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APPROACHES TO IDENTIFYING THE FORM OF CHINA'S ECONOMIC EXPANSION IN THE CONTEXT OF GLOBAL ECONOMY TRANSNATIONALIZATION: THE COMMERCIAL EXPANSION CASE

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ПІДХОДИ ДО ІДЕНТИФІКАЦІЇ ФОРМ ЕКОНОМІЧНОЇ ЕКСПАНСІЇ КНР В УМОВАХ ТРАНСНАЦІОНАЛІЗАЦІЇ СВІТОВОЇ ЕКОНОМІКИ : THE COMMERCIAL EXPANSION CASE

The analysis of commercial expansion is performed in the two perspectives. The first, microeconomic, perspective investigating the process of transforming common domestic actors into international ones,

with identifying key motives and stimuli pushing companies to take rather high economic and production risks for the sake of a higher profit rate. The second, macroeconomic, perspective is export-oriented economic strategies of countries that are main generators of commercial expansionism, and the declared liberalism of international economic relations, fostering the favorable background for this kind of expansion. The commercial expansion is closely linked to international manufacturing organized and controlled by multinational corporations (MNC), and international distribution through the ramified network of MNC offices and regional intermediaries, which, apart from organization of sales, are often involved in promotion and lobbying at local level. The commercial expansion constitutes an explicit layer of international commercialization implemented through equity ownership or contract (non-equity) mechanisms. At the level of the so called explicit commercial expansion, the expansion drivers are business entities seeking to survive in the competitive environment and achieve their financial and marketing objectives by expanding the operation area. MNEs have been analyzed as a separate segment in the international relations system, given the essential impact and the increasing role of this category of corporations in integration and regional cooperation processes, but even they cannot be seen as totally isolated from the domestic economy in which they origin. The analysis has been focused on the second level, with outlining the main features of the existing global centers of commercial expansion and identifying specific instruments of such expansion, to promote one's strategic interests. We characterized and compared the China and Germany models of commercial expansion, and revealed the set of factors, which promoted the commercial expansion of China and Germany.

Доведено, що просторова експансія як ідейна основа геополітики, що полягає у прагненні до поширення контролю над простором, у традиційному її тлумаченні репрезентує міжнародні відносини як розширення «життєвого простору» через силові відносини. Втім, починаючи з другої половини ХХ ст., трактує міжнародні відносини як розширення «зони впливу», «зони національних інтересів», «зони безпеки» через економічну могутність, що і постає підґрунтям для реалізації стратегій експансії комерційної по мірі лібералізації міжнародних економічних відносин. Аналіз комерційної експансії проведено на мезорівні міжнародної економічної політики (шляхом дослідження процесу перетворення національної компанії на міжнародну з акцентом на виявленні її детермінуючих мотивів та стимулів) та макрорівні міжнародної економічної політики (шляхом аналізу складових зовнішньоекономічної стратегії держав як основних продуцентів комерційного експансіонізму). Визначено, що передумовою експансіоністського руху є здатність нарощувати масштаби капіталу, що не відбувається без створення нових технологій і постійного розширення виробництва основного капіталу, які й спричиняють зростання підприємницької експансії і накопичення капіталу. Периферійні економіки, навіть коли вони не обмежуються виробництвом сировини, залишаються залежними у дуже специфічній формі: ті їхні сектори, які продукують основний капітал, недостатньо сильні, щоб забезпечувати постійний прогрес системи у фінансовому, технологічному або організаційному сенсі. Розвиток периферії у цьому контексті означає прогрес у продуктивних силах, в основному, за рахунок імпорту технологій, накопичення капіталу, проникнення іноземних підприємств у місцеву економіку, зростання чисельності найнятих робітників і поглиблення суспільного поділу праці. Досвід КНР руйнує існуючі уявлення про механізм економічної експансії, що зазвичай сповідує країна, що відноситься до напівпериферії світової економічної системи. Охарактеризовано та порівняно моделі комерційної експансії КНР та Німеччини. Встановлено зв'язок між комерційною експансією та економічним зростанням. Охарактеризовано вплив експорторієнтованої моделі розвитку на становлення соціальних стандартів та визначення рівня добробуту населення в обраних для аналізу країнах. Виявлено, що комерційна експансія є ефективним джерелом притоку капіталів,

а також дієвим інструментом впливу на міжнародній арені, що уможливорює захист та просування національних інтересів. Розглянуто роль багатонаціональних підприємств (БНП) в реалізації механізму експансії зарубіжних ринків з виокремленням етапів, мотивів, стимулів та особливостей останньої залежно від країнової специфіки. Виокремлено макроекономічні механізми економічної та зокрема комерційної експансії з акцентом на політиці валютного регулювання (курсоутворення) та політиці стимулювання сукупного попиту. Акцентовано на детермінуючій ролі монетарної політики в сприянні експортній експансії.

