

Research on Internationalization Development Strategy of Construction Machinery Enterprises in Hunan Province of China under the Belt and Road Initiative

Qi Li^{1,a}, Pai Wang^{1,b,*} and Yiqing Huang²

¹School of Economics and Trade, Guangxi University of Finance and Economics, No.100 Mingxiu West Road, Nanning, China

²School of Management and Economics, Jingdezhen Ceramic Institute, No.27 South Taoyang Road, Jingdezhen, China

^a email: nikii0629@163.com, ^b email: wangpai97@163.com

*Corresponding author

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Abstract. Under the Belt and Road Initiative, the economic and trade relations and cooperation in engineering projects among the countries along the route have been further strengthened, and Hunan construction machinery enterprises are facing new historical opportunities for international development. Due to the lack of import demand in overseas markets, the low degree of cooperation between enterprises and the deficiency of internationalization of talents and the lack of optimization of business sector structure, Hunan construction machinery enterprises will face a series of challenges in the process of internationalization. According to these problems, this paper puts forward some improvement measures from the perspectives of entry strategy, industrial chain strategy, human resources strategy and product strategy, respectively, to adjust the way of entering overseas markets to further strengthen cooperation among affiliated enterprises, improve the degree of internationalization of enterprise talents and expand and optimize overseas business sectors, so as to optimize the internationalization strategy of related enterprises and promote their further development.

1. INTRODUCTION

The construction machinery industry plays an important role in the national economic construction and is also the dominant industry in Hunan Province. Hunan Province has an advanced industrial cluster of construction machinery with a wide range of categories, large scale and well-known enterprises, which provides a good foundation for the internationalization of related enterprises.

In recent years, as China's economy has entered the “new normal”, the domestic construction machinery market has been hit by a slowdown in economic growth and a drop in real estate investment. Driven by the Belt and Road Initiative, the demand for infrastructure connectivity in the countries along the line continues to grow vigorously. The report Asia-Pacific Asset Management Development Trends and Prospects 2017 shows that it is expected that from 2017 to 2020, the cumulative annual investment in infrastructure in the countries and regions related to the Belt and Road Initiative will reach 1.3 trillion to 1.8 trillion US dollars. The construction cooperation and investment in related projects will grow vigorously, stimulating the rapid recovery of the construction machinery industry. Under this background, domestic enterprises are speeding up their overseas distribution and “going global” to realize internationalization has become a new driving force for their development and an inevitable way to seek further growth.

Whether the internationalization development strategy is correct or not will not only determine whether the enterprise can “going global” smoothly, but also affects its further development and integration into overseas markets, and promotes its international competitiveness. It is of great significance for Hunan Province and even Chinese construction machinery enterprises realize the

overall success or failure of the internationalization development in the new era under the Belt and Road Initiative strategy.

2. CURRENT SITUATION ANALYSIS

2.1. Development Process

The internationalization development of Hunan construction machinery enterprises has experienced three stages. The initial stage is from 1990 to 2000. In 1991, SANY was established. In 1992, ZOOMLION was established and received export orders from Egyptian customers in 1997. In 1999, SUNWARD was established. In 2000, the annual sales revenue of construction machinery in Hunan Province reached 2 billion yuan.

The period from 2001 to 2010 is a pioneering period. With China's accession to the WTO, major enterprises have begun to seek opportunities in foreign markets. SANY and SUNWARD have both started to enter the international market through export trade. Taking the global financial crisis of 2007-2009 as an opportunity, ZOOMLION and SANY acquired the ailing giants CIFA of Italy and Puzmeister of Germany respectively, greatly improving their position in the international market.

Since 2011, Hunan construction machinery enterprises have entered a new stage of internationalization. At the present stage, there are two characteristics. First, the status of major construction machinery enterprises in China, especially in Hunan Province, is constantly improving in the global market. Second, the allocation of production resources in the construction machinery industry tends to be global. Table 1 shows that in 2018, there were 9 Chinese enterprises in the top 50 global construction machinery manufacturers, three of them were Hunan enterprises, ranking the first in the country. In terms of shares, the contract of global shares of the three Hunan enterprises is 6.40%, accounting for nearly half of the 13.90% of the total shares of the shortlisted domestic enterprises. Looking at the trend, SANY, ZOOMLION and SUNWARD ranked 8th, 13th and 40th respectively in 2018, of which SANY was second only to XCMG, the largest similar enterprise in China, and the ranking of the three Hunan enterprises was stable and rising compared with 2017.

