

VALUE AND APPROACH TOWARDS
INTERNATIONAL BUSINESS IN CHENGDU,
SICHUAN, CHINA

Case: EU Project Innovation Centre

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ABSTRACT

Internationalization is a process of expanding company business activities into an international market. Nowadays, the trend of enterprise internationalization presents different degrees of development level in the developed and developing countries. Diverse factors are driving forces to facilitate EU companies to expand the business in different developing countries. As typically with an emerging country, China, in the process of finding business in this country, the problems concerning market selection and market research are exposed. As a result, an optional solution will be provided as the purpose of eliminating the gaps.

The study is performed based on the mix of qualitative and quantitative approaches in different parts. The data for conducting the study are collected from primary sources like company reports, interviews and secondary sources like books, articles and journals.

Focusing on the term of Business-to-Business (B2B), the empirical part of the thesis is started with an introduction of Chengdu city. With comprehensive descriptions in both macro environment and industrial structure, the objective is to discover the business value and market potential for EU companies to find business in the local market. Based on the real case of EU Project Innovation Centre (EUPIC), the services in this non-profit organization are introduced in order to prove the possibility of supporting and helping EU companies to solve the problems of finding business and the process of market research.

The specific activity of "EU-China Business & Technology Cooperation Fair IV" is explained following the introduction of EUPIC. The purpose is to verify the effectiveness of bridging the gaps of increasing international business for EU companies in the city of Chengdu. Additionally, except of the questionnaire and public report are used to collect the results for the fair, the methods of performance measurement for other services in EUPIC are recommended as well.

In conclusion, the thesis thoroughly evaluates in terms of the potential of Chengdu city, the role of EUPIC and the implementation of EU-China B&T Cooperation Fair IV. A personal recommendation is stated mainly focus on the idea of improving the services of EUPIC and the internationalization trend of Chengdu.

Key words: Internationalization process, Business-to-Business, Market selection, Market research, EUPIC, EU-China B& T Cooperation Fair IV, Chengdu, China

TABLE OF CONTENTS

1	INTRODUCTION	1
1.1	Statement of the problem	1
1.2	Objective	4
1.3	Research methodology	5
1.4	Scope and limitations	6
1.5	Thesis structure	7
2	INTERNATIONALIZATION	10
2.1	Definition of internationalization	10
2.2	Internationalization motives	10
2.3	Internationalization process	11
2.3.1	Definition of internationalization	12
2.3.2	The Network Model	16
2.4	Four cases of internationalization	18
3	DECISION MAKING OF ENTERING MARKET	22
3.1	The term of Business to Business (B2B)	22
3.2	Market selection	25
3.3	Market selection method	28
3.3.1	Qualitative approaches	28
3.3.2	Quantitative approaches	29
3.4	Market research	30
4	SPECIFIC MARKET ANALYSIS	33
4.1	China's western regions development	34
4.2	The city of Chengdu	36
4.2.1	Political factors	37
4.2.2	Economic factors	38
4.2.3	Societal factors	39
4.2.4	Technological factors	40
4.3	Industrial structure	41
4.4	Estimation of industrial clusters development	46
5	EU PROJECT INNOVATION CENTRE (EUPIC)	49
5.1	About EUPIC	49

5.2	Operations	52
5.3	Services	52
5.4	Service performance measurement	54
5.5	SWOT analysis	56
5.6	Interview analysis	56
5.7	EU-China Business & Technology Cooperation Fair IV	60
5.7.1	Fair introduction	60
5.7.2	B2B matchmaking event	62
6	PERFORMANCE MEASUREMENT	63
6.1	Performance measurement of the EU-China Business & Technology Cooperation Fair IV	63
6.2	Recommended tools of performance measurement for other services in EUPIC	65
6.2.1	Legal services	65
6.2.2	Assistance in market access and development (enterprise – in – residence)	66
6.2.3	Salon activity	67
7	CONCLUSION	69
7.1	The market potential of Chengdu	69
7.2	The role of EU Project Innovation Centre (EUPIC)	70
7.3	The implementation of EU-China Business & Technology Cooperation Fair IV	70
7.4	Own recommendations	71
8	SUMMARY	73
	REFERENCES	77
	APPENDICES	

LIST OF FIGURES

FIGURE 1 – Thesis structure	9
FIGURE 2 – Internationalization of the firm: an incremental approach	12
FIGURE 3 – The Internationalization process of the firm	13
FIGURE 4 – Four cases of internationalization of a firm	19
FIGURE 5 – Potential determinants of the firm's choice of foreign market	25
FIGURE 6 – The Road To A Needs-based Segmentation	27
FIGURE 7 – Categorization of the international market selection literatures	28
FIGURE 8 – The map of Chengdu	37
FIGURE 9 – The highway trunk lines of Chengdu	40
FIGURE 10 – Organizational chart of the EU Project Innovation Centre	51

LIST OF TABLES:

TABLE 1 – Major motives for starting export	11
TABLE 2 – SWOT analysis of EUPIC	56
TABLE 3 – Statistics of the participants in EU-China B&T Cooperation Fair IV	64

1 INTRODUCTION

1.1 Statement of the problem

As a result of growing globalization and competition, the issue of internationalization is becoming more and more important and relevant for companies all over the world. Nowadays, the trend of internationalization is moving at a tremendously faster pace. Internationalization is a complicated process and involves an increasing amount of risk in addition to the money and time spent on analyzing different aspects of the business. If the companies aim to become internationally competitive, they have to plan and organize their activities, as well as change the opportunities to the routes of the international market (Su Juan 2009).

Currently, the development trend of internationalization presents distinct degrees in the world market. In reality, the idea of internationalization has become the regular principle to operate different businesses in the majority of the companies in developed countries. At the moment, the national market business scope in each EU member state is a far cry from meeting national enterprises' demands. The internal competition and the attractiveness of potential business opportunities from external markets become the basic driving forces to facilitate different EU companies to expand the process of enterprise internationalization. To be the forerunner of international business, the mature internationalization idea has been extended. This valuable point is influencing various national enterprises in developing countries. The realization of internationalization is germinating and accepted by those companies in many developing countries. Based on the mutual objective, at present, EU companies place more attention on those discovered or undiscovered potential markets to meet their demands in the typical developing countries. And China is one of the target countries that are enhancing the international business in different industries (Su Juan 2009).

Following the footsteps of internationalization, on the contrary, the companies in the developing countries are still in a feverish developmental stage in internationalization process. To be a typical country of China, as a whole, the degree of internationalization of Chinese companies is still in a lower stage

(People 2009). Implementing the strategy of “Going out”, of moving towards export; improving and expanding the quality of opening up becomes the only path towards comprehensively competitive advantage enhancement for China. The Central Committee of the Communist Party of China and the State Council have paid attention to the strategy of “going out” to facilitate the internationalization process, especially to those growing national SMEs. In order to perfect the strategy, the Central Committee of Communist Party of China and the State Council issued a series of policy measures on the aspects of administrative and supervisory systems, financial support policy, tax rate support policy, foreign exchange support policy, and service system (Department of Commerce of Shandong Province 2008).

SMEs are the cornerstone of the national economy in China. Nearly 30 years of reformation and opening up, the economic development of SMEs and private enterprises are experiencing a rapid process. Those enterprises have made significant achievements to become an important force on the economic and social development (CIW 2009). Nevertheless, in recent years, except of facing old different problems of financial difficulties, imperfect social service systems, lack of information, low level of enterprise management, weak market competitiveness, and the needs of overall quality improvement, the development of SMEs in China is still under the stress of continuous new issues. To encounter the price increase of raw material, land constraints, energy, labor costs, the policy adjustment of export tax rebate, environment costs of internationalization, sequela sub-prime crisis, as well as the vicious competition which is brought by the situation of SMEs homogenization, the Chinese SMEs are facing unprecedented difficulties in the unpredicted business environment (CIW 2009).

Two main decisions for a company’s internationalization process are the market selection and choice of entry mode (Albaum etc al, 1994); in other words, where to internationalize and how. “Market selection and market entry mode should most appropriately be looked on as two aspects of one decision process” (Koch, 2001, 73). For the purposes of succeeding and growing on the international arena, it is crucial for a company to choose the right market and the right mode of entry.

Companies also need to pay particular attention on the factors that are likely to influence on market selection and entry choice. The design and outcome of each market selection and entry mode selection depend on the external and internal environmental situations (Koch, 2001, 68). There is no ideal way to deal with these issues as international processes are very dynamic in nature.

Sometimes, even if the specific market has been defined to enter in, still, the critical barriers and risks hindering in the process of internationalization would lead to an inaccurate decision and unsuccessful international operation. According to Hollensen (2004, 43), the mainly barriers can be divided into three groups of “General market risks”, “Commercial risks” and “Political risks”. Besides, even there is one specific market is decided to enter in, but the process of market research in different aspects could not be always smoothly for the companies when they collect data about the target market more deeply. Generally, the major sources of information can be grouped in to primary data and secondary data. After a comprehensive consideration between these two source groups, the secondary data is the preference that most companies would like to adapt in the beginning. However, the statements from Jeannet and Hennessey(1995, 201) describe that, although a substantial body of data exists from the most advanced industrial nations, secondary data are less available from developing countries. Not every country publishes a census, and some published data are not considered reliable. The accuracy of data varies from country to country, with data from highly industrialized nations likely to be more accurate than data from developing country (Jeannet and Hennessey 1995, 204). Usually, Data collection and privacy concerns being raised in the target market may affect the research globally as well.

Based on the above introduction and problem discussions, the research questions for my thesis will be:

- In such a vast geographical area in China, what kind of potential and typical market that is suitable for EU companies to increase international business nowadays?
- On the premise of a specific market has been selected in China, how could EU companies find business opportunities in that market?

- Under the situation of impediments of market research, what kind of the approach is available for EU companies to eliminate the gaps?
- In order to perfect the whole processes of promoting international business as well as solving the problems of market research for EU companies in the target market, what kind of the suggestions should be put forward to the selected approach?

1.2 Objective

The aim of this study is to analyze the possibility for EU companies to find business in the city of Chengdu in China's Sichuan Province. In essence, the purpose is to introduce and discover the potential business opportunities of Chengdu for EU companies, as well as promote the Chinese SMEs in that city to be internationalized.

At present, in the fierce competitive business environment, according to the observation and macro analysis, several typical problems of increasing international business in the foreign market have been identified and summarized in the previous section. To confront the current development situation in China's Sichuan province, various types of facilitating international business are provided to meet different requests. In the study, on the basis of finding business in the target market of Chengdu, by employing the service from the Non-profit Organization has been chosen and introduced.

In reality, the thesis is based on the real case of EU Project Innovation Centre. In order to verify the possibility of bridging the gaps, as well as help and support the international business for EU companies in the city of Chengdu, the thesis is to take into consideration of explaining some services in EUPIC, as well as a case activity of "EU-China Business & Technology Cooperation Fair IV" that implemented by the EU Project Innovation Centre in detail. Meanwhile, except of several suggested measurements for partial services of EUPIC are put forward, following the purpose of testing the effectiveness and efficiency of EU-China

Business & Technology Cooperation Fair IV that are held by EUPIC, the related performance measurements are employed as well.

1.3 Research methodology

Based on Kumar (2005, 6), the author states that, there are several ways of receiving answers to professional questions, and research is one of the ways to find answers to our questions. For this reason, this part aims to clarify the research methodology that the writer employs. Different perspectives relate to the researches are discussed in the following paragraphs. It includes study design, research approach and research method and method of data collection.

First and foremost, the thesis study is to investigate a business phenomenon through a comprehensive analysis of one specific market. Later, the research approach defines the way in which the research is developed. About the deductive approach, a theory and hypothesis is developed first, and then a research strategy is designed to test the hypothesis. Contrarily, about inductive approach, data are collected and analyzed to produce the theory (Saunders, Lewis and Thronhill 2003, 85). In this case study, inductive approach is applied.

Subsequently, a method for collecting data is used to find answers to the research question. Before going further to the choice of either qualitative or quantitative methods, their definitions are reviewed. According to Kumar (2005, 12), quantitative research is a method to quantify the variation in a phenomenon, situation, problem or issue. On the other hand, Cooper and Schindler (2008, 162) illustrate qualitative research includes an array of interpretative techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world.

In spite of the differences between qualitative and quantitative methodologies, Hollensen (2004, 145) points out the quantitative and qualitative research methods often complement each other. Cooper and Schindler (2008, 185-186) advocate their merger to increase the perceived quality of the research. A quantitative

study may follow a qualitative one to provide validation for the qualitative findings.

The research in the thesis is written mainly based on the qualitative methods. To discover the current business phenomena and existing obstacles, the basic observations and interviews are implemented. The observations are mainly based on the four months' practical training in the case organization. Besides, the selection of the interviewees is considered as a typical and representative role who can point out the perspectives for one individual group. Because of the different roles of the interviewees, the unstructured questionnaires are designed in order to get common arguments from different answers to push the following analysis in the study. Furthermore, a PEST and SWOT analysis are used separately as tools for the situation analyses in both the target city and the case non-profit organization. Additionally, the quantitative method of questionnaire is employed for the case activity in the part of performance measurement.

Lastly, the method of data collected is employed as an implementation tool for qualitative approach. With respect to the thesis study, the useful and essential data can be found from the sources which are collected throughout the secondary data.

1.4 Scope and limitations

Concerning different types of business, this study will be narrowed in the term of Business-to-Business (B2B). Following the purpose of increasing international business from the side of EU companies, another analytical part is concentrated on the Chinese SMEs as the target.

The knowledge of market selection and market research in the theoretical part will be mainly described the problems that exist in these two parts during the process of international business. The idea to limit the theories in that extent is to create a path for the following theoretical application as the purpose of solving those conventional problems in the empirical part.

Within the widely geography range of Sichuan Province, this study conducts analyses will only focus on the target city of Chengdu with highlighted introduction and analysis. Particularly, a scope of the research object in the target market will be concentrated on the locally SMEs.

In addition, considering the multidimensional and comprehensive service ranges of the EU Project Innovation Centre, the service will be narrowed in the part of helping EU companies to find business as well as solve the related problems in the city of Chengdu in accordance with those companies' needs.

The resources of the industrial clusters in the city of Chengdu are unlimited and abundant. In this case, the typical industrial clusters will be picked to reflect the attractiveness of the market.

In fact, different activities are included in the EU-China Business & Technology Cooperation Fair IV. Only the B2B match-making event will be mainly explained in order to point out its core of finding the answer for the research question in this study.

Lastly, the performance measurement covers both the B&T fair and the services in EUPIC. Connecting with the analytical part, only several typically services are mentioned in this part of performance measurement.

1.5 Thesis structure

The thesis structure is comprised of two parts – theoretical framework and empirical study. Primarily, from the starting Chapter 2, the term of internationalization is discussed. This section is subdivided into first two parts of the general introduction and motives of internationalization. In another part of internationalization process, two traditional models give the basic understanding of the approach. The following Chapter 3 focuses on the principles of market selection and market research in the term of Business-to-Business (B2B). The knowledge study of market selection is divided into theory and method parts. In

the part of market research, the knowledge about research mainly concentrates on the problem of secondary data collection.

Later, Chapter 4 specifies a market based on applying related theory of market selection. The study originates an approach to increasing international business in an attractive Chinese market. For this reason, once the route of getting support from the Non-profit organization is introduced, Chapter 5 introduces the EU Project Innovation Centre (EUPIC) as an exact case. In the meantime, based on using the qualitative research of interview, once the common problems concerning finding business and market research in Chengdu, the activity of “EU-China Business & Technology Cooperation Fair IV” that was held by EUPIC will be described as the purpose of proving how to eliminate the gaps and promote the international business between EU and Chinese companies in the city of Chengdu.

Whereafter, Chapter 6 provides performance measurements by using questionnaire and public report to test the case activity. The result is to know the effectiveness and efficiency of getting support and solving problems from EUPIC. Moreover, some recommendations for several typically services in EUPIC are followed as well.

Lastly, Chapter 7 thoroughly evaluates three parts of the potential of Chengdu city, the role of EUPIC and the implementation of EU-China B&T Cooperation Fair IV. Besides, a personal recommendation is stated mainly focus on the idea of improving the services of EUPIC and the internationalization trend of Chengdu

Last but not least, Chapter 8 finishes off the thesis with a summary. The following figure illustrates the thesis structure, with note that numbers attached with some titles indicating chapters.

