. Currently in 2019 Sany has an operating income of RMB 70 billion, its core operational areas include: concrete machinery; road machinery; port machinery; cranes; and mining and petroleum machinery.

Sany initially started as a modest welding factory in Changsha Hunan province established in 1989. However it quickly entered the construction industry due to China's rapid economic expansion and acted to exploit the new opportunities. Sany benefited from spill over effects from western MNEs activity within the Chinese manufacturing market. As a new comer in the construction equipment market, Sany rapidly adopted an absorptive capacity to successfully imitate existing successful designs from their western competitors (Bruche &

Hong, 2016). Sany managed to do this by investing heavily into their own inhouse R&D division. The market supported Sany's inhouse efforts as this would assist in ending China's need to import heavy industry related goods.

In 2011, Sany was the first Chinese heavy industry construction equipment company to enter the FT Global 500. Sany benefited greatly from the enormous growth and demand in the domestic market, and relished in the Chinese infrastructure, construction, and real estate boom. Sany very quickly obtain a leading market position, which was achieved through significant advances in economies of scales as well as keeping labour costs low, of which resulted in Sany's competitive advantage. Critically this meant Sany was able to rapidly diversify its product portfolio, launching new products to markets, as well as building and expanding productive capability.

4.2 Sany's internationalisation process

With only a few decades of experience in the domestic market, Sany began rapid overseas internationalisation. Currently, Sany has four important global regional hubs, one of the most important of which is in India. Consistently, all of the regional hubs comprises of an R&D center, manufacturing, sales, and service functions. Sany's road to India began with an market-seeking internationalisation logic. Similarly to their Chinese market experience, Sany saw the opportunity to exploit the potential opportunities in the next largest emerging market. Sany began with exporting to India, and gradually transitioned towards higher levels of FDI commitment once all the relevant knowledge and experience from exporting was acquired. Next, Sany adopted more risker FDI approaches with its first overseas greenfield facility in India. This was a result of the Chinese state governmental 'go out' initiative to assist large enterprises to go abroad. The state provided support through financing of projects and access to soft Chinese state loans. Illustrated by the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) joint notice in 2004:

"*The special loans for overseas investments shall be mainly used for supporting the following key overseas investment projects:*

(1) Overseas resource development projects which can make up for the relative insufficiency of domestic resources;
(2) Overseas productive projects and infrastructure projects which can give impetus to the export of domestic technologies, products, equipment, and labor services, etc.;
(3) Overseas research and development centers which may utilize internationally advanced technologies, management experiences and professional talents;

(4) Overseas enterprise acquisition and merger projects which can improve the international competitiveness of enterprises, and accelerate exploration of international markets."

In 2007 Sany invested USD $60 million to build its own manufacturing facility and local R&D center in India. It was also in Sany's own interest to build assembly plants in India to overcome import, tariffs, and local trade barriers encountered through its initial exporting modes of entry. Given the wealth of opportunities and the demands of the emerging market Sany built its core manufacturing base in Pune, India. It is the largest overseas subsidiary of Sany encompassing 80 acres and has over 6000 machines contributing towards infrastructure development projects in India (Sany, 2019). As the Indian economy is currently expanding with a rising middle class, Sany envisions that India has a healthy demand for construction equipment in the foreseeable future. The forecasted growth for Sany in India was reported as 60% year-on-year by Sany India's CEO Deepak Garg. Subsequently, Sany has further committed to increase its investment by USD $4 billion over a 5 year period. This investment involves creating new manufacturing units and increasing manufacturing capabilities (worth $1 billion) as well as creating wind energy projects (worth $3 billion).

4.3 A local responsive strategy

Currently as it stands, Sany's revenue within the India market is USD $100 million, 50% of this revenue is from locally manufactured goods whilst the remaining 50% are from Sany imports from China. Sany India's CEO has been vocal in reducing the volume of China imports and to begin transitioning into domestic Indian production. It was established that importing is not most cost effective mode to market. With high logistic costs, import tariffs, and the clear growing demand in the local market for Sany products; it has been worthwhile for Sany to expanded its existing plant facilities to accommodate local production. Moreover by having local production facilities, as a geographic bonus, neighbouring emerging markets such as Bangladesh would further benefit due to the proximity of Indian production.

Sany's localisation approach involves creating a fully integrated supply network which caters to specifically the local market needs. This involves accessing the demands of the growing middle class and manufacturing the necessary tools to facilitate this development. The Indian facility is responsible production and the manufacturing of heavy industry equipment such as: mining equipment, cranes, road machinery, and pumps. Sany India is subsequently Sany's biggest overseas manufacturing plant. This is made possible because the manufacturing base

in India very much benefits from the abundance labour. Resultantly, Sany gains from the cost reductions in production, which is a direct result from the labour advantages unique to developing economies. With that said, with a population of 1.3 billion people, India also has an abundance of well-educated local talent, often of which has studied abroad, has international experience, and has now returned to India to benefit from the new economic opportunities.

The Chinese has now chosen to invest in the local talent and deemed it the best way to approach the market due the vast differences in practices between the host and home markets. In the case of Sany India, the CEO of this subsidiary is of Indian nationally and is an example of how the Chinese are investing in local talent. The previous first generation of subsidiaries led by the Chinese were typically always managed by Chinese nationals. This was particularly found in the C-suite and senior level managers position. This resultantly had an negative impact on the success of OFDI in terms of subsidiary morale, productivity, and staff retention. Most commonly seen in the cases of outwards FDI by Chinese firms, the Chinese will preserve local jobs (e.g. in scenarios of acquisitions) but and will rarely contribute to the generation of local employment (Fu, 2005).