Table 1 Chinese Enterprises Entering 2018 Top 50 Global Construction Machinery Manufacturers Ranking List

Enterprise Name	2017 Ranking	2018 Ranking	Global Share in 2018	Provinces
XCMG	8	6	4.30%	Jiangsu
SANY	11	8	3.70%	Hunan
ZOOMLION	14	13	2.30%	Hunan
LIUGONG	31	26	1.10%	Guangxi
LONKING	33	30	0.80%	Shanghai
SHANTUI	38	33	0.60%	Shandong
XGMA	42	39	0.40%	Fujian
SUNWARD	47	40	0.40%	Hunan
LOVOL	48	45	0.30%	Shandong

Source: KHL Yellow Table 2018

With the further development of internationalization, Hunan construction machinery enterprises, on the one hand, have strengthened the integration of resources in emerging markets and set up overseas institutions in countries and regions along the Belt and Road Initiative route; On the other hand, they attach great importance to scientific and technological innovation and, guided by the policy of “introduction, digestion and absorption”, continues to carry out cross-border mergers and acquisitions and exploits the technological advantages of the merged overseas enterprises.

After three stages of development, Hunan construction machinery enterprises are growing from competitors in the international market to integrators of international resources and leaders in the global construction machinery industry.

2.2. Overview of Key Enterprises

At present, Hunan Province has developed SANY, ZOOMLION and SUNWARD, three leading construction machinery enterprises. In the early stage of entering overseas markets, they mainly adopted export trade strategy, exporting products to the target market through direct operation or contact with agents. Due to the high value of machinery and equipment products and the growing demand for overseas sales and service departments, export costs have increased with the continuous expansion of overseas markets, increasing the pressure of products to “going global”. In order to further lay out the markets along the Belt and Road Initiative route, the three enterprises are continuously exploring localization operations. Table 2 reflects the specific situation of setting up overseas institutions in relevant countries and regions.

Table 2 Establishment of Overseas Institutions by Leading Construction Machinery Enterprises in Hunan Province in Countries and Regions along the Belt and Road Initiative

Enterprise Name	Event	Country and Region
SANY	Investment in factories	India Indonesia
	Establishment of subsidiaries	Russia Ukraine India Indonesia
	setting up big region	Central Asia Middle East North Africa
	Establish R&D base	India
ZOOMLION	Investment in factories	Belarus Myanmar
	Establishment of wholly-owned subsidiaries	Singapore Indonesia Vietnam Russia Kazakhstan United Arab Emirates India
	Set up offices, representative offices and service centres	Russia United Arab Emirates
	Set up parts warehouse and central warehouse	Singapore Indonesia Russia
SUNWARD	Establishment of wholly-owned subsidiaries	Russia Singapore Indonesia Malaysia Vietnam Cambodia Laos
	Set up overseas spare parts warehouse	Vietnam Indonesia

Source: Public Information Compilation

Figures 1, 2 and 3 respectively reflect the main business composition of SANY, ZOOMLION and SUNWARD from 2013 to 2018. Table 3 reflects the gross profit margin of its corresponding business in different years.