Keywords: *economic expansion; commercial expansion; transnationalization; multinational enterprises; macroeconomic regulation.*

Ключові слова: *економічна експансія; комерційна експансія; транснаціоналізація; багатонаціональні підприємства; макроекономічне регулювання.*

Introduction. In-depth studies of international economic relations and macroeconomics tend to demonstrate that the expanding exchange of goods, services and capital can be beneficial for all the entities involved. If the transaction costs are eliminated, then trade and voluntary exchange between two parties that used to be isolated one from another before its beginning, be it individuals, tribes, countries or continents, will bring profits to all the partners. Trade, as argued by Adam Smith in 1776, has to determine the wealth of nations in the first place, whereas the mechanism for economic growth, according to Adam Smith, is grounded on the idea that a deeper labor division led to the production growth resulting from specialization and adaption of skills to important challenges and objectives requiring solutions. An economic growth caused by trade expansion can, therefore, be called Smithian growth. But it became obvious that trade would occur whenever transaction costs were reduced (i. e. the costs related with exchange, purchase or sales of goods and services on the market) or property rights were improved or more scrupulously observed. This can be achieved in the easiest and most preferable way through increasing the size of trade entities, which, in the final end, embodies the strength, power and control, and simplifies transactions due to economies of scale.

The notion “expansion” can be associated with notions like “development”, “growth” or “conquest”. In spite of the military connotation, the term “expansion” originates from the nature, which shows that this process is both natural and obvious throughout the life cycle of an organism. Eventually, the biological connotation of this term began to be applied in time of debates or scholarly speculations for other walks of human life; political and economic expansion was discussed in the theoretical context with emphasis shifted from expansion of physical size to expansion of influence which scales can be intangible and non-material. With the emphasis changed, the expansion phenomenon was addressed as expansionist development of the economy on the whole and the corporate sector in particular; economic entities entered the local terrains and gradually met the needs of local markets, with the subsequent expansion of the operation on the whole domestic area; eventually their operation was spreading on foreign markets, with expansion measured and characterized in the global dimension.

The spatial expansion, being an ideological basis of geopolitics, which denotes striving for expansion of control over a space, in its traditional interpretation means international relations as expansion of “life space” through relations of force. However, since the second half of the 20th century international relations have been interpreted as the expansion of “influence zone”, “zone of national interests”, “security zone” by means of economic power.

The purpose of the article. We believe that analysis of commercial expansion has to be performed in the two perspectives. The first, microeconomic, perspective investigating the process of transforming common domestic actors into international ones, with identifying key motives and stimuli pushing companies to take rather high economic and production risks for the sake of a higher profit rate. The second, macroeconomic, perspective is export-oriented economic strategies of countries that are main generators of commercial expansionism, and the declared liberalism of international economic relations, fostering the favorable background for this kind of expansion.

The first level of commercial expansion is closely linked to international manufacturing organized and controlled by multinational corporations (MNC), and international distribution through the ramified network of MNC offices and regional intermediaries, which, apart from organization of sales, are often involved in promotion and lobbying at local level. The first level of expansion constitutes an explicit layer of international commercialization implemented through equity ownership or contract (non-equity) mechanisms. The rapid technological progress, the intensified competition and the growing economic liberalization worldwide have become important factors for unprecedented growth in the international manufacturing. The integration of manufacturing and other corporate functions in MNC on the global scale could be possible due to the essentially reduced costs for transportation and communications. At the same time, the occurrence of

transnational corporations transformed by now into multinational ones due to dispersal of equity capital is a result of their foreign investment activities.