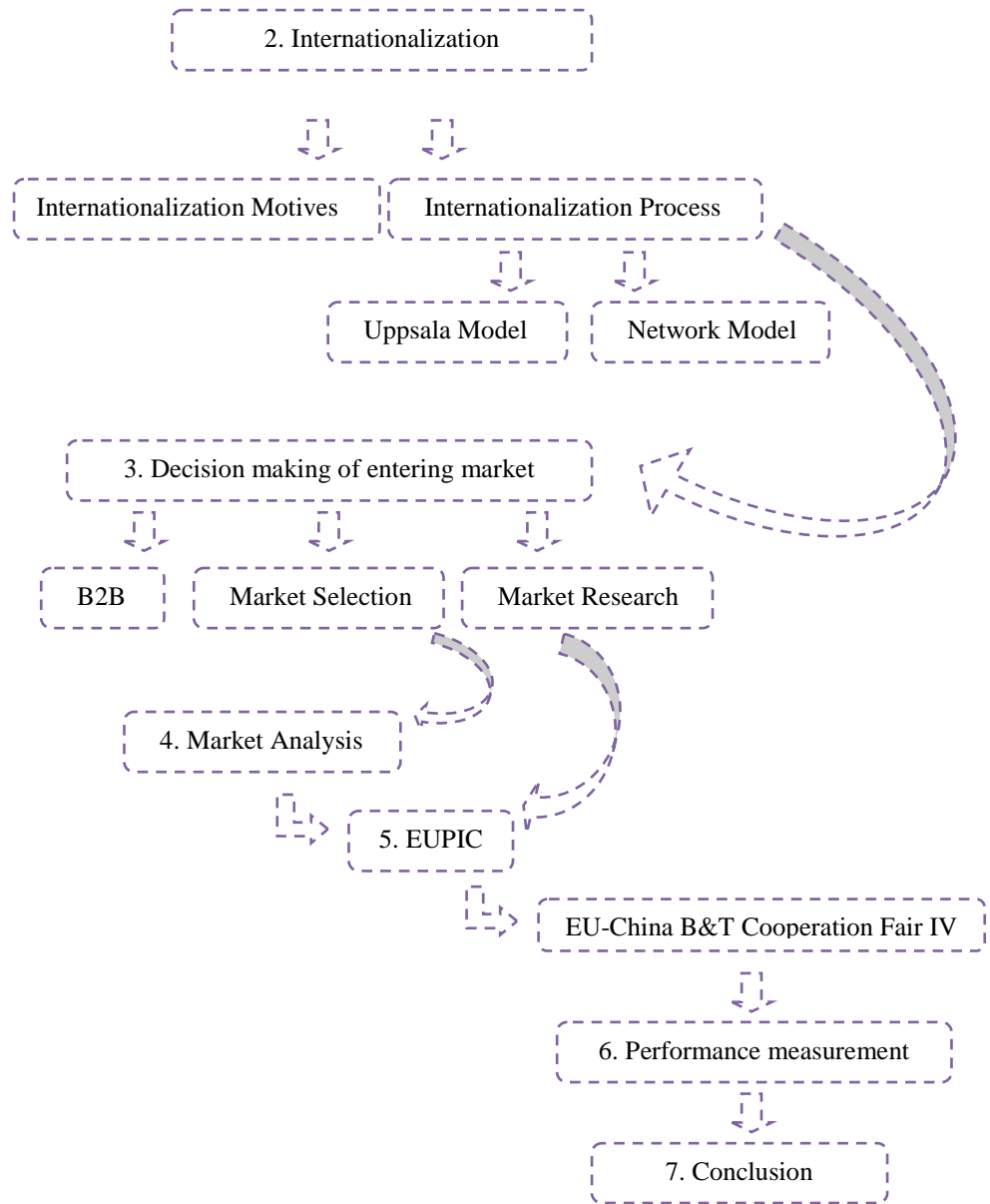


FIGURE 1- Thesis structure

2 INTERNATIONALIZATION

2.1 Definition of internationalization

With reference to the introduction, Hollensen (2007) explains that internationalization occurs when a company has decided to expand some of its business activities into an international market. Activities that can be internationalized for example are R&D, production as well as selling.

Coviello and Munro (1997, 115) define internationalization as: “[...] the process by which firms both increase their awareness of direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries.”

Rundh (2006) have defined internationalization as “the process of increasing involvement in international operations.” A different view is taken by Calof and Beamish (1995, 116) who define internationalization as “the process of adapting firms’ operations (strategy, structure, resource, etc.) to international environments.” However, internationalization is a dynamic and not a linear process. Due to rapid changes in the international marketplace, a firm can also de-internationalize from a market by dropping a product (Calof and Beamish, 1995) or reducing investments in a particular market or by withdrawing from international activities altogether (Benito and Welch, 1997; cited by Rundh, 2006). A withdrawal can also lead to resources being used for activities in another market area or for a more competitive product that will contribute to a better competitive position (Rundh, 2006).

2.2 Internationalization motives

According to Hollensen (2004, 31), the firms which decided to internationalize usually do so to make money. But, as in most business activities, one factor alone rarely accounts for any given action. Generally, a mixture of factors results in firms taking steps in a given direction.

A lot of internationalization motives exist and are differentiated into proactive and reactive motives. Simply, proactive motives represent stimuli to attempt strategy change, based on the firm's interest in exploiting unique competences (e.g. a special technological knowledge) or market possibilities. Contrarily, reactive motives show that the firm reacts on pressures or threats in its home market or foreign market and adjusts passively to them by changing its activities over time (Hollensen 2004, 31-32).

Chetty and Campbell-Hunt (2003) further describe that the attitude of the decision makers, the management's expectations on growth as well as the manager's commitment towards internationalization are important influences when the firm desires to expand its business to foreign markets. Besides, several typical points of the motives to affect internationalization have been listed in the following table:

TABLE 1 – Major motives for starting export (Hollensen 2004, 31)

Proactive motives	Reactive motives
<ul style="list-style-type: none"> • Profit and growth goals • Managerial urge • Technology competence/unique product • Foreign market opportunities/market information • Economies of scale • Tax benefits 	<ul style="list-style-type: none"> • Competitive pressures • Domestic market: small and saturated • Overproduction/excess capacity • Unsolicited foreign orders • Extend sales of seasonal products • Proximity to international customer/psychological distance

On the other hand, non-driving forces for internationalization are present, which include insufficient knowledge about foreign markets, lack of international experience as well as inadequate language skills. Other firms may not have any intentions at all to expand their business abroad (Chetty & Campbell-Hunt, 2003).

2.3 Internationalization process

During the long-term development on the internationalization, different approaches such as traditional marketing approach, "life cycle" concept for

international trade, transaction cost approach, Uppsala approach, Dunning's eclectic approach, the network approach and others play their importance in different periods of time.

Basically, each of the approaches stands for individual meaning of internationalization. However, about this research, it is fallen into two broad classifications, which are The Uppsala Internationalization Model (U-Model) and The Network Model.

2.3.1 Definition of internationalization

Johanson and Wiedersheim-Paul (1975) conceive the internationalization process as an incremental process involving four stages: no regular export activities, export via independent representatives (agents), sales subsidiary, and production/manufacturing. A clear vision of the four stages can be found as follows:

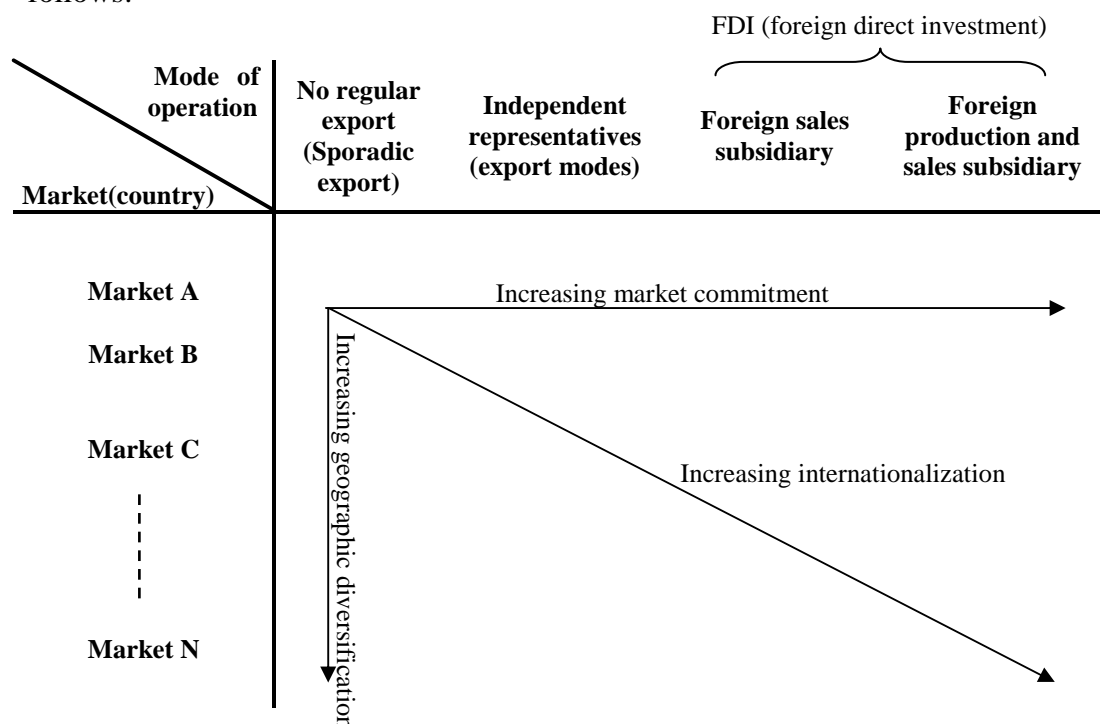


FIGURE 2 – Internationalization of the firm: an incremental approach (Hollensen 2004, 53)

Johanson and Vahlne (1977) develop a theoretical model to explain the internationalization process of the firm. This model is focused on “the development of the individual firm and particularly on its gradual acquisition, integration, use of knowledge about foreign markets and operations and on its successively increasing commitment to foreign markets” (Johanson and Vahlne, 1977, 23). According to the model (Figure 2), the state aspects are market commitment (resource commitment to the foreign markets) and market knowledge about foreign markets and operations. The change aspects are decisions to commit resources and performance of current business activities (Andersen, 1993). “The basic assumptions of the model are that lack of such knowledge that is an important obstacle to the development of international operations and that the necessary knowledge can be acquired mainly through operations abroad” (Johanson and Vahlne, 1977, 23). The gradual acquisition of knowledge amplifies foreign commitments (Karadeniz and Göcer, 2007). The increasing experience and knowledge about foreign markets lowers the perceived risk and transaction costs, thus increasing the commitment to foreign markets (Karadeniz, 2007).

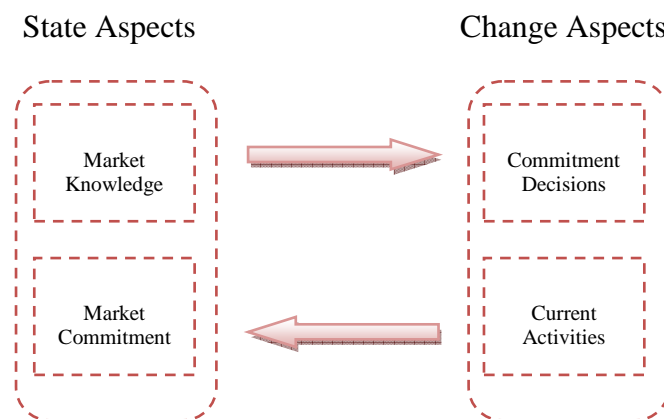


FIGURE 3 – The Internationalization process of the firm

Market knowledge and market commitment are assumed to affect both commitment decisions and the way current activities are performed. In the model, it is assumed that the firm strives to increase its long-term profit, which is assumed to be equivalent to growth. The firm is also endeavoring to keep risk-taking at a low level. These strivings are assumed to characterize decision-making

on all levels of the firm. Given these premises and the state of the economic and business factors which constitute the frame in which a decision is taken, the model supposes that the state of internationalization affects perceived opportunities and risks which in turn influence commitment decisions and current activities (Johanson and Vahlne, 1977).

Companies start their international business on markets with low uncertainty (Armario, Ruiz and Armario, 2008). According to Johanson and Wiedersheim-Paul (1975), firms tend to internationalize their business towards close markets which are easily understood and which have a low degree of psychic distance. Psychic distance refers to differences in language, culture and political systems; factors that can influence the communication between the firm and the foreign markets. Only gradually, firms will enter markets with a greater psychic distance. Armario, Ruiz and Armario (2008) explain that, as soon as the firm has gained sufficient international experience, further decisions on entering new markets will be based upon factors such as market size or the global economic climate. The Uppsala model is an incremental internationalization process, accelerated by a stronger commitment and experience of the foreign market. Johanson and Vahlne (1977) argue that market knowledge and market commitment are closely related. According to the authors, knowledge can be seen as a resource, which means that the more knowledge the firm has about a market, the more valuable become the resources. This leads to that the firm's commitment to the market gets stronger.

The Uppsala model has nevertheless encountered critique according to Nordström (1991). Not every firm is following the concept of the model, as some firms tend to leapfrog certain stages of it. This means that companies enter markets with a greater psychic distance in an early stage. However, it is claimed that internationalization processes of firms generally occur in a faster pace today. 'Born globals' are emerging on the market; firms that have the ability to internationalize much faster than firms with a long experience from their home market. It is common for 'born globals' to be established in international networks before the company has been founded. This means that the company's

internationalization process is eased due to their earlier experience and knowledge from foreign markets (Johanson, Blomstermo and Pahlberg, 2002).

Besides, the Uppsala model has been criticized from different aspects. Mostly the critique has not been leveled towards the process model, but for development and differentiation of the model. One criticism that has been put forward is that the model is too deterministic. The argument is that the company has an option to make a strategic choice of where to expand and which entry mode to use. Such a choice is more dependent on the market conditions. Another criticism that has been put forward is that the process model is more valid for companies that have recently internationalized and whom still lack market knowledge and market resources. Companies that already have operations in several countries do not face these problems as much as the beginners (Johanson & Vahlne, 1990).

It has also been argued that lately the world has become more homogenous, which has decreased the psychic distance between different countries (Johanson & Vahlne, 1990). Furthermore, nowadays companies can easier and quicker access knowledge about doing business abroad. The continuous growth in trade and foreign direct investment has increased the number of people with experience and knowledge of doing business overseas. Consequently, it has become easier to hire and learn from these people (Hollensen, 2004). Studies have also shown that the internationalization process model is not valid for service industries. For instance, a study of the internationalization process of Swedish banks shows that cultural distance has not affected their foreign establishment (Johanson & Vahlne, 1990, 15).

Even though the Uppsala model has had criticism of various kinds, it has still gained strong support in different parts of the world. It is not only limited to small and highly industrialized countries. Later research from other countries has reported empirical observations in support of the model (Johanson & Vahlne, 1990, 13).

2.3.2 The Network Model

Ford (2002, 229) puts the network model into a simple definition: “[...] the network approach sees internationalization in terms of a company’s existing home or overseas relationships, those that it may have to establish to operate in a new market (and perhaps break elsewhere) and the actions of both the company itself and others around it. In other words, as a process driven by the interaction of all the actors in a network.”

Hollensen (2004, 60) defines business network as a mode of handling activity interdependences between several business actors and link each other through relationships. These relationships are seemingly flexible and may change in connection with environment changes. The network approach assumes that firms cannot be seen as individual actors; rather they have to be related to other actors in the international environment. Firms are interdependent of each other and relationships with other firms can be used to connect with other international networks (Johanson and Mattson, 1988). Through these relationships the different firms can take advantage of each other’s resources in the network (Håkansson and Snehota, 1989). On the other hand, Ritter (1999) claims that not all relationships carry good things with it; mistrust and dependencies may come up. Moreover, it is a time consuming and costly process to gain access to external resources through relationships.

Every actor within the business network keeps the network in function as long as everyone within the network engages in relationships with each other. The shape of the network can change easily as any actor within the business network can change relationships and engage in new ones; thereby, changing the structure of the network (Hollensen, 2007). According to Johanson and Mattson (1988), a network can either be tightly structured or loosely structured; in tightly structured networks, the interdependence of firms is high and the positions of them well defined at the same time as the bonds between the companies are very strong. On the opposite, the loosely structured networks have no well defined positions of the firm nor do they have any strong bonds between them. Simply put, certain networks are strong whereas others are weak (Donaldson and O’Toole, 2002).

Networks are divided into three categories by Donaldson and O'Toole (2002); social network, bureaucratic network as well as proprietary network. The social network relies on human interaction, with personal network being most important for small businesses. The personal tie eases a successful competition, which is accomplished through informal person-to-person network, word-of-mouth rumors as well as repeat business. Bureaucratic network is highly formalized and can differ depending on the power of the members of the network. In the proprietary network, the ownership of assets is regulated in advance; joint ventures being an example in this category.

Hollensen (2007) defines the actors inside of a network as connected through a number of ties, for example technical, social, administrative or personal ties. The author explains that there exists a basic assumption about the network model that the single firm is dependent on the resources controlled by other firms. These resources in turn, get accessible through the firms' network positions. Despite that, entering into a business network is not an easy task as it requires the motivation and the willingness of other actors within the network to interact with the firm outside of it. Håkansson and Snehota (1989) clarify that a relationship status only is accomplished if the other parties at least have taken some actions to it.