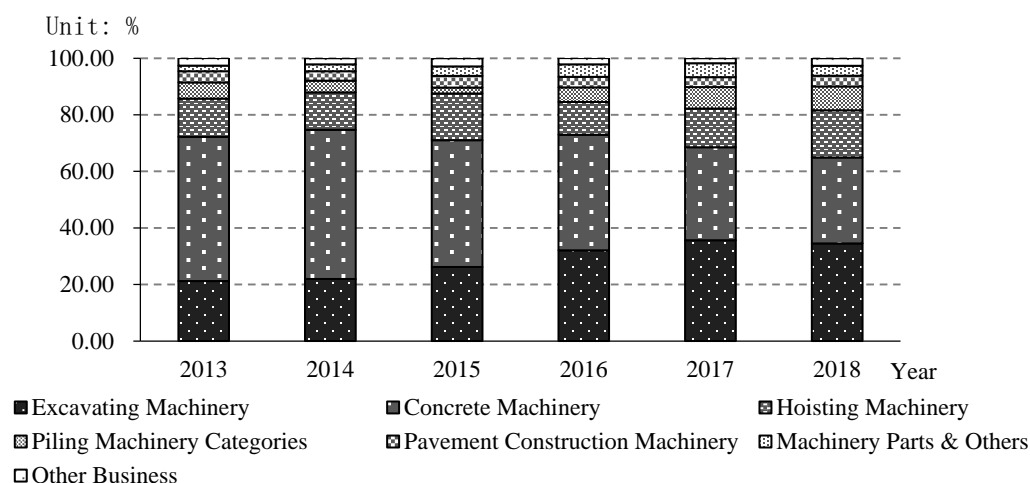


Figure 1 Composition of SANY's Main Business

Source: Wind EDB

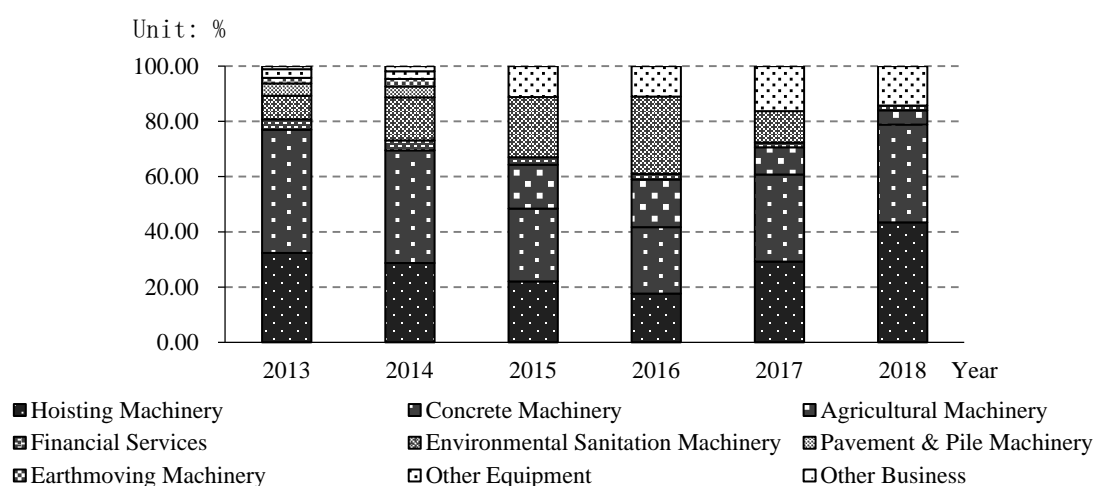


Figure 2 Composition of ZOOMLION's Main Business

Source: Wind EDB

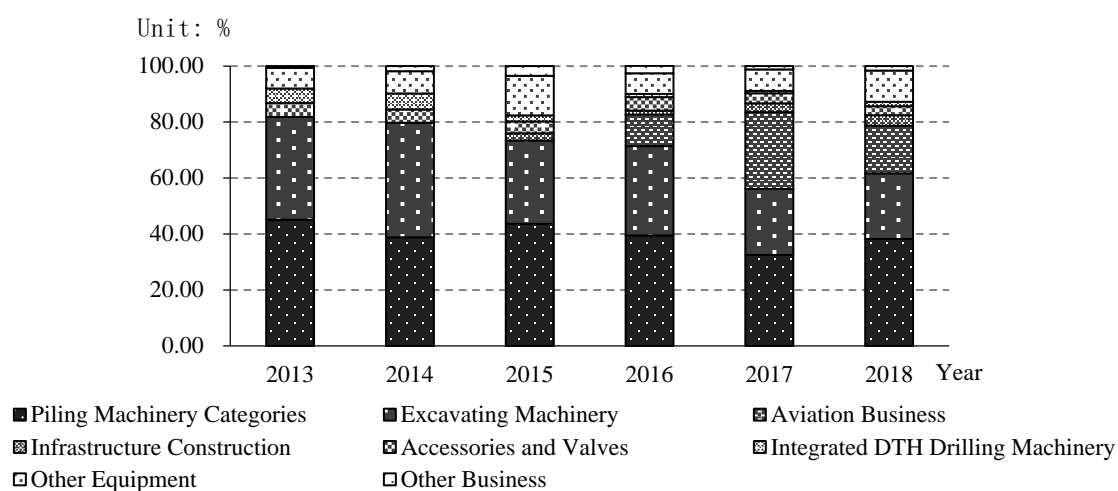


Figure 3 Composition of SUNWARD's Main Business

Source: Wind EDB

Table 3 Gross Profit Rate of Hunan Construction Machinery Leading Enterprises by Item (%)

Enterprise Name	Business	Year					
		2013	2014	2015	2016	2017	2018
SANY	Excavating Machinery	33.62	32.55	27.53	32.42	40.62	38.66

	Concrete Machinery	22.34	22.12	22.85	21.46	24.22	25.24
	Hoisting Machinery	28.03	27.81	29.68	34.04	22.99	24.85
	Piling Machinery Categories	38.58	41.19	40.11	25.24	30.65	37.30
	Pavement Construction Machinery	29.60	24.65	24.50	17.40	18.20	31.34
	Machinery Parts & Others	14.56	14.33	7.90	11.58	20.86	22.75
ZOOMLION	Hoisting Machinery	26.93	27.79	31.1	27.05	21.93	29.06
	Concrete Machinery	26.57	22.43	20.99	18.96	18.32	23.96
	Agricultural Machinery	-	-	15.79	17.56	13.96	6.88
	Financial Services	99.62	99.76	99.96	99.93	99.9	99.87
	Environmental Sanitation Machinery	28.84	29.84	31.31	26.56	24.93	-
	Pavement & Pile Machinery	32.5	31.66	-	-	-	-
	Earthmoving Machinery	1.8	6.18	-	-	-	-
	Other Equipment	29.35	40.47	22.87	18.34	20.01	27.29
	Piling Machinery Categories	27.5	25.13	31.47	35.93	33.3	32.41
SUNWARD	Excavating Machinery	22.28	20.71	25.98	24.52	18.9	18
	Aviation Business	-	-	-	64.98	49.4	57.55
	Infrastructure Construction	-	-	16.43	-	-	13.07
	Accessories and Valves	31.98	33.49	33.01	-	-	-
	Integrated DTH Drilling Machinery	35.46	33.37	30.79	-	-	-
	Other Equipment	18.78	26.15	19.2	-	-	18.87
	Other Business	53.37	90.06	45.33	-	-	-

Source: Wind EDB