Because international movement of business capital, foreign direct investment in particular, has laid the fundament for creating the global network of MNC branches and international manufacturing units, a theoretical analysis of commercial expansion embodied in economic realities by MNC should be focused on the pool of theories of capital exports. They include:

1) Monopolistic advantage theory, first proposed by Stephen Hymer [8] in his doctoral thesis and later expanded by C. P. Kindleberger [10]. It says that MNC – TNC act as agents of collusion whenever a possibility occurs to reduce competition in the conditions of imperfect market (later Charles Kindleberger determined the following monopolistic advantages: on the markets of finished products, due to unique features of firms' goods; on the markets of production factors, due to specific technologies; and in manufacturing, due to economies of scales);

2) The product life cycle theory of Raymond Vernon [16] who showed the dependence of international exchange and international manufacturing on its life phases; theory of competitive advantages, developed by Michael Eugene Porter [11], who looked at the rise of international firms from the strategic management perspectives and argued that the expansion of international business was characterized by "value chain" of transactions covering various phases of manufacturing; macroeconomic approach to FDI analysis which author was Kojima K., a Japanese researcher, who intended to create an integrated theory of international trade and direct investment, with competitive advantages of a country constituting the core category; market imperfections theory as a trade theory that arises from international markets where perfect competition doesn't exist, which was developed by American professor Robert Z. Aliber [1]; internalization theory that is based on the methodology of Ronald Coase [5], the founder of the transaction cost approach to the theory of the firm, and puts emphasis on radical change in the manufacturing organization, development of internal firm planning and centralized management as part of the single strategy, etc.

As follows from the abovementioned, complexity and versatility of the phenomenon of foreign investment and commercial expansion entailed a variety of theoretical approaches to analysis of the corporate development. Basically, several fields of MNC studies could be found: the first field is international distribution of resources, based on the idea of spatial distribution of production factors; the second field involves the aspects of industrial organizations, emphasizing property rights and methods of production operations management at firm level. The two main fields were elaborated by several groups of researchers. The first group performed macroeconomic studies of direct investment, taking as the starting point the neoclassic trade models that would be extended to explain the model of foreign manufacturing. The second group studied TNC from the perspective of the internalization theory. This school was led by Peter J. Buckley and M. Casson [2] who used, as mentioned earlier, the methodologies of Ronald Coase, the founder of the transaction cost approach to the theory of the firm. The third group of economists that were closer to the second group by theoretical foundations, than to the first one, investigated the problem why firms of one nationality had more opportunities for penetrating to foreign markets than local firms located on these markets, and why they sought to control value growth operations beyond their national boundaries. Stephen Hymer [9] was the founder of this approach to explaining foreign manufacturing, which, according to the evidence that he provided, could not exist without investing firms that had special monopolistic advantages over local competitors. No doubt that a radically new phase in investigating global commercialization and TNC became the eclectic paradigm of John H. Dunning [6;7], also known as the OLI Model or OLI Framework. It integrates individual elements of totally different theoretical approaches that have the highest relevance with stimuli and aspects of international manufacturing and sales. In fact, the theory puts emphasize on three key categories: advantages of property, advantages of internationalization and advantages of location. In 90s of the past century, attempts to analyze the tendencies of direct investment exports and TNC continued on the basis of eclectic theory. The concept of innovation development cycle involves analysis of the factors enabling a country to act from time to time as an exporter or an importer of capital. Some researchers proposed a number of other approaches that can be brought together under the "knowledge-capital" concept. All the core categories of John H. Dunning's paradigm are explained by considering knowledge as capital.

At the first and the lowest level of the so called explicit commercial expansion, mentioned above, the expansion drivers are business entities seeking to survive in the competitive environment and achieve their financial and marketing objectives by expanding the operation area. In the recent time TNC have been analyzed as a separate segment in the international relations system, given the essential impact and the increasing role of this category of corporations in integration and regional cooperation processes, but even they cannot be seen as totally isolated from the domestic economy in which they origin.

Problem setting. Given the abovementioned, the analysis needs to focus on the second level, with outlining the main features of the existing global centers of commercial expansion and identifying specific instruments of such expansion, to promote one's strategic interests.

The main results of the research. The expansionist movement is based on the capacity to increase the scopes of capital, which cannot happen without creating new technologies and continuous generation of fixed capital, i. e. the factors enabling for further business expansion and capital accumulation. The peripheral economies, if even they are confined to mining and extraction, remain to be dependent in a very specific form: their sectors generating fixed capital are not strong

enough to ensure the continuing progress in financial, technological or organizational terms. It follows that the development of periphery means a progress of productive forces resulting from imports of technologies, capital accumulation, penetration of foreign enterprises into the local economy, growth in employment and extension of labor division. The Chinese experience is very interesting, because it denies conventional ideas about the economic expansion mechanism employed by a country supposedly belonging to the semi-periphery of the global economic system. Called “the world’s factory” in the 21st century, the Chinese People’s Republic has gained the top position on the global market. The foreign trade turnover of China from January to November 2017 reached 3.703 trillion USD, which is 12% higher than the analogous period of the previous year. The export grew by 8% to reach 2.039 trillion USD, and imports – by 17.3% to reach 1.663 trillion USD. In the years of reforms, China could turn from a backward agrarian country into a leading industrial country which industrial performance determines economic, social and security stability of many countries. China is the largest consumer, manufacturer and exporter in the world. These characteristics are the best evidence of the contemporary dimension of commercial expansion, with all the potential links streamlined to the single center. China has linked to its manufacturing sector value chains of many industries across the world.