As mentioned earlier, every actor within a network brings with it resources; for some actors being unique resources whereas for others working as a complementing resource to its own one. From a network perspective, the combination of resources from different actors is a great strength, as this gives the individual firm a stronger position. Additionally, this results in new knowledge within the reinforced network. Network is often considered as a knowledge resource due to the sharing of resources builds learning as well as adaptation skills among its members (Donaldson and O'Toole, 2002). It is the ongoing interaction with other companies within the network that gradually leads to the learning of how the market works at the same time as this interaction strengthens the engagement of each actor (Johanson, Blomstermo and Pahlberg, 2002).

Johanson, Blomstermo and Pahlberg (2002) claim that the network context is important as it is a source of information about the environment. Every business is

conscious of their own company and how it works, but by having close relationships to other actors, a company can easily get access to information about other businesses and how these work. The authors further explain that the formed relationships can give the company an insight to the other firms' thoughts about the future. Close relationships enable the company to estimate and understand trends which can be critical for the company.

2.4 Four cases of internationalization

Ford (2002, 229) describes internationalization as “an outward extension of a single company's current operations and the outcome of its decision making.”

The earlier presented Uppsala model presents internationalization as independent, with no regard to competition or the situation on the market. These aspects can be combined; Hollensen (2007, 72) explains: “A ‘production net’ contains relationships between those firms whose activities together produce functions linked to a specific area. The firms degree of internationalization shows the extent to which the firm has positions in different national nets, how strong those positions are, and how integrated they are.” According to Johanson and Mattson (1988) the term ‘net’ is used specifically to identify parts of the total network. Production net refers to a firm's relationship connected to a certain product area, whereas national nets consider networks in other countries (Chetty and Holm, 2000).

Hollensen (2004, 62) extends this definition by relating to four different cases of internationalization among firms; on the one hand, a low or high degree of internationalization of the firm and, on the other hand, a low or high degree of internationalization of the market. Johanson and Mattson (1988) further explain these four situations as internationalization processes connected to the network model.

Degree of internationalization of the firm	Degree of internationalization of the market		
		Low	High
	Low	The early starter	The late starter
High	The lonely international	The international among others	

FIGURE 4 – Four cases of internationalization of a firm (Hollensen 2004, 62)

In Figure 4, the first case of internationalization, illustrated by Hollensen (2004, 62) is the ‘early starter’. Here, there is no existing important relationship between competitor, customers, suppliers or other firms, neither on the domestic nor on the international market. The internationalization process is in this case described with a slow and stepped involvement in the market, often arranged by an agent. The firm is inexperienced in the foreign markets, and Johanson and Mattson (1988) argue that such experience cannot be gained from relationships in the firm’s domestic market. Hollensen (2007) explains that the more knowledge the firm has gained about the foreign market, the more committed it becomes. This scenario also is confirmed by Johanson and Mattson (1988), who add that firms rather choose markets which are similar to the home market as the firm already contains a certain degree of knowledge about it. The authors bring out that the ‘early starter’ prefers to export products instead of manufacturing them abroad. As soon as the firm’s internationalization has increased, it will change from being an ‘early starter’ to become ‘a lonely international’.

‘The lonely international’ describes the firm as experienced regarding relationships with other foreign countries. The firm handles situations outside its own environment and cultural values (Hollensen, 2004, 62). Considering the structure of networks, ‘the lonely international’ can easier get access to tightly structured networks as it already has gained a lot of knowledge about different national markets (Johanson and Mattson, 1988). Hollensen (2007) explains that any taken initiative for further internationalization does not origin from inside the

production net, as the actors within this network have a limited knowledge about internationalizing processes. This is not a problem though, as the 'lonely international' has the capability to promote its production net as well as the firms involved in it. These statements are also confirmed by Johanson and Mattson (1988), but they add that the firms which have internationalized before their competitors may gain advantages by that, especially in tightly structured networks. This due to that the firms already have their network positions before their competitors.

About the third case of internationalization, 'the late starter' has the disadvantage of being less experienced in other markets compared to its competitors. Moreover, the firm often has the problem to establish new positions abroad because of tightly structured networks (Johanson and Mattson, 1988). The best distributors already conduct business with competitors and as a newcomer; actors within the net can make the business unprofitable because of high pricing. Timing is an important aspect to take into consideration when internationalizing a business. In this case, also the size of the firm has to be taken into account. SMEs can generally adjust more easily to foreign environments as the firm is flexible, which is an important factor in an international net. A small firm can easier adjust itself and react faster on initiatives of other firms, which is crucial in the case where other firms in the net already are international. Larger firms (LSEs), on the other hand, are often less specialized, making their situation more complex than in the case of the SME (Hollensen, 2007). Johanson and Mattson (1988) point out that there exists a general problem for internationalizing firms; a firm that already is large in its home market has difficulties in finding a niche on the international market.

Lastly, 'the international among others', gives the firm the possibility to use connections in one net for further extension or penetration into other nets (Hollensen, 2004, 63). The establishment of sales subsidiary is common in this stage as the firm has a high international knowledge at the same time as a stronger need for coordinating activities between the markets is required (Johanson and Mattson, 1988). The 'international among others' mainly meets competitors with a high international integration and operates in tightly structured markets.

Changes in the firm's position may only occur through for example joint ventures or acquisitions. The driving forces for internationalization in this case are based on that the firm has the urge to use its network position in a strategic manner.

It is concluded by Hollensen (2007) that internationalization is seen as process where knowledge and learning go hand in hand, even though if internationalizing occurs in a fast pace.

3 DECISION MAKING OF ENTERING MARKET

To make a final decision for entering a foreign market to expand company international business is built on different preconditions. Different stages of preliminary works should be implemented with comprehensive analysis and research. Basically, a general structure of marketing process can be classified into situation analysis, marketing strategy, marketing mix decisions, and implementation and control (NetMBA Business Knowledge Center 2007). In the beginning, the situation analysis can be started by utilizing the methods of '5 C Analysis', 'PEST Analysis' and 'SWOT Analysis'. Meanwhile, the traditional approaches to fulfill the marketing strategy include segmentation, targeting, position and so forth. Based on the initial stages of marketing process, the specific product development, pricing decision, distribution and promotional development should be followed. Within the widely range of marketing process, the study will mainly concentrate on the analysis of market selection in the part of targeting as well as the knowledge of market research concerning the term of Business-to-Business (B2B).

3.1 The term of Business to Business (B2B)

Business-to-Business (B2B) is a marketing relationship between the enterprises in the field of market. Simply, the B2B can be regarded as a transaction that occurs between two companies, as opposed to the transaction involving a consumer (Baiké 2010). The term "Business-to-Business" was originally coined to describe the electronic communications between businesses or enterprises in order to distinguish it from the communications between businesses to consumers (B2C). In the early stage, it eventually came to be used in marketing as well, initially describing only industrial or capital goods marketing. Nowadays, it is widely applied to describe all products and services used by enterprises. The term may also describe a company that provides goods or services for another company. Compare to the traditional model of B2B, the e-commerce has become a major manifestation to the modern B2B market (Baiké 2010). In reality, the traditional

business transactions between companies often have to spend a lot of resources and time. No matter the transaction is sales, distribution or procurement, each of them will occupy the cost of the product. However, through the path of transaction online, the buyer and seller can complete the entire business process as well. By utilizing the e-commerce model of B2B, the operation costs, as well as a number of transactional workflows and management costs between the enterprises can be declined. The convenience and extension of the networking will support different enterprises in expanding the range of their activities. Meanwhile, the cross-border and inter-regional business development become more convenient and less expensive (Baiké 2010).

Presently, the development pace of internet B2B is surprisingly rapid. According to the latest statistics, in the beginning of 2009, the transaction volume of internet B2B has far exceeded to the amount of B2C transaction. In 2006, the size of global B2B e-commerce market reached 5.8 trillion U.S. dollars. With a forecasting, the annual growth rate will be around 45% in the next few years. And the market size of global B2B e-commerce in 2010 will achieve 26 trillion U.S. dollars (CIECC 2009).

Not only establishes a trading group on internet, but also B2B provides the basis of strategic cooperation among the companies. Anyone company, regardless of its strong technical strength and good business strategy, it is completely not possible to achieve B2B individually. In truth, the establishment of alliances between enterprises has become a common development trend. Network allows unimpeded access of information. Via network, enterprises can build a complementary and mutually beneficial in market, product and business operation (Baiké 2010).

Despite B2B e-commerce market has a good developmental momentum, but the immature side still exists in this case. One report described that, although the online transactions account for 40% of market share by 2004, but 11% B2B transactions only related to the price negotiation, and in the majority of the online transactions are the simply order fulfillment (Pang 2009). According to the research report, which did in-depth interviews to 260 online trading parties by Boston Consulting Group (BCG), the vice president Jim Andrew states that,

“Recently, the shallow model of B2B cannot completely simulate the traditional buying and selling patterns. Almost half of the surveys of the online transaction are required under the coordination of traditional network communication to improve the entire transaction (XICI 2009)”.

Until now, the B2B platforms present two kinds of genre – Asia and West. Although each of them possess advantages in its market, but the shortages are still identified separately as follows (Baiké 2010):

1) Western B2B platforms (i.e. European and American):

- Low domestic popularity;
- A high degree of specialization, the use of more complex;
- Less directly inquiry;
- Longer trading process.

2) Asian B2B platform (i.e. China)

- Generally does not solve a fundamental problem – low visitation by the foreign buyers;
- Be regarded as a small commodity distribution platform with short order and small volume by foreigners;
- It is difficult to have large key account inquiry;
- Large internal inquiry, but less volume;
- Fully fierce competition from large number of domestic companies leading to lower profits;
- Large costs should be put to get a good position, and the performance-to-price ratio becomes lower;
- Basically, the advantages only concentrate on the industries of clothing, craft gift, hardware, electronics and so forth in the Southeast Asia, Middle East and other regional markets.

Focusing on the trend of B2B e-commerce in the China’s market, the above statements apparently reflect the immaturity of B2B e-commerce at the moment.

For this study, instead, the traditional model of B2B will be used for the following analysis.

3.2 Market selection

According to (Fletcher et al., 2004, 226), selecting an international market can impact on the other activities of the firm. This is because the outcome may influence the profitability of the firm in its domestic as well as in its other international markets. Besides, Hollensen (2004, 220) points out several potential determinants of the firm's choice of foreign market from Uppsala school's research. Those determinants can be classified into two groups of environmental and firm characteristics;

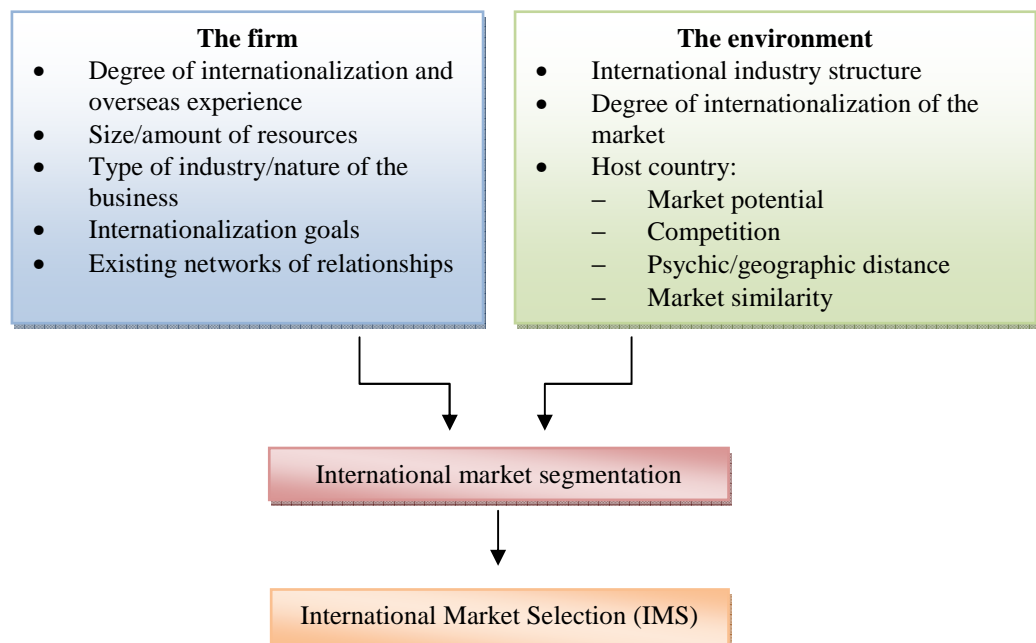


FIGURE 5 – Potential determinants of the firm's choice of foreign markets (Hollensen 2004, 220)

Governments and individual firms that want to stimulate growth through export development must distinguish between the vast numbers of export combinations due to the fact that, in most circumstances, a large number of export opportunities exist, and only a limited number of these can be explored because of scarce resources (Papadopoulos and Denis, 1988, 38). The challenge that governments

and individual firms therefore face is in choosing specific sectors for export promotion (Shankarmahesh et al., 2005, 204). In order to yield a higher return on investment and make sure that resources are not wasted on less attractive export markets, they should focus their efforts and resources on a limited set of dominant export markets (Shankarmahesh et al., 2005, 204). Furthermore, selecting the “right” market is important as a first step in expanding exports to ensure export success, determining foreign marketing strategies and deciding where to establish bases to create a favorable competitive position in those markets (Papadopoulos and Denis, 1988, 38). Rahman (2003, 119) states that there exists a well-developed literature of market failures encountered by international marketers and that the biggest reason for these failures is poor market selection resulting from inappropriate evaluation of markets.

Czinkota & Ronkainen (2001, 272) and Hollensen (2004, 37-42) state that the market selection in some cases is a reaction to a motivation provided by a ‘Change agent’. The authors explain this change agent as something within or outside the company that triggers the internationalization to take place. The Change agent can appear in the form of an unsolicited order. Government agencies, chambers of commerce and other change agents may also bring foreign opportunities to the firm’s attention. Such cases constitute an externally driven decision in which the exporter simply responds to an opportunity in a given market.

The process of evaluating worldwide export opportunities is complicated for a number of reasons. These include the difficulty of examining all possible export opportunities to all the countries of the world, and the availability of data for specific consumers, businesses or governments that limits the screening process to using only published data (Brewer, 2001, 155).

The selection of a supplier in Business-to-Business market is more complicated. Since people are buying on behalf of their organization rather than themselves, there is a greater pressure to be objective and rational about their decision (Paul 2007). In a B2B situation, it is unlikely that just one person will make the buying decision. In Business-to-Business market, the aim of segmentation is similarly to

arrive at clusters of like-minded companies. There is a very strong pressure to use segmentation in Business-to-Business market to win a competitive advantage as there is often little to differentiate one product to another. Segmentation therefore links strongly with a strategy to achieve a sustainable and differentiated position. The benefits of segmentation are not hard to grasp. The challenge is arriving at the most effective groupings. Compare to B2C market, Business-to-Business customers have more complicated needs, which can make a need-based segmentation both difficult and even dangerous. But the similarities of buying and using products in one group have led many Business-to-Business marketers down the road of convenience segmentation (Paul 2007).

A variation to the segmentation philosophy in Business-to-Business market is to apply a segmentation based on company size. The consumption levels of B2B customers are so widely different that this often makes sense due to large companies usually thinking and acting differently to small ones (Paul 2007). Compare with those ‘demographics’ segmentations, sometimes referred to as ‘firmographics’ in Business-to-Business market, are perfectly reasonable and may suffice. However, they do not offer sustainable competitive advantage that competitors cannot copy. According to the statement from Paul (2007), a more challenging segmentation is one based on behavior or needs. The path of segmentation for the companies to move is drawn up as follows:

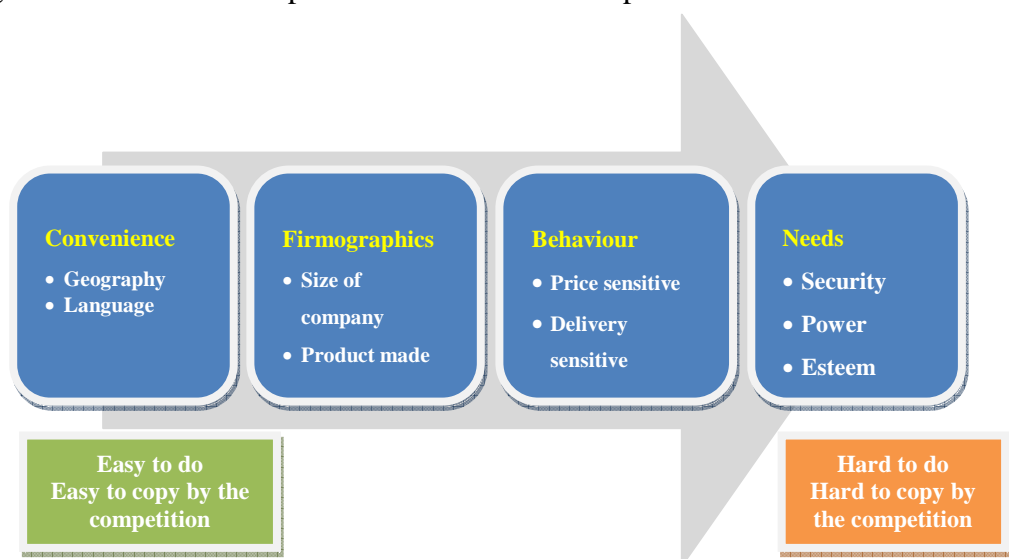


FIGURE 6 – The Road To A Needs-based Segmentation (B2B International)

3.3 Market selection method

Papadopoulos and Denis (1988, 38-51) summarized the literature on international market selection methods up until the late 1980s. They classified over 40 proposed international market selection models into two broad types of approach – qualitative approaches (rigorous and systematic gathering and analysis of qualitative information about one or a handful of potential country markets) and quantitative approaches (analyzing large amounts of secondary data about many foreign markets).