It is worth noting that since the Belt and Road Initiative was put forward in 2013, the three enterprises have adjusted their main businesses to different degrees. Figure 2-1 shows that SANY is increasing the proportion of Excavating Machinery business year by year, stabilizing its dominant position, while exploring to increase the proportion of Piling Machinery Categories and Pavement Construction Machinery business, and has taken measures to reduce the proportion of Concrete Machinery business to adjust its capacity allocation. ZOOMLION has shown a trend of refocusing its main business. Figure 2-2 shows that from 2013 to 2016, the proportion of Hoisting Machinery and Concrete Machinery business as its main business shrank year by year, while the proportion of Environmental Sanitation Machinery, Agricultural Machinery and other businesses tended to increase. However, after 2017, the proportion of Hoisting Machinery and Concrete Machinery increased significantly to the original level. In 2015, Agricultural Machinery began to become its main business. Pavement & Pile Machinery and Earth moving Machinery ceased operations. In 2017, with the Belt and Road Initiative International Cooperation Summit Forum releasing more and more strong signals of the development of the construction machinery industry market, ZOOMLION sold its Environmental Sanitation Machinery business to concentrate its advantageous resources on the main construction machinery industry. SUNWARD has expanded its new business and lost and unloaded side-line businesses. Figure 2-3 shows that while basically maintaining the stable proportion of Piling Machinery Categories and Excavating Machinery, it started Aviation Business in 2016 and tried to expand the proportion of this business, bringing new growth momentum to the enterprise's performance, and stopped the operation of Accessories & Valves and Integrated DTH Drilling Machinery business in the same year.