Interestingly, Sany has also invested in a R&D center in the Pune India site. Typically R&D centers from MNEs within the heavy construction equipment industry are based in the west and in developed economies such as Germany. Sany on the other hand has chosen to base an R&D enter in all of its regional manufacturing hubs. This is done with the intention to attract high-skill local technicians and engineers that fully understands the local market. Therefore, what differentiates the Indian R&D center from other Sany hubs, is that Sany India develops products specifically suited to the local market needs. As an rapidly emerging market, Indian needs are constantly evolving, and for that reason the R&D base needs to be in close proximity to the market so that Sany can rapidly develop products to keep up with the changes. Therefore, Sany can ensure active developments in solving issues needs of the customer, and to ensure the production of goods that fulfils the wants of the domestic market (Si, Liefner & Wang, 2013). Moreover, with India's rising technology industry, the R&D center in India is an opportunity to recruit directly from the local talents, as well as acquire the latest manufacturing know-how by bringing in new technology processes and developments.

Technological advances in the heavy construction equipment industry are incremental, and only comes into fruition through developments in the core components. Such examples include engines and control systems, which are dependent on external suppliers that have the pricing power. As a result, firms within in this industry operate on modest margins, some firms even report margins of 8% (Bruche & Hong, 2016). In knowing this, one of Sany priorities is to focus on management efficiency and to provide a service directly to its end users. Sany saw the opportunity to offer a comprehensive quality in-time service directly to the customers by building a manufacturing site directly in India. This would not have been possible if they continued with exporting or using a third party distribution channel. By having their own base in India, this helped improve their sales performance by establishing a full distribution network as well as offering the ability to service their clients in real time - with no delays. However, knowing the margins in this industry and often low, Sany India's CEO has also placed emphasis on the need for Sany India to offer the full value chain, including; engineering, construction, operation and procurement, rather than Sany India being restricted to purely manufacturing.

5. Conclusion

Adopting a case study analysis, this study proposes that in the case of Sany, the motivations for foreign direct investment (FDI) in India by private firms are for market seeking purposes, and thus a local responsive strategy is adopted. In other words, though the private firms are driven to invest through profit-driven sentiments, the investments made in India act to also contribute to the local economy. Private Chinese investments are viewed in the lens of entrepreneurially driven, wherein investments are made directly into the local economy with the idea to create a fully integrated local network. OFDI are made into host countries by private investors with relatively little experience, in addition to investments that are of substantial value - all of which indicate risk taking mentality. In the case of Sany, the Chinese firm has invested USD $4 billion over a 5 year period illustrating that Sany are committed to India in the long-run. This is further evidence by the creation of an R&D centre in Sany's Indian plant, as well as the promotion of the plant as Sany's largest overseas subsidiary. Interestingly, Sany has also demonstrated the committed to investing into the local talent, namely by having an Indian national CEO, as well as using local engineers and operators. This goes against previous first generation Chinese OFDI investment by which overseas Chinese subsidiaries were typical led by Chinese nationals. In sum, private

investment in this case are well-thought out with a long-term oriented goal in mind, and investments are to promote the parameters of the local economy.

In comparison however, when investigating the motivations by the Chinese SOE CRRC, the FDI strategy used by the SOE is more representative to that of a global integrated strategy – beyond national borders. That is, SOEs adopt a more aggressive approach to FDI namely driven by the underlying objectives to fulfil the national Chinese state mandate. Different to private enterprises, SOEs have a core responsibility to carry out the values of national rejuvenation, which further includes sentiments of disrupting the global status-quo and the re-distribution of global power. Chinese SOEs are organisational agents of the state, directed by state mandates with a strong responsibility to complete government objectives. Thus it is argued that the motivation to conduct OFDI is not simply from the organisational level strategy - rather the motivation is also deeply embedded with the state. It is argued then that the embedded nature of the state on SOE OFDI activity needs to be considered and highlighted. In doing so, it can be seen that the significance of China's past historical achievements, national pride, and identity; all act to drive the collective desire to achieve national rejuvenation. These sentiments can specifically be reflected in China's national BRI strategy.

By examining SOE and private driven OFDI, India will now have a holistic informed understanding of the differences in a global integrated vs local responsive strategies respectively. This should in turn, facilitate a more informed understanding of the state-level vs. organisation-level dynamics underpinning these investment strategies. With private-led Chinese investments, reassurance in knowing that private Chinese OFDI are localised with long-term contributions made to the local Indian economy. Decisions for OFDI are made at the organisational level, thus there are no further motives to internationalise in India other than market-seeking purposes. In the case of SOE global integrated driven investments, understanding the dynamics should help the target Indian organisations better prepare themselves for Chinese SOEs OFDI process. In the SOE-led scenario, Indian firms are encouraged to carry out thorough screening and vetting of proposals put forward by Chinese SOEs. To this end, national policies focused on the safeguarding of Indian organisations in strategic industries can be developed, and thus, shield nations from any undesirable political outcomes by Chinese SOEs.

India has followed a different development path from most other successful Asian economies in not prioritising export-led manufacturing. Despite India's long history of sophisticated manufacturing, strong engineering capabilities and abundant affordable labour, misdirected government policy, poor infrastructure and complicated regulations have historically contributed to the unrealised potential of India as a manufacturing hub. However, in saying this, there is also a growing interest from Chinese companies in manufacturing in India. In the case of private company Sany, it has recently announced several hundred millions worth of investment to expand its factory in Pune, India. In view of the mutual benefit of Chinese investment in India, it is concluded that there is huge potential in India to receive China's OFDI both economically and strategically. However, there lies complicated political bottlenecks ahead that must be considered and resolved diplomatically; if not, the business sentiments may be adversely affected and therefore eventually altering the course of Chinese FDI in India.

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