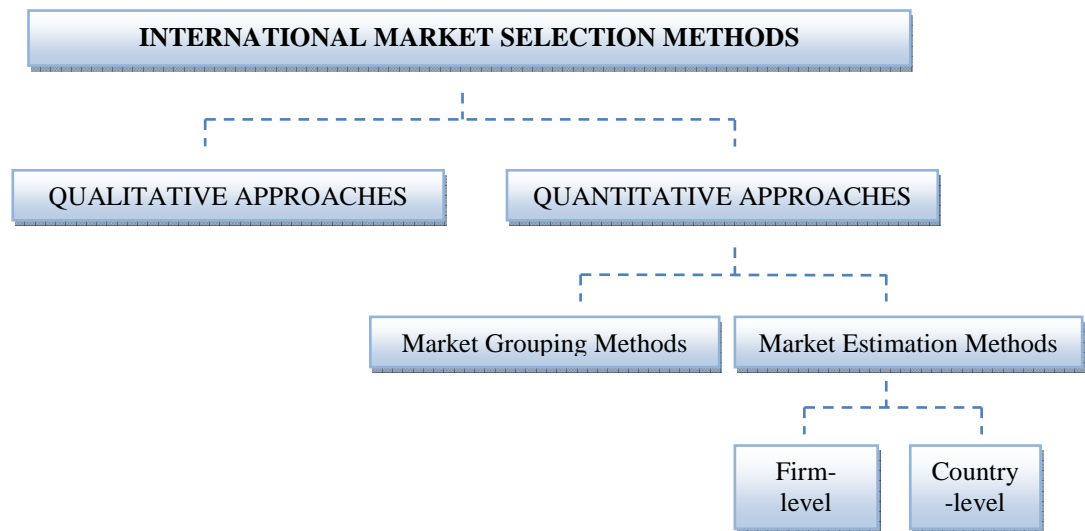


FIGURE 7 – Categorization of the international market selection literatures (Papadopoulos and Denis 1988, 38)

3.3.1 Qualitative approaches

According to Papadopoulos and Denis (1988,39), most qualitative approaches typically start with identifying a short list of countries for further consideration by establishing objectives and constraints for exporting a specific product to each country under consideration. Other studies focus more on the nature, appropriateness and sources of qualitative information that could be used in the international market selection process. These sources include government agencies, chamber of commerce, banks, customers, international experts and

foreign market visits (Pezeshkpur, 1979). Papadopoulos and Denis (1988, 39) suggest that pure qualitative approaches to international market selection could be seen as biased as they are based on perceptions and are largely inaccurate.

Douglas et al (1982, 27) states that the biggest challenge in international market selection is the large number of countries throughout the world that need to be analyzed. They suggest that a screening procedure of secondary data be used to determine which countries to investigate in depth. Conversely, quantitative approaches to international market selection do exactly this by analyzing and comparing secondary data of a large number of countries and will be discussed subsequently.

3.3.2 Quantitative approaches

Papadopoulos and Denis (1988, 39) further divide quantitative approaches into two categories, namely market grouping methods and market estimation methods. Market grouping methods cluster countries on the basis of similarity while market estimation models evaluate market potential on firm or country level (see Figure 7).

Market grouping methods: Studies undertaken to attempt market grouping have been summarized by Papadopoulos and Denis (1988, 39-41), Steenkamp and Ter Hofstede (2002, 185-213) and Shankarmahesh et al. (2005, 204-206). These methods are based on the assumption that the most attractive markets for a firm are the ones that most closely resemble the markets it has already penetrated successfully (Papadopoulos and Denis, 1988, 41). By providing insight into structural similarities, these methods enable firms to standardize their offerings and marketing strategies across markets (Sakarya et al., 2007, 213). Countries are clustered based on the similarities in social, economic and political indicators while demand levels are, for the most part, not taken into account (Sakarya et al., 2007, 212). Studies that attempted to include more product-specific information faced the problem of insufficient data, and are limited to the product ranges of a particular firm. Thus, they cannot be applied to all possible product groups

(Papadopoulos and Denis, 1988, 41, 47). Moreover, focusing only on countries with similar characteristics to markets already penetrated may hold the risk of overlooking lucrative opportunities in countries with other characteristics (Kumar et al., 1993, 32).

Market estimation methods: Market estimation models evaluate foreign markets on the basis of several criteria that measure aggregate market potential and attractiveness (Sakarya et al., 2007, 212; Papadopoulos and Denis, 1988, 41). The criteria vary across methods and often include wealth, size, growth, competition and access indicators (Sakarya et al., 2007, 212). Papadopoulos and Denis (1988, 40-47) summarized the different methods of measuring market potential that were introduced up until the late 1980s and included multiple factors indices, regression analyses and multiple criteria demand estimations. Papadopoulos and Denis (1988, 40-47) found that common shortcomings of these methods include the lack of product specificity, the assumption of a static environment and methodological problems due to data availability.

3.4 Market research

With a simply definition, McNeil (2005, 3) defines Business to business (B2B) market research refers to the research that is undertaken entirely within the business world; a business – the client – wishes to research its business customers or, less commonly, its suppliers or other parties who are involved in the running of (or who contribute to) its business. B2B research includes all research where the product or service is being used in a business environment.

Based on the argument from Chisnall (2005, 7), although the term “market research” is now largely used as a synonym for ‘marketing research’, there was originally a distinct difference between the scope of the activities they covered. Chisnall (2005, 7) explains that, “the responsibilities of market research, as noted later, extend comprehensively, whereas marketing research is limited to finding out information about the market for a particular product.”

McNeil (2005, 4) states that, the B2B research may be either domestic or involve international research. It embraces many different techniques including desk research, brain-storming, qualitative and quantitative research. Besides, McNeil (2005,4) emphasizes the B2B market research is not only about interviewing the “big boys” or top decision makers, but it is also about interviewing the influencers of the business decisions, the implementers, possibly the ultimate end-users of a product or service. Jeannet and Hennessey (1995, 192) reveal the complexity of the international marketplace, the extreme differences that exist from country to country, and the frequent lack of familiarity with foreign markets accentuate the importance of international market research. The research provides the necessary information to avoid the costly mistakes of poor strategies or lost opportunities.

The market research process includes the systematic identification, collection, analysis and distribution of information for the purpose of knowledge development and decision making (Polaris Marketing Research 2009). According to Jeannet and Hennessey (1995, 200), the basic research approaches can be classified into four-step processes, those are:

- 1) Problem definition and development;
- 2) Determination of the sources of information;
- 3) Collection of the data from primary and secondary sources;
- 4) Analysis of the data and presentation of the results

While focusing on the analytical parts of sources determination and data collection, for each assignment, researchers may choose to base their analyses on primary data or to use secondary data (Jeannet and Hennessey 1995, 201). The essential understanding of primary data are described by Hollensen (2004, 138) that, primary data can be defined as information that is collected first-hand, generated by original research tailor-made to answer specific current research questions. Contrarily, McDaniel and Gates (2006, 52) explain the secondary data consists of information that has already been gathered and might be relevant to the problem at hand. Usually, there are two basic sources of secondary data: the company itself (internal databases) and other organizations or persons (external databases). Jeannet and Hennessey (1995, 201) illustrate that since the costs tend

to be higher for research based on primary data, second data (desk research) usually will be exhausted firstly.

Additionally, Hollensen (2004, 139) expresses the secondary research conducted from the home base is less expensive and less time consuming than research conducted abroad. No contacts have to be made outside the home country, thus keeping commitment to possible future projects at a low level. As a preliminary stage of a market-screening process, secondary research can quickly generate background information to eliminate many countries from the scope of enquiries.

Nevertheless, Jeannet and Hennessey (1995, 190) point out the international research covers a multitude of environments, and there is a scarcity of comparable, relevant data. Meanwhile, Jeannet and Hennessey (1995, 201) also highlight the situation of substantial body of data exists from the most advanced industrial nations, but less secondary data is available in developing countries. Moreover, Hollensen (2004, 220) also thinks to acquire accurate cross-national statistical data is very difficult. Jeannet and Hennessey (1995, 202) indicate a good approach to locating secondary sources it to ask yourself who would know about most sources of information on a specific market. The situations of non-availability, reliability, lack of relevance, inaccuracy and insufficiency of data are always hidden in the process of secondary data collection.

If the research questions are not adequately answered by secondary research, it may be necessary to search for additional information in primary data (Hollensen 2004, 143). Principally, research approaches of primary data include observation, surveys, personal interviews and sampling. To be the complements of secondary data collection, conversely, the problems associate with using above primary researches still impede the process of the research, such as inadequate sampling survey, non-response and language barriers.

4 SPECIFIC MARKET ANALYSIS

For the following study, combining the theory about the approach of internationalization process in Chapter 2, the network model is considered. The reason why the Uppsala Internationalization Model is not be selected, because the critiques point out the self deterministic, and the process of Uppsala model is more valid for companies that have recently internationalized and whom still lack of market knowledge and market resources. Companies that already have operations in several countries do not face these problems as much as the beginners. Apparently, the situation of incomprehensive utilization for all types of companies of this model is appeared. Instead, in the model of network, the firms cannot be seen as individual actor; rather they have to be related to other actors in the international environment. Every actor within a network brings with it resources; for some actors being unique resources whereas for others working as a complementing resource to its own one. This model more or less can reflect EU companies in this study already create relationship with some target developed and developing countries. Based on the owned network in other countries, to discover the potential market in another developing country of China, the idea of establishing new network for the target market should be considered as an approach to penetrate in. Basically, the network is important as it is a source of information about the business environment in China nowadays.

Connecting with the knowledge of four cases of internationalization of a firm, the roles and the positioning of EU companies are considered between the late 'early starter' and early 'lonely international' concerning the business in China's market. The meaning of this positioning is the EU companies as experienced regarding relationships with other foreign countries, and the EU companies have capabilities to handle situations outside their own environment and cultural values, but with a slow and stepped involvement, as well as inexperienced or less experienced in China's market. Due to the immaturity of B2B online transaction in China, which was described in Chapter 3, instead of applying the B2B e-commerce, the traditional B2B transaction approach is considered as the standard to develop and analyze the target market of Chengdu.

In fact, to evaluate a market attractiveness and potential in China, the EU companies can consider applying the market estimation methods of quantitative approach to decide if the city of Chengdu can be the market for them to penetrate in. From the companies' points of view, compare with the market estimation methods, the shortage of market grouping method is to focus only on countries with similar characteristics to markets already penetrated, this action holds the risk of overlooking lucrative opportunities in countries with other characteristics. On the other hand, the method of market estimation could evaluate the markets within one target country on the basis of several criteria to measure aggregate market potential and attractiveness, such as size of the market, growth and competition of the market, etc.

Based on the early study of market selection in the process of internationalization, several determinants of choosing foreign market in Chapter 3 are adapted. For the EU companies, in the group of environment characteristics, the specific aim of internationalization, the structure of the industrial development of target market are the basic preconditions to think about in order to meet the companies' needs. In the meantime, except of the criteria in the market estimation method, based on the research question in this study, to give a pre-framework and describe the development trend of economy and policy in the target market of Chengdu city will be followed. According to the introduction of Western Development policy in China, the specific market of Chengdu will be analyzed by using different secondary data to complete the screening procedure in this Chapter.

4.1 China's western regions development

Western development is a policy of the central government of the People's Republic of China, which is aimed at "bringing the residual capacities of economic development in the eastern coastal area as the purpose of raising the economic, social development level and consolidate national defense in the western region." The official operation of this policy was started in March 2000 leading by the western development office of State Council (Chinagate 2009).

Basically, the scope of western development includes 12 provinces, autonomous regions and municipalities, which are Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia, Xinjiang Uygur Autonomous Region, Inner Mongolia, Guangxi Zhuang Autonomous Region, and Jilin Yanbian Area covering 6.85 million square kilometers. In essence, western region possesses abundant natural resources, large market potential, and important strategic position. Due to the reasons of nature, history, society and other factors, the economic development in western region is relatively backward. Furthermore, per capita GDP is merely equivalent to two-thirds of the national average, and less than 40% of average level in eastern region. Under these circumstances, there is an urgent need to accelerate the pace of reformation and opening up, as well as the modernization drive in western area (Chinagate 2009).

Because of the over-expansion and existing development gaps between eastern and western region, the unbalanced development in those local markets has become a long-term issue that hinders the positive economic and social development of China. To support the development and construction of the western region, the realization of coordinating the development of both eastern and western regions has been pointed as the significant policy, as well as a strategic task in the process of modernization by the Chinese party leadership (Chinagate 2009).

Concerning the policy of western development, the renowned economist Li Yining and Robert Mundell wrote a report of “The path of urbanization of western development”. The deeply research and analysis about western region in that report accentuates that, after the decade exploitation and six years’ plan of urban and rural coordinative development, the city of Chengdu has already become an engine city of western development, as well as a leading city of new urbanization development. The urbanization development model in Chengdu is not only used in western region, but also it has the meaning and effect by using as a reference and demonstration in the central and eastern region. After ten years’ implementation of western development strategy, the western region has moved into a stage of fastest growth, best quality of development, most masses benefit,

and maximum change of urban and rural outlook. Especially, urbanization has already become one of the vital driving forces in the process of western development (CE 2010).

According to the report from State Information Center, since the western development strategy of promoting the urban-rural integration was implemented in 2003, the city of Chengdu condensed the century's development progress of typical cities in developed countries from 'early industrialization – to mid-industrialization – de-industrialization – global city – and information city.' In just a few years' time, the city of Chengdu not only promotes the development of industrialization, but also it adjusts the layout of city space and industrial structure. In the meantime, the processes of informatization and globalization in the city of Chengdu have already accelerated apparently (NEWS 2010).

During the time of western development, it is also the fastest ten years' development in the city of Chengdu. According to data display, in 2009, the GDP was 3.8 times compared to ten years ago, and fixed asset investment was 8.4 times compared to ten years ago (NEWS 2010).

Recipient of the Nobel Memorial Prize in economics, the well-known economist Robert Mundell reminds us that, "presently, the global economy is all in the process of transfer. If the western China including the city of Chengdu can seize this opportunity, it will gain great driving force" (CDEI 2010a).

4.2 The city of Chengdu

As the capital of Sichuan province, the city of Chengdu is located in the western part of the Sichuan basin. The municipality covers a total area of 12,390 square kilometers, including 87 square kilometers of urban area.