3. EXISTING PROBLEMS

3.1. Weak Import Demand in Overseas Markets

From Table 4, it can be found that the import volume of construction machinery in major markets along the Belt and Road Initiative from 2013 to 2017 generally fluctuated greatly, especially the import volume in some major markets was in negative growth in each year, reflecting

the weak demand for construction machinery import in overseas markets. This situation will have a significant adverse impact on the operation and even the international development process of a group of Hunan construction machinery enterprises, which take export trade as the main way to enter the overseas market.

Table 4 Year-on-Year Growth Rate (%) of Construction Machinery Imports in Major Markets along the Belt and Road Initiative

Year	Region			
	Asia	Europe	Africa	Oceania
2013	18.46	18.75	42.82	25.79
2014	18.11	2.91	100.01	63.70
2015	31.80	10.40	48.00	5.01
2016	6.80	2.25	51.69	42.48
2017	58.00	1.87	11.60	42.60

Source: China Construction Machinery Industry Yearbook

3.2. The Degree of Cooperation Between Enterprises is Relatively Low

From Table 5, it can be found that the core products of the three construction machinery enterprises in Hunan Province are mainly complete machines, and equipment types such as hoisting machinery, concrete machinery, excavating machinery and piling machinery have become the focus of rivalry. Homogenization of products makes it difficult for them to cooperate and complement each other in production and management. On the contrary, competition restricts each other to a certain extent.

Table 5 Core Products of Key Construction Machinery Enterprises in Hunan Province

Enterprise Name	Core Product
SANY	Excavating Machinery Concrete Machinery Hoisting Machinery Piling Machinery
ZOOMLION	Hoisting Machinery Concrete Machinery Agricultural Machinery
SUNWARD	Excavating Machinery Piling Machinery Categories Aviation Equipment

Source: Public Information Compilation

At the same time, as the industrial supporting foundation is relatively weak and the industrial cluster atmosphere is relatively backward compared with the more developed countries and the eastern regions of the country, the supporting departments in the construction machinery industry in Hunan province are more difficult to meet the needs of complete machine enterprises in terms of research and development and production capacity to produce high-end products, making it necessary to purchase large quantities of special raw materials such as high-strength steel plates, special composite materials and core components such as engines and hydraulic pumps outside the province or even import them from abroad. In addition, Hunan Province is relatively short of local advantageous enterprises engaged in logistics, transportation, information consultation and exhibition services, and the service and support system for docking with construction machinery enterprises is not perfect, which also results in low degree of supporting cooperation between enterprises.

3.3. The Degree of Internationalization of Talents is Relatively Low

Hunan Province is in the central and southern parts of China's interior. Due to the limitations of its geographical environment, the society pays less attention to and invests less in the cultivation of internationalized talents than in the developed coastal areas. Moreover, due to the limited degree of development of export-oriented economy, it lacks the ability to attract overseas talents, resulting in the shortage of local internationalized talents and overseas talents coming to Hunan. On the other hand, it has long relied on cross-border mergers to expand the territory of overseas organizations. Overseas employees usually come from the employees of the merged enterprises, resulting in foreign employees mainly engaged in scientific research, technology and production, while relatively few foreign managerial talents are familiar with overseas market conditions, which makes the international talents of Hunan construction machinery enterprises at a low level in both quantity and quality.

Wenjin He, the vice president of ZOOMLION, once mentioned in his speech that the biggest challenge facing enterprises in the process of internationalization is the lack of international talents. Human resources are the most fundamental element for the operation and development of enterprises. With the transformation of Hunan construction machinery enterprises from local manufacturers to international enterprises, an international talent team must be provided as the support for enterprises to carry out transnational business.