China provides stimuli for opening new trade and industrial enterprises and economic cooperation with many countries. On the way to commercial expansion China passed through several main phases. The commercial expansion of China was promoted by the following set of factors:

— Cheap workforce could reduce production costs of Chinese goods for a long time until they could be reduced by economies of scale. At the same time, Chinese province remained the largest workforce supplier to the global market.

— The obligatory norms of exchange of a part of the very high export revenues allowed for accumulating one of the largest gold and currency reserves amounting to nearly 3 trillion USD at the end of 2017. This enabled for artificial devaluation of the national currency, yuan, providing an instrument for stimulation of export-oriented growth and additional competitive advantages to Chinese goods.

— The policy “technology in change of the market”, announced at the beginning of 90s by the Chinese power, by which TNC were to receive a segment of the domestic market in change of foreign technologies transfer to China. TNC rushed to take advantage of the extremely cheap Chinese workforce and started a massive relocation of the manufacturing facilities to China, followed by research centers. Now China is the location of 53 zones of high and new technologies, more than 70 science and technology zones for professionals with foreign education diplomas.

— The Chinese government promotes creation of foreign capital enterprises in China and ensures protection of their legal rights and interests, which is confirmed by the Chinese law on foreign capital enterprises and the established statutory form for this category of companies.

— The export-oriented policy could become a key external factor behind the Chinese economy growth, because China realized that the successful expansion based on foreign trade required a clear strategy guaranteeing tax, credit, custom and other preferences to industries and enterprises streamlined to external market, and such strategy was developed.

Looking back at the commercial component, the vast number of Chinese inhabitants makes China the largest consumer market in the world. The largest Western manufacturers seek to win over this market by offering it diverse product groups: from foods to premium goods. The vast population puts China on the top position by number of Internet users and subscribers of mobile telephony. According the data from the China Internet Network Information Center (CNNIC) [4], 968 million of Internet users were registered at the end of 2017 in China, whereas mobile connection was used by 894 million. As a result, online purchases is one of the most common ways of shopping in China, and global manufacturers need to have marketing and production policies designed specifically for the Chinese market allowing companies to earn a lion share of revenues. So, China could make both developed and developing economies depend on it in both production and consumption terms, which can be regarded as a lever of commercial expansion.

By now China has become the largest global manufacturer of goods and removed the U.S. from the top position that they had taken during 110 years beginning with early 19th century. Diverse categories of goods from China are supplied to more than 70 countries and regions of the world. Electric devices and equipment, clothes and footwear, toys and furniture are the most popular goods for consumers worldwide, and Chinese retailers, such as the largest Chinese Internet holding Alibaba, have become serious competitors for Internet giants like Amazon or eBay.

Chinese brands are stably gaining the popularity across the world: China Mobile, Industrial Construction Bank of China, Bank of China, China Construction Bank, PetroChina, the search system Baidu and China Merchants Bank. The Chinese companies seeking to create the brand of global level include telecommunication equipment manufacturers like HTC, Acer, MSI, ASUS i Gigabyte, Huawei, Lenovo, Xiaomi, BBK, Meizu, ZTE Corporation.

While China is fairly believed to be a global factory, as mentioned above, the leading manufacturer and trade conquistador in Europe is Germany. This country draws more significant attention in a comparative analysis with China in view of diametrical historic, cultural, geographic and social aspects. Unlike countries such as France, till the end of the 19th century Germany had been a totality of small states rather than a single one. Gravitation of German businessmen towards internationalism became a distinctive national feature. No other country gave the world as many leaders of the global market as Germany did. It was ten times over the latest 25 years that Germany was the leader in exports, with the record in exports and imports set anew in 2017. According to the Federal Statistical Office of Germany (Destatis) [15], exports of

goods grew by 6.3% to reach 1.279 trillion euro, which was contributed by high demand for equipment. The EU countries accounted for 750 billion euro of the total exports. The imports grew by 8.3% to reach 1.035 trillion euro, including imports to EU worth 682.5 trillion euro. As a result, the surplus of Germany's foreign trade made 244.9 billion euro in 2017. It should be noted that its record of 248.9 billion euro was fixed for the first time in the postwar period in 2016.