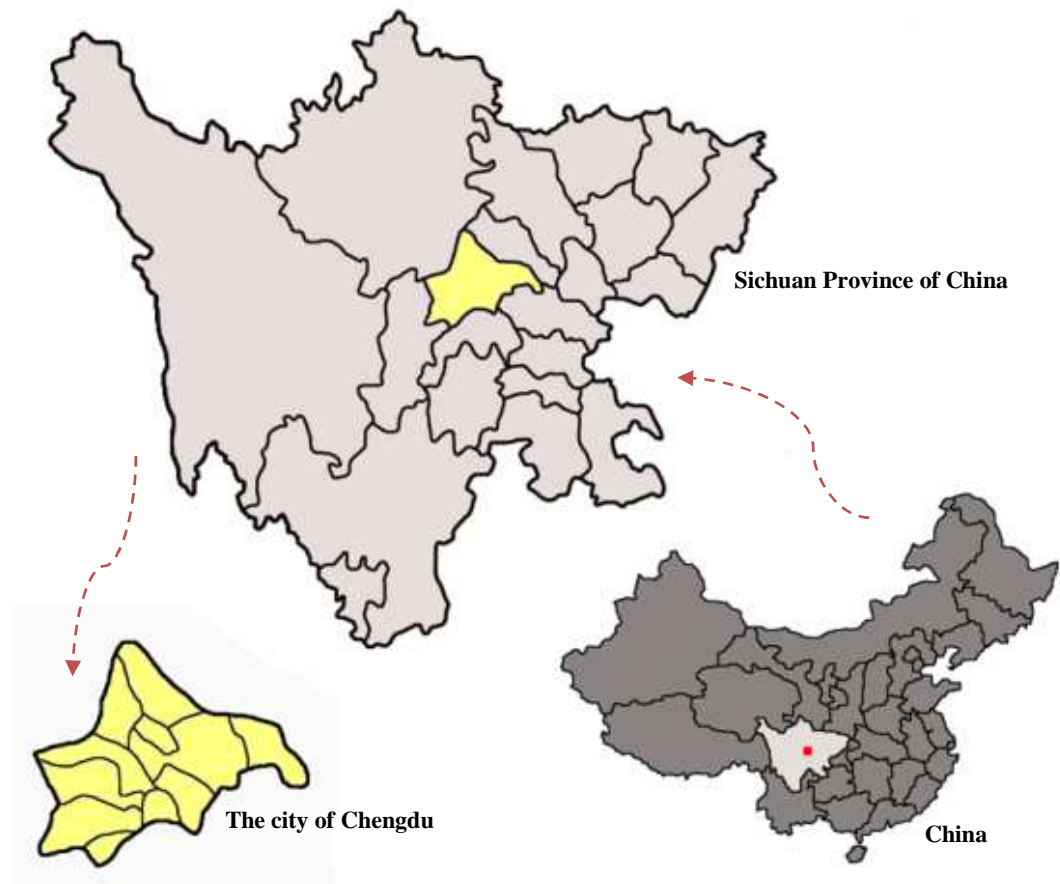


FIGURE 8 – The map of Chengdu (Chengdu Investment Environment Introduction 2010, 13)

Basically, the macro-environment forces shape opportunities and pose threats to the companies (Kotler et al 2004, 103). In the case of Business-to-Business, by utilizing the tool of PEST, the following sub-sections in this chapter will examine and analyze the general macro-environment forces in the city of Chengdu. Simply understanding, the PEST analysis is a framework that categorizes environmental influences as political, economic, social and technological forces (Papers4you 2002). Following the steps of PEST analysis, a comprehensive explanation of Chengdu as follows:

4.2.1 Political factors

As to international business, political factors are considered crucial. About the related policies concerning the foreign investments in the city of Chengdu,

presently, the activity of investment is defined as one of the fundamental driving forces of the economic development. Under the limited development circumstance, there is a necessity of guiding and mobilizing a large number of various types of investors to put business in the city of Chengdu. At the moment, the wide and diverse channels of investment are promoting the strategic adjustment of economic structure in the local market, as well as are accelerating the reformation of investment systems and standardizing the investment market. These actions create an open, fair and equitable investment environment to all types of investors. Moreover, the actions also highlight the comparative advantages of Chengdu in the case of participating in western development (Wzgs 2009).

Additionally, following the national policy of “Opening up to the outside world”, the restriction of market access has been reducing. Nowadays, under the economic condition of socialist market, not only to encourage and attract more investors entering into the city of Chengdu, but also the governmental interventions are minimized. In terms of investment, currently, the local preferential tax policies are published (See appendix 1). On the other hand, based on the objective of opening up and the reduction of tariffs, the degree of internationalization in the city of Chengdu has been ascending gradually (Wzgs 2009).

4.2.2 Economic factors

Since China joined into WTO in 2001, the policy of “Opening-up to the outside world” has expanded and achieved better international environment for national market. Particularly, the economic system and structure has been receiving positive facilitation and strategic adjustment (China 2009).

The city of Chengdu was approved of the “provincial capital, the important scientific culture centre, historical and cultural city” by State Council on 11th January 1984. In the past a few years, the comprehensive strength of Chengdu has markedly increased. In particular, on 29th June 1993, the State Council further requested the objective of “fully exerting the city of Chengdu to be the

technological center and the commercial and financial center, as well as to play the role of traffic and communication hub in the southwest area (Chengdu 2008).”

In 2009, the whole municipal GDP achieved 450.26 billion yuan, increased 14.7% over the previous year (CDEI 2010b). As a whole observation, the inflation rate of China reached averagely 1.2% in 2009. Besides, exchange rate of Chinese yuan against US Dollar has been increasing, reached 6.8526 in 2010, suggesting an advantage for import activities.

4.2.3 Societal factors

As for the population, it reached 11.25 million in the whole municipality in 2008 (CDPOP 2009). The population of Chengdu occupied 11.8% of the entire population of Sichuan province. According to the statistics in 2006, the population proportion between the ages 15 – 64 was 74.24%, meaning a bigger and more willing workforce (Chengdu 2006).

With the continuous implementation of western development, the national economy of Chengdu is keeping rapid and stable growth. The data in 2009 showed the investment of fixed transportation assets had accomplished 10 billion yuan. At the moment, the construction of railway project coordination has obviously increased.

Presently, the city of Chengdu is the biggest hub of railway transportation in the southwest of China. There are ten national main lie railways pass through the city of Chengdu. Additionally, the city of Chengdu is one of the Chinese cities with the highest highway density, and the total mileage of local highway has achieved around 600 km.

In total, there are eight national major trunk lines and national trunk lines cross or start with Chengdu. A simple map of the highway trunk lines is drawn up as follows:

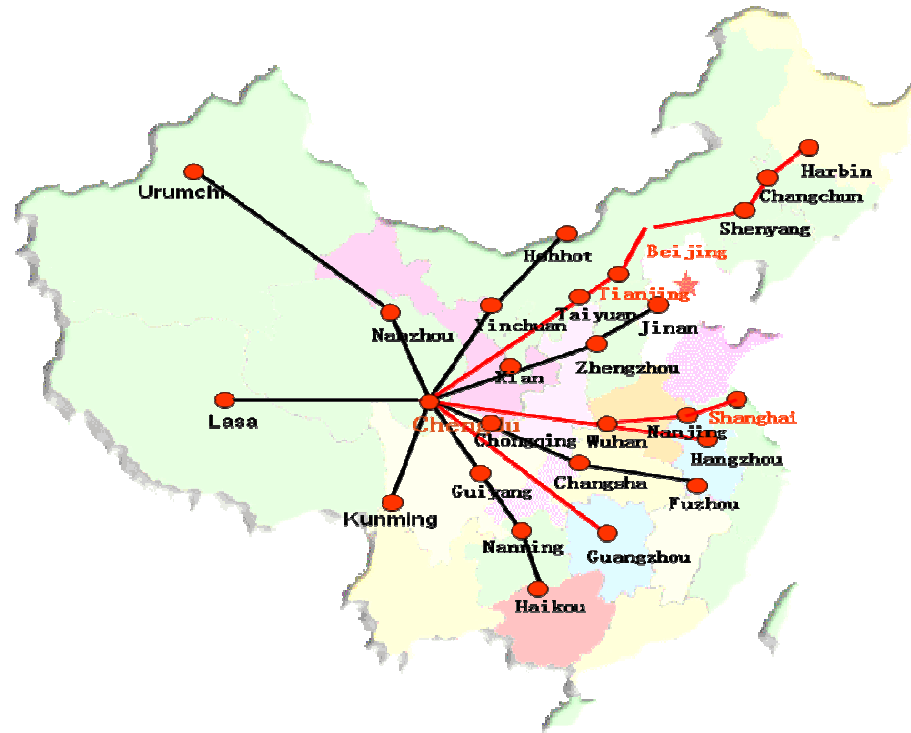


FIGURE 9 – The highway trunk lines of Chengdu (Chengdu Investment Environment Introduction 2010, 29)

So far, there is only one civil aviation airport – Chengdu Shuangliu Airport in the city of Chengdu. The new planning and construction is in an orderly way, which is fully starting the project of second runway of Chengdu Shuangliu Airport. Besides, new terminal is estimated to put into use in March 2011 (Chengdu 2009).

4.2.4 Technological factors

Until now, the development priority includes the exploitation of high-tech products in the fields of electronics information, machinery, bio-pharmaceutical and so forth. Moreover, the urban infrastructure has basically achieved digitalization, which can provide a basic common platform for all types of specialized information system. In addition, the technological policy innovation

has moved into a new stage, and it has climbed in the national leading level (Cdst 2008).

The statistics in 2007 indicated that, 112 research institutions were located in the city of Chengdu. Furthermore, closely 1000 research centers, private technology enterprises, non-independent R& D institutions, laboratories, and bases were scattered in Chengdu as well. During the time between 2002 and 2007, 33 various types of scientific and technological enterprise incubators were established. Besides, presently, two state-level development zones – High-tech Industrial Development Zone and Economic and Technological Development Zone have been built. The other establishments of Industrialization Base of Digital Media and National Information Security Industry Base also directly prove the core of further promoting scientific and technological innovation, enhance competitiveness as well as achieve the goal of driving new leap of the development in the city of Chengdu (Cdst 2008).

4.3 Industrial structure

The industry in the city of Chengdu was formed in the 1950s. Since Chengdu has been identified as a key construction city by China, the industries in this city promote the reformation of the state enterprises, actively invite investments from overseas, adjust and optimize the industrial product structure, and also further accelerate the pace of industrial development in the local market. At present, to be the important industrial base in both Sichuan Province and in the western region, the industry in the city of Chengdu has built a completely and comprehensively industrial system including 38 industrial categories and 184 small business categories with a certain degree of comparative advantage. In recent years, the city of Chengdu fully implements the strategy of “powerful industrial city”, and it closely surrounds with the key areas, key industries, key enterprises and key projects to escalate and promote the concentration of industry cluster development. As a whole, the industrial economy in the city of Chengdu has entered the best period of the development in history. Meanwhile, the industries have become the important support for the city economic development as well. In 2009, after the

effects by the world financial crisis, with the recovery of national economy, the growth of municipal industry upgraded faster. The industrial added value achieved 166.481 billion yuan, and the year-to-year growth was 18.7% (Cdgy 2009).

Nowadays, the mainly pillar industries leading the development of Chengdu involve in electronics information, machinery, pharmaceuticals, food processing, metallurgy building material, petrochemical, and new energy. Several of them are described as follows:

Electronics information: the city of Chengdu is the location that entitled to “The National Software Industrial Base”, “The National IC Design Industrialization Base” and “The National Information Security Industrialization Base”. This city possesses a good foundation to develop the electronic information industry with traditional electronic industry advantage (Chengdu Foreign Investors 2007).

Meanwhile, a number of emerging enterprises have come out, which has formed industrial chains of focusing on the integrated circuit, photoelectrical display device, digital audio-visual product manufacturing, new electronic component, military electronics and optical communication product manufacturing (cdhistory 2009). To be the focus point and distributing centre in the western region of China, the market radiation power and consumption levels of computer, mobile phone and electronic components etc have achieved high reputation in national market (Chengdu Foreign Investors 2007). In 2009, the total output value of electronic information industry achieved closely 140 billion yuan.

The result of output value increasing is based on several aspects; firstly, the manifestation of value increasing is created by inviting investments from overseas and project promotion; secondly, according to the information technological development plan, the promotion of regional information development and IT business, to some extent, indirectly drive the improvement of regional industry; thirdly, getting the fully support and facilitation from the Chengdu Municipal Government, the establishments of the city information technology infrastructure and telecommunication hub have achieved some successes. These actions directly push the progress of information industry positively and actively (Newscc 2009).

The comprehensive analyses concerning the electronics information industry by Chengdu Municipal Government show its comparative advantages in different aspects. The related points are listed below (Chengdu Cheng Huaqu Federation of Industry and Commerce 2008):

- 1) One of the important electronics industrial bases in China;
- 2) The advantage of talents in scientific research institutes and powerful strength of R&D are the significant resources and guarantees for the development of the electronics information industry in Chengdu;
- 3) The city of Chengdu has good market conditions and business environment, which creates advantages for the development of the electronics information industry;
- 4) Local government imparts strong policy support to the electronics information industry in order to create a good atmosphere for its development.

Machinery (Automobile & Aerospace): After experienced more than 50 years' development, the city of Chengdu already has relatively strong industrial bases and more characteristic advantages. The businesses mainly involve in automobile, auto parts, aircraft, aero component, construction machinery, machine tool, electrical appliance, agricultural machinery, instrumentation (Chengdu Foreign Investors 2007).

On the one hand, the city of Chengdu is the confluence of Sichuan auto industry. The sales revenue of auto product in Chengdu accounts for 70% of the provincial total (Chengdu Investment Environment Introduction 2010, 39). So far, a comprehensive industrial system combining development, production and trade of sedans, passenger cars, off-road vehicles, vans and parts has been constantly improved. Following the purpose of continuous improvement, the development of vehicle technology mainly concentrates on the car body, efficient energy-saving engine, and automotive emission control. Besides, the research and development of producing new fuel for the vehicles is encouraged from the side of governmental policies. Meanwhile, a high request of improving the electronics

information technology application level on the vehicle products is appointed as well (Chengdu Investment Environment Introduction 2010, 39).

On the other hand, the aerospace industry in Chengdu has already built the cooperative base. The operations in this base include the aerospace accessory product, aerospace product manufacturing and maintenance. In essence, the cooperative base has already become one of the dominant industries in the city of Chengdu. Until now, the overall size of the aerospace industry in Chengdu ranks second in the whole national market. In particular, the amount and the strength of the aerospace enterprises, the aerospace scientific research institutes and the experimental research bases with strong technical forces in Chengdu come out top in the whole national market. At the moment, the key development areas of aerospace industry include the establishment of aviation industrial park, the R&D of general aircraft and helicopter, industrialization of satellite application, etc. In 2008, the aerospace industry in Chengdu gained main business income of 15.909 billion yuan with 22.7% increase. (Chengdu Investment Environment Introduction 2010, 40)

Pharmaceuticals: The pharmaceutical industry in Chengdu has already experienced over 20 years' rapid development. It essentially shapes seven categories of chemical pharmaceutical, bio-pharmaceutical, Chinese patent medicine, Chinese herbal pieces, the plantation of Chinese herb medicine, medical device and pharmaceutical packaging material. In 2007, the city of Chengdu was successfully approved the creation of national bio-industry base. Since Sichuan Food and Drug Administration increased the intensity of industrial structure adjustment in 2009, it successfully led the provincial pharmaceutical companies to resist the adverse effects of earthquake disaster and the international financial crisis. Meanwhile, in 2009, the total industrial output value of pharmaceutical industry in Sichuan Province gained 49.703 billion yuan, rising 19.43% over the last year (Xinhuanet 2010).

Currently, the key development fields of pharmaceutical industry include four aspects. Firstly, there is a strong need to develop bio-pharmaceutical vigorously, and strive to create a group of innovative bio-pharmaceutical having independent

intellectual property. Secondly, following the purpose of reinforcing the advantage of modern medicine, the city of Chengdu is on the way of creating an industry chain of Chinese herb medicine from “the plantation of Chinese medicinal herbs – to Chinese herbal pieces processing and herbal extracts – to Chinese patent medicine and functional health food of Chinese herb medicine”. Thirdly, in the process of developing bio-pharmaceutical engineering, the ultrasound imaging equipment, the nuclear magnetic resonance, as well as the product of the digital X-ray machine should be developed energetically. Lastly, it is necessary to foster the bio-pharmaceutical service industry gradually (Chengdu Investment Environment Introduction 2010, 43).

The current environment of pharmaceutical reveals several development advantages. In the first place, the city of Chengdu provides good industrial operation environment to the related industries. Especially, from ancient times to the present, the city of Chengdu always plays a role of distribution centre for different pharmaceutical products. Subsequently, a strong capacity on the scientific and technological innovation is covered in the local market, which has more than 100 research institutes, 69 laboratories, 36 engineering research centers etc. Afterwards, more than 2000 different kinds of Chinese herbal medicine materials are provided in the city of Chengdu. The categories in Chengdu account for 50% of the total categories of Chinese herbal medicine materials in the whole Sichuan province. Because of the unique conditions of natural resources and the plentiful industrial resources, better development prerequisites are identified in this case (Chinapharm 2007).

New energy: the development of new energy industry in the city of Chengdu has been moving into a new stage of industrial planning. Essentially, the mainly development objects are solar, nuclear and wind power industry, and more than 50 related manufacturing enterprises built in the local market. In the past 2008, the total sales revenue of new energy obtained nearly 100 million yuan. Particularly, to be one of the development objects, the solar power generation has a strong foundation in the city of Chengdu, which gained 800 million yuan of sales revenue in 2008 (Chengdu Investment Environment Introduction 2010, 42).

The latest “Industrial Development Plan of New Energy in Chengdu (2009-2012)” has been published. According to the requirement, five industries development including solar power, nuclear power, wind power, new energy auto and semiconductor illumination are pointed as the key objects in Shuangliu and other regions (Hexun 2009).

Following the proposed development ideas, the Shuangliu region will focus on the development of new energy and related auxiliary equipment manufacturing as the main directions. In the aspect of solar power, the development will concentrate on crystalline silicon, the equipment manufacturing of solar thermal power generation and so forth. In the aspect of civil nuclear power, the industrial heating system and core supporting parts and system concentration of nuclear island are put in to the main development items. In the aspect of wind power, the development focuses on high-efficiency vertical wind turbine system, paddle wind turbine generator, and core supporting parts. In the aspect of new energy auto, the new energy car load, powered cell, charging and changing system, electric motor and electrical control system are accentuated as the important development parts. Lastly, in the aspect of semiconductor illumination, the development will pay more attention on substrate, epitaxy, core cell, assembly, LED illumination products, etc. According to the industrial development plan, Shuangliu region will be established as the core carrier for the development of new energy industry in Chengdu (Nengyuan123 2009).