3.4. The Business Sector Structure Not Optimized

On the one hand, according to figures 2-1, 2-2 and 3-3, the business of construction machinery enterprises in Hunan province presents relatively single features and the types are further simplified, while overseas construction machinery pioneer enterprises have formed a multi-pronged situation in the process of internationalization. Take Caterpillar as an example. In addition to construction machinery, it also produces diesel and gas engines. 59.49% of its business comes from non-mechanical equipment such as resources, energy & transportation, and financial services. As a latecomer, with the further development of internationalization, Hunan construction machinery enterprises inevitably need to get involved in more new businesses.

On the other hand, as mentioned earlier, frequent changes in the business structure show that there is still room for adjustment in the business sector composition of Hunan construction machinery enterprises, and there are also unreasonable points in the existing adjustment process. As shown in Table 3, the gross profit margin of ZOOMLION 's Financial Services business is always at a high level, and it has an absolute leading advantage over mechanical equipment business. However, as a non-traditional business, financial services account for less than 4% of ZOOMLION 's main business and decline year by year.

4. STRATEGIC SUGGESTIONS AND IMPROVEMENT MEASURES

4.1. Entry Strategy: Adjust the way to enter overseas markets

Entry strategy refers to the strategic steps taken by an enterprise in the host country related to the entry mode when entering the international market for operation. Entry methods include export trade (Agency export, direct export); Contract type (Technical authorization, franchise) and investment type (Joint venture with local enterprises, establishment of wholly-owned subsidiaries), etc. In the process of internationalization, Hunan construction machinery enterprises should implement entry strategies based on their own products, technologies, costs, partners and business objectives, market size and structure of the host country, economic and policy environment, trade barriers and other factors, and choose one entry mode or a combination of several entry modes in the target market.

The decision of enterprises to enter overseas markets cannot be made without understanding the target market. Therefore, enterprises need to do a thorough investigation and analysis in the

preparatory and adjustment stage of the implementation of the entry strategy, according to the obtained information, make timely response, change the entry strategy in the target market, and avoid possible losses caused by sluggish market demand under a single export trade mode. It is necessary to assess the situation and adopt different policies from other countries so that the way to enter overseas markets will change with the changes of influencing factors in the target market.

In addition, the internationalization of “going global” by products is obviously not a one-time solution. After accumulating a certain amount of overseas operation experience, enterprises should adopt modern enterprise management methods, implement overseas investment strategies in production, trade, research and development, maintenance, investment and other fields by combining overseas mergers and acquisitions, investment in factories and the establishment of overseas institutions, and pursue localization in production, sales, management and other aspects, so as to “going native” in ways other than export trade, thus creating closer ties with local economic development and infrastructure construction and building an organic whole with interlinked forces and interests.

4.2. Industry Chain Strategy: Further Strengthen Collaboration among Associated Enterprises

The industrial chain, as a chain-like relationship between different industrial sectors that are connected with each other, includes three links: upstream, midstream and downstream. As far as the industrial chain of construction machinery is concerned, the upstream industries are mainly steel processing, nonferrous metallurgy, petrochemical, parts manufacturing and other industries, which belong to the role of raw materials and parts supply. The middle reaches are mainly engaged in R&D, system assembly, mainframe assembly and other industries, which belong to the manufacturing role of the whole machine. Downstream are mainly logistics, sales and leasing, financing and loans, transportation and other industries, which belong to the role of service support and application of results.

SANY, ZOOMLION and SUNWARD, the leading enterprises in Hunan's construction machinery industry, are all midstream complete machine enterprises. The three enterprises should implement differentiated development in the process of internationalization, strive to improve their position in specific market segments, strive for international standard-setting rights in different sub-industries thus form unique advantages, and joint research on common core technologies, building research and development or patent alliances, promoting common interests to reduce homogeneous competition for collaborative innovation and change the situation of core technologies by purchase or introduction; In order to expand the demand of overseas markets, enterprises should find a way out to the downstream of the industrial chain, such as joining hands with Hunan Construction Engineering Group, CSR Zhuzhou Electric Locomotive and other enterprises to “going abroad in group” to share development opportunities by contracting overseas road and bridge construction, maglev train and other large-scale projects in the mode of Design + Procurement + Construction.