A main reason behind the success of German exports is focus on the middle size enterprises, referred to in the export sector as "hidden champions": these enterprises, although relatively small and virtually unknown outside their industry, are leaders of the global market in their niches. The notion "hidden champions" was invented and introduced by Hermann Simon, a German business consultant, at the end of 80s of the past century, when investigating the reasons for success of German exports. He said that large international concerns like Volkswagen, Siemens or BASF were not the only successful exporters, and pointed out to medium size business enterprises. To the class of "hidden champions" he included more than a thousand of unknown enterprises that were market leaders in their segment, from manufacturers of seats, components and input materials, fixtures to manufacturers of machines for tunnel drilling, yachts and lighting systems. Nearly 50% of these "hidden champions" worldwide are companies born and operated in Germany.

It should be noted, however, that the unique features of the business sector in Germany are not confined to the factors of the successful expansion. A remarkable feature is admittedly the German's involvement in Euro zone. An American economist Peter Navarro observes that euro has always played the role of "disguised deutschemark" in the context of benefits for the German economic advance. It means that euro, as the national currency of Germany, is essentially devalued for an economy with foreign trade indicators like that. In other words, if Germany had retained its own currency, its exchange rate would have been much higher than the exchange rate of euro due to its positive balance of foreign trade, which would have increased its imports and reduced its exports. But because euro is the common currency for 19 EU member states, its exchange rate is set by the European Central Bank in view of the macroeconomic situation in all the 19 member states; being the EU economic flagship, Germany enjoys the greatest benefits from the monetary union.

Also, the production pattern in Germany in the latest decades differed from the one in many other developed countries. While American companies undertook massive relocation of production facilities abroad, to countries with less expensive workforce, including to abovementioned China, German companies kept numerous production facilities inside the country. Thus, Germany kept a major part of production facilities in car-making that constitutes a leading export group in the German total exports, contrary to U.S. where the national car-making center Detroit turned into a desert.

Germany could compete with "third world" countries having cheap workforce due to economic and labor market reforms, which allowed it to keep the competitive level of salaries and performance at German companies amidst the increasing competition on external markets. The reform of 14 March 2003, under the title of "Agenda 2010" [13], was intended to curb the growth in salaries and social allowance, to reduce infrastructure expenditure along with increasing government support to companies and banks. The initiative proved to be a success: while the average direct company expenditure in EU grew by 22% in 2002–2010 and by 26% in France, the growth in German companies made as low as 6%. In other words, while Germany refused to increase the social allowances, many other EU member states did boost them by increasing the public debt, as was the case of Greece.

So, the phenomenon of commercial and trade expansion is a quite natural and logical process involved in business development at micro- and macrolevel. The expansion per se can be broken into two levels, depending on what category of entities playing the role of "trade conquistadores" is considered. The first level consists of transnational companies that are directly involved in expansion when expanding the operation on international markets. This process is investigated by various methodological approaches, which is confirmed by the multiplicity of theoretical conceptions that have remained relevant and appropriate even at the contemporary phase of the global economy development. Phases, motives, stimuli and peculiarities of international production and distribution at corporate level are investigated within the first level of commercial expansion.

The second level, corresponding to the macroeconomic environment, helps entities of the first level perform transactions in an proper manner. The mechanisms of the second level of commercial expansion are as follows:

- The type of currency regulation setting up the export competitive environment for domestic products in explicit or implicit way;
- The powerful production facilities inside the country, providing tangible assets, linking customers and importers of goods, creating jobs inside the country, which is a complementary positive aspect for the economy;
- The effective domestic market that is formed, first, by large numbers of consumers, second, by their solvency, which is conditional on macroeconomic situation and market performance in the country. Commercial expansion manifests in the capacity to generate effective exports and forcing other countries to supply their products to the domestic market;
- The national strategy that may address the economic sector on the whole and export-oriented industries in particular. Eventually, it is supposed to centralize and integrate all the reforming measures in order to ensure gradual transitional of the business sector and regulatory framework to radically new phases which results have to be demonstrated in the long-term perspective.

Conclusions. When analyzing the above given characteristics of the commercial expansion phenomenon, it can be said that only the number of population is not dependent on economic stimulation, and implementation of additional

mechanisms on the way of commercial expansion remains to be a nontrivial objective for many countries. It should be noted that commercial expansion cannot be put on a par with economic success in the strict sense, not to mention the correlation between good export figures and living standards of the population. But trade expansion can become an effective source of capital inflow and an effective instrument of influence at the international arena, which is also important for protection of national interests.

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