4.4 Estimation of industrial clusters development

Since the planning of key industry clusters has been implemented, this behavior will greatly and directly promote the development of relevant industries. The objective of intensive and concentrative development of Chengdu is going to move on a new stage. The competitiveness of the overall industrial economy will be greatly enhanced. In the near future, the city of Chengdu will become a late-model industrial base, which leads a high speed to the development of the high-tech industry and the modern manufacturing. Furthermore, to be a late-model

industrial base, the economic and social development in the city of Chengdu will be effectively driven as well (ChinaSourcing 2008).

In addition, the selected industries above also received estimation and forecasting for their developments in the following years;

Electronics information: The development system of electronic information will be comprehensively built on the basis of advanced technology, outstanding advantage, reasonable structure and strong competitiveness in the national market. By 2017, the estimated added value of electronics information industry will realize about 215 billion yuan, and the sales revenue will achieve 700 billion yuan at the same time. The percentage of added value is going to account for more than 11% of municipal GDP. Among them, the sales income of software and information service will gain 440 billion yuan, especially the software export will around 14 billion U.S. dollars (ChinaSourcing 2008).

Machinery (Automobile & Aerospace): In the sector of auto industry, the car is regarded as the leading development item in the city of Chengdu, and the development of the auto part and component are pointed out as the main line. While focusing on the constructions of the major industrial project and attract investments from overseas, it is also necessary to accelerate the agglomeration of the whole industry and extend the industrial chain, even accomplish the formation of the related industrial clusters. Following the goal of “One development zone, one production site”, the industrial added value is going to achieve 38.2 billion yuan in 2017. The total amount of vehicle production will around 914,000. In addition, the related vehicle and parts manufacturing base will be established one by one (ChinaSourcing 2008).

On the other hand, the objective of the industrial added values in the aerospace industry will obtain 16 billion yuan by 2017. Through 10 years’ development, the city of Chengdu will endeavor to build internationally renowned aviation maintenance base as well as the bases of helicopter, general aircraft and major aviation components production (ChinaSourcing 2008).

Pharmaceuticals: In order to further promote the city development of the bio-pharmaceuticals industry, by 2012, the total economic aggregate of municipal bio-pharmaceuticals will be 900 billion yuan. The sales income of more than 80 enterprises will exceed 100 million yuan. Moreover, the next step is to build important bio-pharmaceutical research and innovation centre, incubator and pharmaceutical trading center gradually. These actions directly reflect the goal of being the national bio-pharmaceutical industry base in the whole national market (Cdcyl 2009).

New energy: Following the development objective, by 2012, the total investment of new energy industry will reach over 20 billion yuan and sales revenue hit 55 billion yuan. One energy enterprise with the annual sales revenue of 10 billion yuan will be fostered. Meanwhile, another 10 Mega-watt CSP Station which is the first one in China will be established as well (Nenyuan123 2009).

By 2017, the Shuangliu region will be pointed as the core development area to create hundred billion of new energy industry. Among them, except of cultivating three enterprises exceeding 10 billion yuan in the follow years, the sales revenue of solar power is going to realize 100 billion yuan. Furthermore, 20 billion RMB sales revenue will be received in nuclear power, as well as winder power will strive to gain 30 billion yuan at that time (Nenyuan123 2009).

5 EU PROJECT INNOVATION CENTRE (EUPIC)

Although the city of Chengdu is chosen and considered as an alternative market for the EU companies to increase their international business, nevertheless, in terms of Business-to-Business, the problems discovery of data collection with regard to the field of market research are pointed out in the previous Chapter 3. For example, the substantial body of data exists from the most advanced industrial nations, but less secondary data are available from developing countries. And also the difficulty of acquire accurate and sufficient cross-national statistical data individually always happened in different EU companies. Based on these situations, there is a strong need to find different approaches for the EU companies in order to eliminate the issues in the process of market research. According to the theory statement in Chapter3, the secondary data of the market research can be collected though different outside sources. Usually, the companies can receive the information by getting support from innumerable government departments, agencies, as well as trade and industry associations, even different service organizations. Although, sometimes, the sources can be found on the internet, but the web information in Chinese still be restricted by governmental policies nowadays. Because of the existing limitations of secondary data through website in China, the desk research in that way is still difficult to be collected comprehensively for some reasons. Following this idea and analytical part in this study, the EU Project Innovation Centre in the city of Chengdu is selected as a route to support and help those EU companies. The introduction of this case organization is based on the idea of indicating the EU companies that who would know about most sources of information in a specific market in the case of locating secondary sources for them.

5.1 About EUPIC

To be the case organization, the EU Project Innovation Centre (EUPIC) is a non-profit organization established in November 2006 in Chengdu with the purpose of continuing its durable development after the “EU-Chengdu SMEs Business

Matchmaking and Cooperation Incubation” Event. In essence, EUPIC is supported by the EU, Torch Centre, Ministry of Science and Technology of China, Sichuan Provincial People’s Government, Chengdu Municipal People’s Government and the Management Committee of Chengdu Hi-tech Industrial Development Zone. At present, EUPIC is the only EU-supported project incubation center in China (EUPIC 2007).

Until now, EUPIC has established partnership with 26 organizations from 27 EU member countries (UK, Germany, France, Spain, Ireland, Finland, Denmark, Holland, Sweden and Portugal etc) including trade & investment promotion, service agencies, regional industrial associations, and S&T research institutions etc. Basically, the aim of EUPIC is to further deepen collaboration between bilateral institutions in order to promote the cooperation between enterprises (EUPIC 2007).

EUPIC’s strength lies in its extensive network and background from European and Chinese authorities. Based on its close connection with EU partner organizations and local governmental departments, EUPIC is competent in delivering professional service to EU companies, colleges and universities, research institutions and chambers of commerce that look for technical cooperation, investment, project incubation or trade in China. Meanwhile, it also provides great assistance to Chinese companies in their internationalization process (EUPIC 2007). Generally, the structure of the department classifications of EUPIC is introduced below;

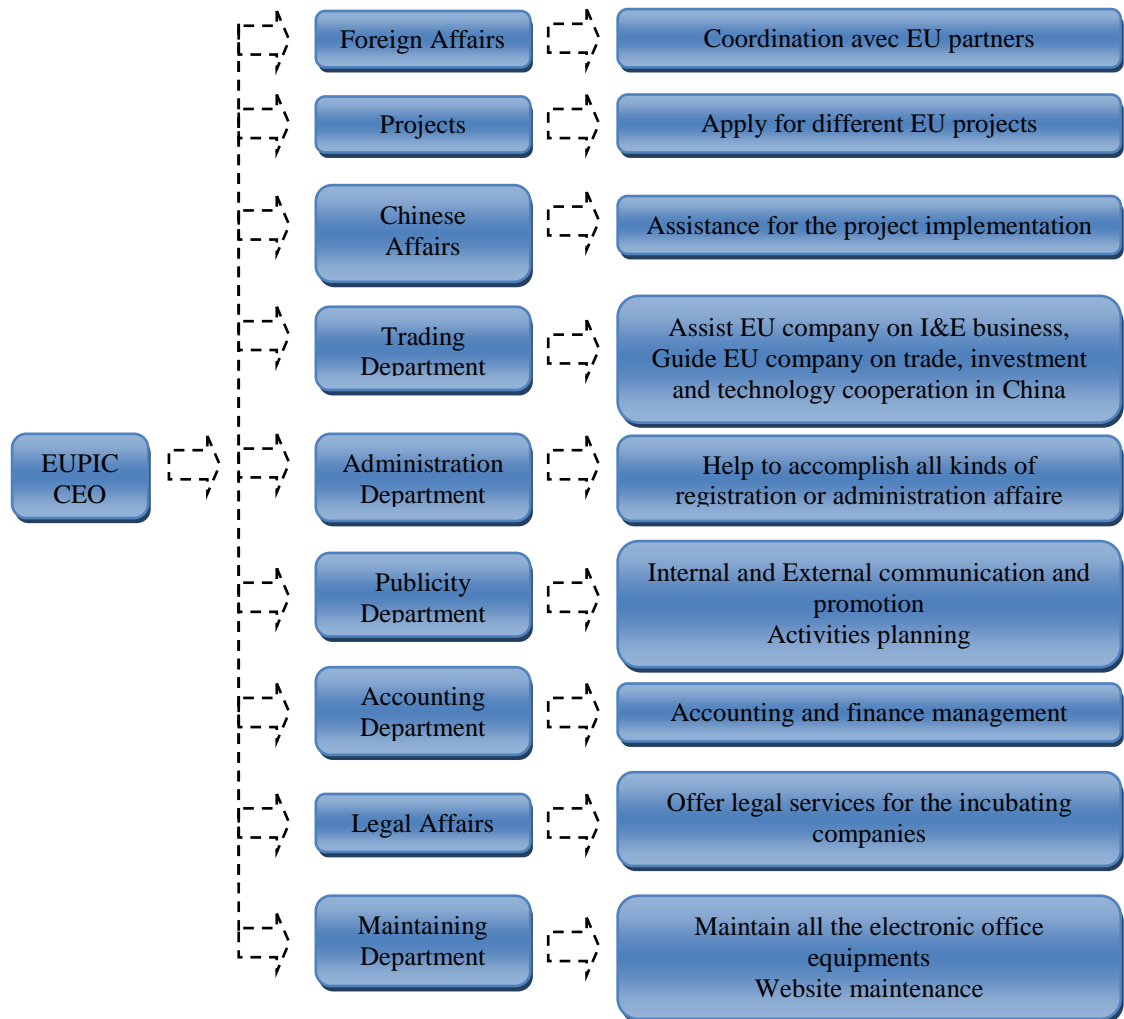


FIGURE 10 – Organizational chart of EU Project Innovation Centre (EUPIC 2009)

Until now, EUPIC supports growing small and medium-sized enterprises (SMEs), universities, research institutions from EU and China for business, investment opportunity and technology innovation. Meanwhile, EUPIC also functions as a project executive center to apply and take part in the bilateral and multilateral aid programs funded by the EU and Chinese governments. Basically, EUPIC strives to become the premier communication platform between EU and China to enhance trade promotion, investment flow and technology innovation and technology transfer in order to assure sustainable development and mutual benefit (EUPIC 2007).

5.2 Operations

The scope of the work in EUPIC is to provide for both EU and Chinese companies. On the one hand, EUPIC can help EU companies to bridge the gaps between China and their home countries by providing the necessary business tools to make their market entry less risky. Moreover, EUPIC identifies suitable business partners for EU companies, industrializes their research results and offers assistance in technology innovation and technology transfer. On the other hand, after the entrance of China into the WTO, Chinese companies are facing more challenges from the open market. The need for Chinese SMEs is to adjust the international business climate in order to play a more active role in international market. In this case, EUPIC enables Chinese SMEs to get financial support, invest in Europe, establish partnerships with EU firms and open the gate to the European market (EUPIC 2009).

5.3 Services

Essentially, there are different services are offered by EUPIC, which are classified into free services and charged services. The related fee standards for some of the services are listed below. Due to the fees vary with the amount of the workload and the details of the work, the standard listed below are only estimates, it can only be used as reference. All fees that attached are service fee only, which do not include any fees paid to any other third party (EUPIC Service Fee List 2010).

Free Services:

- Up to six months free equipped offices for European SMEs and EUPIC's partners;
- Certain services in National Software Base (Chengdu) Technology Platform for IT companies;
- A range of general consultancy services: e.g. investment environment, preferential policies;

- Access to periodical activities held by EUPIC: meetings with local Chinese companies, potential partners and governmental organizations; companies visits; etc;
- Salon activity (New service)

Charged Services: (1 Chinese yuan = 0.1084 Euro, converted on 18 April 2010)

- Registration for new company
 - 2500 yuan (271.08 Euro)/per registration (Not include the fees paid to the governmental departments)
- Registration for representative office
 - 1500 yuan (162.65 Euro)/per registration (Not include the fees paid to the governmental departments)
- Business trip reservation (Booking airline/Train ticket/Hotel reservation)
 - 20 yuan (2.17 Euro)/per time
- Fiscal declaration and tax declaration
- Application for Patent
 - 2000 yuan (216.86 Euro)/per time (Not include the fees paid to the government)
- Customs declaration
 - Upon workload
- Intelligent Property Protection
 - 2000 yuan (216.86 Euro)/per time (Not include the fees paid to the government)
- Trade Mark Registration
 - 1000 yuan (108.43 Euro)/per time (not include the fees paid to Trade Mark Registration department)
- Banking/accounting
 - 800 ~ 2000 yuan (86.75~216.86 Euro)/month (Upon workload)
- Assistance in market access and development: e.g. market research
- Assistance of participating in International and National Exhibition held in China

- 500 yuan (54.22 Euro)/per day/per person (Not include airfare, accommodation, transport fees, etc.)
- Assistance of holding seminar, press conference for new product and new technology professional panel meeting
 - 1000 yuan (108.43 Euro)/per day/per person (Not include airfare, accommodation, transport fees)
- Assistance for business traveling schedule
 - 800 yuan (86.75 Euro)/per time (including ticket booking, hotel reservation, daily schedule making during business trip period and relevant contacts)
- Assistance in HR recruitment
 - 1000 yuan (108.43 Euro) (Not include fees paid to the internet, newspaper, etc)
- Legal services
- Freight & logistic services
 - Upon workload
- Secretarial services
 - 40 yuan (4.34 Euro)/per hour (EUPIC assistant will accompany you out for a meeting/ answer the phone calls in your office during your absence/ run on errands etc.)
- Language services (Translation & Interpretation)
 - Interpretation: 100 yuan (10.84 Euro) / per hour
 - Translation: 160 yuan (17.35 Euro) / 1000 words
- Commercial services

5.4 Service performance measurement

Measurement of performance is the essence of management. There are several ways to measure the performance of an organization or individual worker. Traditionally used methods such as organization's balance or profit account or calculated statistics for organization, department, team or even individual worker, give information only from one view point. The principles of performance

measurement are stated by Kennerly and Neely (2002, 145). Firstly, individual measures are for quantifying efficiency and effectiveness of actions. Secondly, as set of measures, i.e. measurement system, combines different measures as a whole for examining organizational performance. And thirdly, supporting infrastructure enables data to be acquired, collated, sorted, analyzed, interpreted, and disseminated.

Based on the statement from FHWA (2008), performance measurement is the use of statistical evidence to determine progress toward specific defined organizational objectives. This includes both evidence of actual fact and measurement of customer perception such as would be accomplished through a customer satisfaction survey. In a service industry, the performance measurement process starts by defining precisely the services that the organization promises to provide, including the quality or level of service that is to be delivered. Performance measures provide information to managers about how well that bundle of services is being provided. Performance measures should reflect the satisfaction of the service user (FHWA 2008).

Performance measurement framework is supposed to help managers to construct a system which reflects the best the situation in organization. Kennerly and Neely (2002) define six characteristics of performance measurement framework. Firstly, measurement provides a balanced picture of organizations state. Secondly, measurement points out the most important facts by simplicity and easy logic. Thirdly, frameworks are aimed to result in a multi-dimensional measurement system. Fourthly, measurement should be integrated across functions and through hierarchy. And sixthly, as there is logic in the measures and they are connected to each other, measurement points out cause and effect.

Although, different types of performance measurement system are applied in order to get different results, such as balanced scorecard and performance prism etc. But for the later services and activities, in Chapter 6, the methods of performance measurement that EUPIC utilized are the qualitative research in their own way.

5.5 SWOT analysis

To sum up pros and cons of the EUPIC, a SWOT analysis is presented.

TABLE 2 – SWOT analysis of EUPIC

Strengths	Weaknesses
<ul style="list-style-type: none"> ➤ Sole EU-supported project incubation centre in China ➤ Good reputation ➤ Strong local and international networking ➤ Strong cooperation with local government ➤ Enough free facilities can be offered to EU companies ➤ Has close cooperation relationship with various local industrial associations ➤ Abundant company database covering different sectors ➤ Have multilingual, multicultural and professional teams and experts 	<ul style="list-style-type: none"> ➤ Low recognition by foreign companies ➤ Immature development if compare with foreign NGO ➤ Compare with foreign NGO, lower capital support from society in China ➤ Smaller support from state functional division if compare with foreign NGO
Opportunities	Threats
<ul style="list-style-type: none"> ➤ Exclusive service provided ➤ The only incubation centre in China with a nature of monopoly ➤ Large development potential in the modern service industry in China 	<ul style="list-style-type: none"> ➤ Lower degree of concern leading to shortage of capital ➤ Facing the threats from similar nature of institutions (E.g. Competition)

5.6 Interview analysis

There are two types of interviews; the structured and the unstructured interview (Ghauri & Grønhaug, 2005). The structured interview is about using a standard questionnaire with fixed and limited alternatives of answers, which often is regarded as a quantitative interview type (Ghauri & Grønhaug, 2005). Bryman and Bell (2003) moreover consider the structured interview being inflexible due to the standardized approach this alternative brings with it. The unstructured interview or qualitative interview is unlike the structured type more flexible.

In order to get the argument for the following activity test, the interviewees are chosen to be different influencers in the case of international business in the city of Chengdu. It is recognized that the statements from each interviewee actually present the perspectives of one individual group. And each of interviewees has distinct characteristics, such as a speaker of EU companies, a representative of Chinese SMEs in the city of Chengdu, as well as to be an intermediary and service organization of EUPIC. By using the unstructured and qualitative interview, the questions of the interview are differentiated to each interviewee (See appendix 2), and the analytical content of the interview has been sifted. The following responses from each of them will be concluded to obtain one common argument;

To be the representative of EU companies, the official representative of Finland in EUPIC – Pertti Forström stated that, “When the EU companies decided to move into one specific Chinese market, the inevitable path is to understand the local business culture primarily. Diverse cultural background usually impedes the business process indirectly and intangibly. For example, from the side of Finnish companies, the fundamental element for them is to discover the way how the Chinese companies treat business with foreign or national companies. Particularly, the Finnish companies need to recognize the distinctions in different aspects when the Chinese companies handle the business cases. Following the current trend and phenomena, to create hard relationship and to expand widely network in China’s market are the significant prerequisites to promote relatively smooth and successful business in the future. Meanwhile, the in-depth recognition of the Chinese company is another crucial step after the holistic culture studies. It means only the trustiness can keep and ensure long-term business contact and cooperation with mutual benefit. As a newcomer enters into a strange but potential market, the unfamiliarity maybe the biggest factor to affect the Finnish companies choose the right and credible local Chinese companies as the partners. Usually, the governmental organizations, different commercial departments will be the prior options for the Finnish companies to consider as the approaches to getting correct and credible local companies’ data as well as useful information (Forström 2010).”

Besides, to be the coordinator of EUPIC, Angela Huo expressed that, “The advantages of geography, policy support and plentiful resources in Chengdu have become the attractiveness for EU companies to invest in this city actively nowadays. Compare with the coastal cities in China, to be an interior city, the development of many industries are still not saturated. Particularly, since many export-oriented enterprises were affected by the previous financial crisis, the business investment causes a diversion from the developed cities to the cities which have lower labor costs and matched technical strength.”

Then, Angela Huo stated that, “It is necessary to emphasize that the modern service industry is standing a high level in the city of Chengdu. In reality, the modern service industry has already become a representative of a city. Currently, it can be said that, the standard of weighting the development level of one city is basically depend on the development situation of the modern service industry in that city. Besides, the location of the consulate in the target market more or less will affect the determination to EU companies whether they should choose Chengdu as the prior market or not (Huo 2010).”

In addition, when Angela Huo focused on another point of the internationalization process when EU companies try to enter into the market of Chengdu, she explained that, “To move in the market of Chengdu, there are different levels of understanding that EU companies must experience in advance. As a whole, there are three common problems that happened in many case companies. Firstly, most of EU companies do not know deeply about the special market disciplines of China. For instance, the so-called networking is quite important for the companies to do business in China’s markets. So to speak, the business disciplines in EU cannot be copied and utilized in the market of China. Secondly, in the process of market research, to collect comprehensive information cannot be achieved by EU companies when they do the research works individually. Because, some unpublished or rare information usually cannot be found directly in China’s market. Under these circumstances, to get support from those local service intermediaries can eliminate the problems concerning the market research. Such as EUPIC, this non-profit organization keeps closely cooperation and contact with

municipal government, as well as other different governmental sectors. In this case, the information collection through EUPIC can be more easily and accurately. Thirdly, for some of EU companies, there are no right ways and effective means to reach the local partners. In the meantime, concerning the term of Business-to-Business, although, the e-commerce basically brings convenience for the companies such as easy transaction, cost reduction etc, however, the virtual credibility of some companies on internet sometimes will affect the determination even mislead to the foreign companies. Furthermore, the maturation and development level of EU and Chinese SMEs exist in big distinctions. For instance, the GDP of the German SMEs can contribute to the national GDP around 56%. Contrarily, the SMEs in China could not accomplish this kind of level at the moment. Because of the different enterprise qualification of SMEs in China and EU, to through e-commerce will directly cause asymmetry of information exchange. Due to the shortages of online transactions of Business-to-Business, those could be the typical reasons why there are many companies are still using the conventional approach of getting the support and help from the outsiders in order to find or increase international business in the foreign market. Additionally, until now, in the majority of EU companies are still not able to read and understand the related polices thoroughly. Sometime, to receive consultation from local market organizations or service intermediaries definitely could reduce the issues (Huo 2010).”

On the other hand, according to the interviewee Xuexing Zheng’s conversation, who is the CEO of Chengdu Feng-ling Pneumatic Complete Equipment Co., Ltd, he thought that, “At present, based on the strong support from the governmental policies, the development trend of internationalization of SMEs in Chengdu is expanding gradually. The positive development orientation directly confirms the effectiveness of governmental support as well as the self-improvement of the internal company. Nevertheless, to be one of the SMEs in Chengdu, there are still many problems can be recognized that affect the process of enterprise internationalization. Basically, financing is the first and also serious problem for many SMEs. The single approach leads to a shortage of direct channel of market financing. In China, in the majority of the SMEs rely on the commercial banks

and private loans to get capital support as the purpose of expanding business range. Afterwards, because of the weakness of enterprise itself, plus the lack of information about overseas market, the chances of finding long-term and right foreign business partners individually have become slim and difficult. For the SMEs in the local market, it is necessary to get the helps from those institutions or other outside sources who can play the role of bridging the business gaps between Chinese and Foreign companies (Zheng 2010).”

According to above statements from three interviewees, although the distinct questions have been asked to each of them, nevertheless, the common grounds can be indentified based on their thoughts. Obviously, both of them implied the problems of market research including both of the accurate market information, data collection about the right foreign business partners. Under these circumstances, aiming at the above problems, in order to reflect the value and position in the city of Chengdu, it is necessary for EUPIC to create a platform and apply different methods to solve the existing issues for both EU and Chinese companies.

5.7 EU-China Business & Technology Cooperation Fair IV

Once the analytical issues from the interviews have been discovered, following the objective of this study and also prove the possibility of EUPIC which can be an approach and provide related method to eliminate the gaps for EU and Chinese companies, the specific activity of “EU-China Business & Technology Cooperation Fair IV” is picked and described in detail.

5.7.1 Fair introduction

The “EU-China Business & Technology Cooperation Fair IV” is one of the largest economic events between EU and China which was held on 17th to 18th October 2009 in the city of Chengdu. The event is fully supported by Ministry of Commerce, China Council for the Promotion of International Trade (CCPIT) and Sichuan Provincial Government. Ten industries including Information

Technology, Machinery Manufacturing, Building and New Materials, New Energy, Environmental Protection, Bio-pharmaceutical, Aviation and Aerospace, Agricultural, Food and Packing were participated in this fair. The core of this event is to provide an important platform of trade, investment, and technological cooperation that is committed to helping SMEs from both EU and China to recover from the global financial crisis (EU-China Business & Technology Cooperation Fair IV 2009).

The EU-China B&T Cooperation Fair IV could be defined as a tremendous experience to find immense business potential that contained in China Southwest market, and also cooperation initiatives generated from post-quake reconstruction and restoration projects. In reality, various activities including both business activities and social activities were organized during that time. These comprehensive activities arrangements are fully to ensure the participants can have multi-aspects and closest contacts with the city of Chengdu (EU-China Business & Technology Cooperation Fair IV 2009).

On the one hand, except of the official meetings, the interior business activities can be grouped into two categories, which are forum and matchmaking event. Three kinds of forums are arranged to surround different purposes concerning the business environment of Chengdu. Those forums are named “China-EU incubator Cooperation and Development Forum”, “1st China-EU Green Tech Forum” and “German Automobile industry in Western China”. In addition, another key activity of matchmaking event stands for a crucial role in this B&T fair.

On the other hand, the business excursion and social visit are considered as external activities to those EU participants. In the business excursion, EU companies or institutes can join in the visit to Chinese companies and industrial parks deeply and clearly. Besides, other visitations are also included in the social activities as the purpose of deepening the impression and understand of the local culture of Chengdu, such as visit Jinsha Museum, Giant Panda Breeding Center etc.

5.7.2 B2B matchmaking event

With a simply understanding, the matchmaking event is a B2B communication and cooperation platform enables the participants to identify and meet the right people to discuss their business ideas and to seek business opportunities. The B2B matchmakings are organized (EU-China Business & Technology Cooperation Fair IV 2009.):

- Targeted at companies and research institutes;
- For developing new business or innovative technology;
- By pre-arranged confidential one-on-one appointments;
- With potential business partners and clients;
- To the personal interest by matching cooperation profiles.

To be the organizer of EU-China Business & Technology Cooperation Fair IV, EUPIC also puts the preparation of B2B matchmaking event forward. The preparative processes of the matchmaking event can be generally listed as follows:

- 1) Both Chinese SMEs and EU companies even institutions freely fill in the registration form, and send it back to the coordinators in EUPIC;
- 2) After collected all the registration forms from both Chinese SMEs and EU companies, those participants will be sorted by serial number and classified according to the industrial sectors into two groups of China and EU;
- 3) Once the statistics of participants are completed, the list of Chinese participants will be sent to the EU participants, vice versa. The meaning of this process is to ask those participants to choose the interested companies that they would like to meet in that matchmaking event in advance;
- 4) In the meantime, the manual matching for Chinese and EU companies will be done by the experts in EUPIC as well;
- 5) When the coordinators received all the meeting request forms from both Chinese and EU participants (See appendix 3), individual procedure is made for each company according to what kind of activities the company is going to participate in.

6 PERFORMANCE MEASUREMENT

6.1 Performance measurement of the EU-China Business & Technology Cooperation Fair IV

So far, the study has picked the EU-China Business & Technology Cooperation Fair IV as a case to prove the approach and to eliminate the problems of increasing international business in the city of Chengdu. Not only EUPIC can provide related services to support EU companies in the process of information collection and information consulting, but also the B&T fair implements its objectives as well as proves the pivotal role of EUPIC for EU companies in the local market business. As far as we know, an event performance is constituted by performances of different activities. Thus, to measure the performance of B2B matchmaking event in this B&T Fair is mainly to measure the participants' satisfaction and the results of the activity. Instead of using the typical measurement tools, the questionnaire and public report are the two methods that EUPIC have chosen as the ways to measure the effectiveness and success of the B&T fair with a holistic view.

First and foremost, the performance of the EU-China Business & Technology Cooperation Fair IV can be generally measured through public information. According to the official statistic, the total amounts of EU participants were 235, including 147 EU companies from 11 EU countries. In the meantime, 420 Chinese SMEs were counted as well. Except of 421 unofficial meetings were happened during that fair, the times of B2B matchmaking event achieved 1600 meetings at the same time. The successful rate of matchmaking between Chinese SMEs and EU companies was 32.28% (028News 2009). A simple statistics of the participants in different industries are listed in the following table;

TABLE 3 – Statistics of the participants in EU-China B&T Cooperation Fair IV

Industry	Number of participants (EU)	Number of Participants (China)
IT	46	129
Machinery	51	74
Building/ New material	15	37
Environmental protection	17	27
New energy	11	8
Bio-pharmaceutical	14	49
Agriculture/ Food / Package	10	40
Aerospace and aviation	5	6
Others	66	50

Secondly, another method of questionnaire is utilized as a way to get contact with those participants directly (See appendix 4). All in all, by sending e-mail, the formulation of the questionnaire is based on the idea of testing the satisfaction of the participants and identifying the effectiveness of holding that B&T fair. Basically, the purpose of this questionnaire is to provide enough feedbacks for EUPIC in order to collect abundant information to summarize and improve the future work. Moreover, the aim of the measurement is always to find best ideas and provide best services and approaches for the participants continuously. To reduce the high obstacles of business cooperation between Chengdu and EU companies is the long-term goal to facilitate the smooth international business in each side.

Besides, the EU Project Innovation Centre and the EU partners offer long-term service to those participants after this B&T fair. The service creates a sustainable platform to bilateral companies to establish cooperative relationship with mutual benefits. Especially, more SMEs in Chengdu that EU companies are interested, more precise contact and information that EUPIC can both give consultation and provide list of the related companies.

6.2 Recommended tools of performance measurement for other services in EUPIC

Although, the tools of performance measurement for the B&T fair are implemented actively, however, on the other hand, the services which EUPIC can provide almost do not have standards of performance measurement at the moment. Once the weaknesses of EUPIC are exposed by the SWOT analysis, there is a strong need to improve the service standard in order to compete with the similar non-profit organizations in both developing and developed countries. One of the methods to achieve the goal of self-improvement is to evaluate and measurement the service performances constantly. In this sub-section, except of the new service in EUPIC, two more services which I think are partially related to the research works are described. The conceived frameworks of performance measurement for the services are recommended separately, which include legal service, assistance in market access and development, and salon activity.

6.2.1 Legal services

The consultation of local legal services in EUPIC covers different aspects. Even if there are no specific facts that are recorded in this non-profit organization, but to test the success and effectiveness of the legal consultation, the self-evaluation can be standardized as follows:

- The comprehensive involvement of the legal data and information preparation;
- The degree of upgrade of the legal information of Chengdu;
- Self-evaluation of the related employees' capabilities;
- To account the number of legal service user;
- The efficiency of the legal information response to EU companies;
- The level of legal service from users' points of view;
- The effectiveness assistance of legal understanding and familiarity for EU companies

Additionally, if it is possible, the aperiodic contact with the service users of EU companies is another route to get measurement as well. On the basis of specific

unofficial interview, the quick responses from the interviewee companies would provide straight and clear feedbacks concerning the previous legal services which EUPIC provided to them.

6.2.2 Assistance in market access and development (enterprise – in – residence)

The approach to ask for the support and help from EUPIC to assist in market access and development can be classified into two categories. One category is mentioned above, which is the outside EU companies with no any branches and offices in the city of Chengdu. And another category is the EU companies applied to be an enterprise – in – residence, which set up an office or branch in EUPIC.

Compare to the outside EU companies, the EU enterprises – in – residence get more close support and help from EUPIC. With respect to the service of market research, the regular visit to those EU companies has become quite common for EUPIC. Through the deeply discussion to understand their business process is the traditional measurement of EUPIC to testify the effectiveness of the previous research works. Besides, there is a suggestion for EUPIC is to make statistics for the users. For example:

- The number of the users who applied the service (e.g. market research) from EUPIC;
- What kind of results that companies have achieved

The statistics not only a supervision of the services of EUPIC, but also it can be a visible proof for the potential users as a reference to show the success of the works.

On the other hand, for those outside EU companies, the structure of the performance should be also drafted, such as:

- The anticipated result for this performance measurement;
- The suitable person to be in charge of this duty;
- The way how to start this performance measurement

In reality, the standard of the performance measurement can use the questionnaire for reference and it is one of the possibilities to adapt. The research questions could surround:

- The usefulness and accuracy of the research information;
- The helpfulness on the work progress;
- Any suggestions of the research process in EUPIC

6.2.3 Salon activity

Salon activity is a new service which was draft in the beginning of 2010. This service could be defined as a succeeding activity after the EU-China Business & Technology Cooperation Fair IV. The salon activity is going to be held monthly in Chengdu. Similar process with the match-making event, EUPIC will provide a communication environment for the companies in EU and Chengdu. The advantage of salon activity can be reflected from its regularity of short period and flexibility of information exchange.

From my personal suggestions, the ways to testify the effectiveness of the salon activity could be classified into two phases: mid-term and later phase;

Mid phase:

- On site interview to EU companies about the match of the Chinese participants;
- The significance of salon activity from EU companies' points of view, which can give a response in order to improvement the implementation level of salon activity

Later phase (Questionnaire to compare the results) :

- The business progress with the partners (draft a statistics);
- Any suggestions of salon activity

Basically, the results of the performance measurement can make comparisons from different participants' points of view. The feedbacks from the EU

participants can provide diverse information to facilitate the improvement or perfect the salon activity for future higher service level.

7 CONCLUSION

To finish off the thesis, a conclusion is stated in this chapter. The intent is to summarize the findings, analyze the effectiveness of the EU-China Business & Technology Cooperation Fair IV and prove the efficiency of EUPIC to help and support EU companies in the process of finding business in the city of Chengdu. To answer the research questions in this study, the conclusion is presented under the subheadings with respect to the potential of Chengdu, the role of EUPIC, the implementation of EU-China Business & Technology Cooperation Fair IV, and the own recommendations.

7.1 The market potential of Chengdu

Because of the advantage of geographic location of Chengdu, it directly provides a possibility to expand the city development within an enormous space. To be the engine city of western development, the city of Chengdu acts as a role of facilitating a faster pace of provincial economic development as well as to be the leader of urbanization in the western region.

Following the trend of intensifying western development as a core policy, the central government offers many preferential conditions to different business aspects. Moreover, the market development in the city of Chengdu receives large support including the source of capital, business policies, investment conditions and environment etc from municipal government as well.

A number of industries make the development in the city of Chengdu become more diversified. Meanwhile, the local market economic increasing will be driven in terms of diverse industrial development. Additionally, based on the policy of “going out” in China, the scope of activities in different fields in the foreign markets is greatly broadened.

Because of the potential exploitation and excavation of the market development, the city of Chengdu has already achieved high degree of attention. The market positioning in the national market has ascended. Recently, the international

recognition of Chengdu is increasing gradually. The local market potentials also received large concerns from different industries in different developed countries. Under these circumstances, the business values and opportunities in the city of Chengdu are becoming more visibly and accessibly.

7.2 The role of EU Project Innovation Centre (EUPIC)

The frequency of the international business between China and EU is dramatically rising nowadays. In particular, based on the market potential of Chengdu, EUPIC is playing a crucial role of communication platform for both EU and China in the area of Chengdu.

EUPIC possesses widely service storage, which can meet different demands for both EU and Chinese companies. To provide different supports and helps are the cores to enhance the bilateral business exchanges. In reality, EUPIC seems like a bridge to set up an approach for EU and Chinese companies when they have obstacles in their processes of finding international business in Chengdu.

The self advantage of EUPIC can be identified in its service categories. As an intermediary, different service levels and diverse service areas stand out its characteristics. Currently, the operation of EUPIC is quite active in national market. Because of its uniqueness of the existence in China, EUPIC has obtained fully support from multi-level governmental departments in different aspects. Coupled with its strong networking in both China and EU, the features of this non-profit organization fully reflect and prove its self value in the city of Chengdu.

7.3 The implementation of EU-China Business & Technology Cooperation Fair IV

This B&T fair is one kind of periodical activities which is held almost year after year. Combining the idea of providing a platform and supporting the movement of business between EU and the city of Chengdu, the EU-China Business & Technology Cooperation Fair IV brings some influences in this process.

If the evaluation is based on the process of holding this B&T fair, there are several points of the preliminary work are necessary to mention about. To be the organizer of the EU-China Business & Technology Cooperation Fair IV, EUPIC acts as an intermediary to gather both of EU and Chinese companies together to create the valuable business communication and look for potential business opportunity. For EU companies, first of all, the process of market research concerning the potential partner discovery is almost omitted. Instead, EUPIC was in charge of searching and matching the right and suitable SMEs in Chengdu for EU companies. Furthermore, related data and information for both Chinese SMEs and the city of Chengdu were attached as well. In the case, the problem of data collection is almost conquered.

If the evaluation is based on the number of participants in the B&T fair, according to the statistics in the chapter of performance measurement, the participants from local SMEs is far exceed the early expectation. Conversely, the number of participants from EU countries is relatively average. This situation directly reflects the need of increasing strength on the promotion of next session in the EU countries.

Additionally, if the evaluation is built on the success rate of the matchmaking meeting, undoubtedly, the EU-China Business & Technology Cooperation has achieved its goal. Especially, the successful rate of matchmaking between Chinese SMEs and EU companies exceeds 32%. After this fair, many EU participants are still keeping in touch with EUPIC in order to extend business coverage with different SMEs in the local market of Chengdu.

7.4 Own recommendations

With a specific market selection for the EU companies, the attractiveness and development space of Chengdu have been pointed out based on the macro environmental and industrial analyses. More or less, the overall introduction about Chengdu could strength the in-depth acquaintance about this city to the EU companies. In my opinion, the city understanding also provides an alternative of

development path for the EU companies in the southwest of China. With four months' practical training in EUPIC, the continuous practices in this non-profit organization make me recognize its significant position in the local market. The different service items and comprehensive service provisions effectively enhance the intercourse for the companies between EU and Chengdu.

Additionally, by applying the "EU-China Business & Technology Cooperation Fair IV", the results of the activity success and effectiveness not only prove the possibility of eliminating the gaps from the side of the EU companies, but also the long-term sustainable development of international business will drive the economic increase in the local market.

On the side of operation, the most important thing for EUPIC is to learn more development ideas from the non-profit organizations in developed countries. To keep the current development trend, the EUPIC needs to improve self operational level with a global vision. In the meantime, it is necessary for EUPIC to achieve the ascent of the overall service level in the modern service industry, so that the requirements of the service projects will be put into a higher starting point in the future. In addition, the scope of the operation and the service channel in EUPIC should be extended in order to enhance the bilateral business exchanges between EU and Chengdu, as well as drive the improvement of the city's internationalization degree in the global market.

As the fast pace of information era, there is a strong need to accelerate the achievement of online service of EUPIC. The traditional one-to-one consultation with tightly controlled access to information must change. For example, to develop a webpage for the legal service, if the "Frequently Asked Questions" is set up, it would function with faster responses for the services users concerning different local legal questions with a comprehensive understanding than the traditional service consultation, such as provides easy information access including the entry mode, the business approach of legal vs. illegal etc. As a whole, to achieve technology-based online consultation service would increase the value of clients demand, and improve the efficiency and real-time information access.

8 SUMMARY

The study starts with an introduction of internationalization which is a process of expanding company business activities into an international market. Prior to the description of internationalization process, an overview of internationalization motives including both proactive motives and reactive motives are given. Within these two groups, several elements that lead to internationalization are pointed out. Diverse models of internationalization process have come forth in different periods of time. Two typical models are selected for more deep explanation in the later subheadings in Chapter 2.

The first model of Uppsala Internationalization Model (U-M) acts as an incremental process involving four stages: no regular export activities, export via independent representatives, sales subsidiary, and production/manufacturing. The U-M model is focused on the development of the individual firm and particularly on its gradual acquisition, integration, use of knowledge about foreign markets and operations and on its successively increasing commitment to foreign markets.

Additionally, the second model of the Network Model is seen as an approach of internationalization in terms of a company's existing domestic or overseas relationships. It is a process driven by the interaction of all the actors in a network. A network can either be tightly structured or loosely structured in three kinds of network; these are social networks, bureaucratic networks and proprietary networks. The network context is important as it is a source of information about the business environment. Close relationships enable the company to estimate and understand trends which can be critical for the company.

Connecting to the model of network, a definition related to four different cases of internationalization among the firms is explained. The analytical aspects are considered around the degree of internationalization of the firm and the degree of internationalization of the market. Firstly, the 'early starter' is the case where there is no existing important relationship between competitor, customers, suppliers or other firms, neither on the domestic nor on the international market. The internationalization process is in this case described with a slow and stepped

involvement in the market. Secondly, considering the structure of networks, ‘the lonely international’ can easier get access to tightly structured networks as it already has gained a lot of knowledge about different national markets. Thirdly, compared with the “earlier start” of the first case, ‘the late starter’ has a similar situation, but also has the disadvantage of being less experienced in other markets compared to its competitors. Fourthly, ‘the international among others’ gives the firm the possibility to use connections in one net for further extension or penetration into other nets.

According to the aim of analyzing the market selection and market research, and developing the problems of those parts in terms of Business-to-Business (B2B), the related theories referring to the knowledge are given in Chapter 3. The theoretical part first and foremost introduces the term of Business-to-Business (B2B) that is a marketing relationship between the enterprises in the field of market. The B2B can be regarded as a transaction that occurs between two companies, as opposed to the transaction involving a consumer. Compared to the traditional B2B, B2B e-commerce is widely adapted and accepted in the business market nowadays. The obvious advantages of B2B e-commerce include lower operations costs, transactional workflows and so forth. The convenience and extension of the networking can support different enterprises in expanding the range of their activities. Nevertheless, the comparisons of B2B e-commerce development platforms in both the West and Asia expose their weaknesses at the moment. To be one of the important developing countries in Asia, the scarcity of B2B e-commerce platform development still need stronger improvement in China’s market. The problems are visitation by foreign buyers, misunderstanding the Chinese e-commerce platform foreigners’ point of view, unbalanced industrial development on internet etc.

Subsequently, the market selection, which can have impact on the other activities of the firm, is demonstrated. Those determinants affect the choice of foreign market and are classified as environment and firm characteristics. Several market selection methods including qualitative and quantitative methods are explained in the subheadings 3.3.1 and 3.3.2. Furthermore, two categories of quantitative

approach are divided to distinguish the difference between market grouping methods and market estimation methods.

As another part of internationalization process, B2B market research refers to the research that is undertaken entirely within the business world. B2B research includes all research where the product or service is being used in a business environment. The market research embraces many different techniques including desk research, brain-storming, qualitative and quantitative research. The useful procedure of market research provides the necessary information to avoid the costly mistakes of poor strategies or lost opportunities.

In essence, the basic research approaches can be classified into four step processes, which simply are problem definition and development, determination of the sources information, data collection, data analysis and results presentation. Focusing on the analytical parts of sources determination and data collection in this study, firstly, it should be decided through which route to get sources. Secondly, although there is a distinction between the primary and secondary data, because of the higher costs for research based on primary data, secondary data usually will be exhausted firstly. Instead of describing the advantages of secondary data, the different problems on the way of collecting secondary data are mainly discussed. The main issues include accuracy and insufficiency of the data, as well as less secondary data being available in developing countries, etc.

By utilizing parts of the theories of internationalization process and market selection, the city of Chengdu is picked as a potential market. The method of PEST is implemented to present the macro environment of Chengdu. The overall industrial structures are illustrated to emphasize the attractiveness and potentials of the local market in the case of western development policy in China.

In connection with the problems discovery of market research concerning the term of B2B, the case of a non-profit organization, EU Project Innovation Centre (EUPIC), is introduced as an approach to support and help EU companies to find business in the city of Chengdu. A simple SWOT analysis is adapted to give a comprehensive analysis of EUPIC in the domestic market. By applying the

qualitative research of interview, the common problems including both of the accurate market information, data collection about the right foreign business partners are identified for the later analysis.

Following the purpose of proving the possibility to solve the issues of market research and find business in Chengdu by EUPIC, the activity of “EU-China Business & Technology Cooperation Fair IV” is chosen for deeper explanations. This B&T fair is one of the largest economic events between EU and China, which provides an important platform of trade, investment, and technological cooperation that is committed to helping SMEs from both EU and China to recover from the global financial crisis. About ten pillar industries in the local market participated in this fair. To highlight one of the typical activities of B2B match-making event, it is a B2B communication and cooperation platform which enables EU and Chinese companies to identify and meet the right people to discuss their business ideas and seek business opportunities.

To ensure the effectiveness of the EU-China Business & Technology Cooperation Fair IV, the performance measurements are implemented by using questionnaire and receiving public report. Besides, the personal recommended performance measurement methods for parts of the services in EUPIC are described in order to achieve the goals of self improvement and better service level in the future. Lastly, to answer the research questions, the conclusions are stated and summarized around the points of the market potential of the city of Chengdu, the role of EUPIC and the implementation of EU-China B&T Cooperation Fair IV. Finally, the personal recommendations concerning different aspects are given. The main ideas of these recommendations are to suggest that EUPIC broaden the channels on the basis of enhancing the bilateral business contact between EU and Chengdu, and also to continuously boost the degree of the internationalization in the city of Chengdu.

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APPENDICES

APPENDIX 1 - Preferential tax policies of Chengdu

- 1) For foreign invested manufacturing enterprises with an operation period of over 10 year, starting from when profits are achieved, income taxes will be exempted for year 1 and year 2 and levied on a half rate from the 3rd to the 5th years.
- 2) The income tax on production enterprises with foreign investment shall be levied at a reduced rate of 24%. And the income tax on the production FIEs that adopt advanced technology and located in Chengdu Economic & Technological Development Zone or Chengdu Hi-tech Zone (including Chengdu Cross-Strait Scientific Industry Development Park) shall be allowed a reduced income tax rate of 15%
- 3) Production projects with foreign investment in middle and west China, encouraged by the state industrial policies shall pay income tax at the reduced rate of 15% for three years on expiry of the current favourable tax period.
- 4) The FIEs which are engaged in technology or knowledge-intensive projects, or which make an investment over USD 30 million and have a long payoff period, which are engaged in production for energy and transportation projects, shall pay business tax at a reduced rate of 15% upon approval by the competent tax authority.
- 5) Following the expiration of the tax preferential period, the business income tax for foreign funded export enterprises shall be reduced by half of the state decided rate if their export for the current year exceeds 70% of the total production value. For export enterprises that pay business income tax at a rate of 15% of the state decided tax rate, the tax rate shall be reduced to 10% if they meet the abovementioned conditions.
- 6) The income tax on the financial agencies such as foreign funded banks, joint venture banks and etc, which are located in Chengdu, shall be levied at a

reduced rate of 15% upon approval by tax authority foreign investors or operation capital from the head bank to the branch exceeds USD 10 million and with an operation period of exceeding 10 years. The business income tax shall be exempted for the first year and be reduced by half in the 2nd and 3rd year starting from the year the begin to make profit.

- 7) For foreign invested enterprise to utilize pretax profit to increase its registered capital or use after-tax profit to establish new enterprises, with an operation period over five years, 40% of the income taxes paid for the re-investment will be refunded by ratification of tax administration. If the new enterprise is engaged in high and new technology, export-oriented, infrastructure projects such as highway, energy, irrigation, or public facility or the development of agriculture, forestry, stockbreeding and fishery with at least 5 years' operation period, the paid business income tax for the re-invested value shall be fully refunded to the investors.
- 8) The foreign companies, enterprises and other economic agencies that have no branch in Chengdu but obtain income from Chengdu's bonus stock, interest, rent franchise fights and others, shall be allowed a 10% reduction rate on the income tax.
- 9) For foreign invested enterprises with R&D expenses increasing 10% over the previous year (inclusive), 50% of the actual R&D expenses may deduct the tax that year.
- 10) For foreign invested advance-technology enterprises which are recognized as advanced technological enterprises, after the expiry of their exempt or reduced tax period, half-tax rate period may be prolonged for additional three years as described by tax regulation. The income tax rate below 10% will be levied at 10% for the enterprises conforming to the half-tax reduction conditions.

APPENDIX 2 – Lists of the interview questions

Pertti Forström (The official representative of Finland in EUPIC):

1. How do you think about the development trend of enterprise internationalization in both EU and China?
2. How do you think about the business opportunity of Chengdu from a Finnish people's point of view?
3. If one EU Company is going to increase international business in China especially in the city of Chengdu, what kind of business factors that you think the company should pay more attention in advance?
4. Did you recognize any problem concerning the situation of finding business from the side of EU companies' points of view?

Angela Huo (Coordinator of EUPIC)

1. What do you think about the business development between EU and Chengdu in these years?
2. To be one of the coordinators in EUPIC, do you have any perspectives about the situation of finding business opportunity in the city of Chengdu by different EU companies?
3. There are many contacts with different EU companies referring to different business activities in the daily work. From the foreign company's point of view, what are the most serious problems and biggest obstacles in the process discovering business opportunity in the city of Chengdu?

Xuexing Zheng (The CEO of Chengdu Feng-ling Pneumatic Complete Equipment Co., Ltd)

1. How do you think about the current situation of internationalization trend of local SMEs in the city of Chengdu?
2. Has your company already engaged in international business in overseas markets? If not, does the company have any plans to start international business?

3. To be the typical local SMEs in the city of Chengdu, How do you think about the problems in the process of bringing business into the foreign markets?

APPENDIX 3 – Meeting Request Form

Company name _____

Country _____

Meeting No	Company No	Company Name	Name of Representative
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			

APPENDIX 4 – Questionnaire to EU-China B&T Cooperation 2009



**Questionnaire to
EU-China Business & Technology Cooperation Fair IV**

Thanks for taking time to answer the questionnaire, which will be used to decide how best to provide the follow-up services for the event. Please send back the completed form to eric_liu@eupic.org.cn

Name of your company _____ Your Company No. _____
Country of origin _____

I. The Matchmaking Meetings

1. How many business meeting you had during the event: _____
The Chinese companies with whom you desire to maintain contact with after the event (Please provide the Chinese companies' names and their company No):

2. The areas in which you made the most progress during your meetings:

- | | |
|--|--|
| <input type="checkbox"/> Agency / Distribution | <input type="checkbox"/> Investment |
| <input type="checkbox"/> Sub-contracting / Outsourcing | <input type="checkbox"/> Technology Transfer / Licensing |
| <input type="checkbox"/> Import / Export | <input type="checkbox"/> Joint-Ventures |
| <input type="checkbox"/> Other (Please Specify) _____ | |

3. Your impression of the quality of **matchmaking meetings**:

- Professional Good Average Bad

4. Your opinion of the quality of the **interpreters**:

- Professional Good Average Bad

5. Any other suggestions or comments related to the **matchmaking meetings**:

Professional Good Average Bad

6. Your impression of the facilities and services provided at the **event venue**:

Other comments and suggestions: _____

II. The forums

7. Your impression of the ‘**EU-China Incubator Cooperation and Development Forum**’

Professional Good Average Bad

Other comments and suggestions: _____

8. Your impression of the ‘**1st China-EU Green Tech Forum**’

Professional Good Average Bad

Other comments and suggestions: _____

9. Your impression of the ‘**Automobile Industry in West China**’

Professional Good Average Bad

Other comments and suggestions: _____

10. What activities you hope us to organize in the future:

11. Any other suggestions or comments related to the ‘**EU-China Business & Technology Cooperation Fair IV**’