In order to change the situation in which complete machine enterprises are strong but industry supporting is lagging behind, Hunan provincial government departments need to strengthen the construction of science and technology parks to attract high-end supporting product enterprises to invest in factories, encourage small and medium-sized construction machinery enterprises with weak competitive strength to switch to professional parts manufacturers, link up the upper and middle reaches of the industrial chain, and enhance local supporting capacity. Support a group of logistics, consulting and exhibition companies closely related to the construction machinery industry and capable of international operation through subsidies and bonuses to connect the middle and lower reaches of the industrial chain and reduce the marketing and management costs of construction machinery enterprises; At the same time, relevant industry associations in the province should actively organize supporting support for communication between enterprises and complete machine enterprises, promote the sound development of their supply-demand relationship, and enable all parties concerned to form a joint effort to build an international construction machinery industry chain.

4.3. Human Resources Strategy: Improve the Internationalization of Enterprise Talents

Human resource management is a series of activities such as planning, organizing, directing, controlling and coordinating the acquisition (selection), development (education), retention (retention) and utilization (employment) of human resources by enterprises in order to realize the development goals by using modern management science. In order to meet the needs of international development, relying on overseas local talents to provide intellectual support is an inevitable way for enterprises to deeply cultivate overseas markets. Hunan construction machinery enterprises should step up publicity efforts in foreign local talent exchange departments or cooperate with headhunting companies for international recruitment. In the process of introduction, targeted and professional considerations should be made to ensure a reasonable proportion of local technical and production-oriented talents. At the same time, emphasis should be placed on exploring and employing local management-oriented talents who are familiar with the host country's market, culture and policy environment and have cross-cultural communication ability, so as to provide them with superior positions, treatment and promotion channels. In addition, Hunan provincial government departments can set up and issue urgently needed special work visas to overseas talents serving related enterprises, giving them more convenience in staying, staying and emigrating than ordinary visa types, and taking necessary measures to attract talents, providing travel subsidies for overseas experts of enterprises, setting up special funds, etc., so that overseas talents can come, stay and work well.

In addition to local talents, the internationalized talent team of the enterprise should also include talents from the home country nationality with transnational operation and management capabilities. In order to reverse the lagging status of local international talent training, Hunan provincial government departments should actively play their role in Hunan higher education institutions, guide universities, scientific research institutes and construction machinery enterprises to jointly train high-end application-oriented talents with internationalized vision and certain construction machinery knowledge reserve that serve the internationalization of construction machinery enterprises, expand the breadth and depth of integration of production and education, and improve the training quality of professional international business talents. At the same time, relevant enterprises can also give full play to the special role of foreign talents in their overseas departments, establish a "tutorial system", organize experienced local employees to help their counterparts from headquarters stationed at the same department, and train more talents in-house to adapt to the international operation of the enterprise.

4.4. Product Strategy: Expand and Optimize Overseas Business Sector

As far as construction machinery enterprises are concerned, their formal products are the basic forms of machinery like hoisting machinery, concrete machinery and other products. Additional products are additional services such as transportation, maintenance and even financing. Potential products are products to be developed according to future engineering needs. Product strategy includes product mix, new product development and product brand. Product mix determines a better plan for the production and sale of formal products together with additional products by designing the combination of product lines and projects. New product development makes potential products a reality by improving the deficiencies of the original products and designing new functions; Product brand is influenced by decisions such as using independent or other brands, single or multiple brands, etc. on product sales and corporate image.

Hunan construction machinery enterprises should avoid sticking to a single business structure and strive to develop from traditional equipment production and marketing enterprises to comprehensive international enterprises based on construction machinery, with multiple business sectors simultaneously and mutually supporting. First of all, it is possible to develop diversified mechanical businesses to form capacity advantages, and to lay out new business sectors such as energy and financial services to expand business areas and help product portfolio innovation and expansion. Secondly, the technological innovation achievements of the new business sector can be

transplanted and grafted into the R&D and manufacturing of other mechanical products, and differentiated new products can be developed in pursuit of greater marginal benefits. Thirdly, the dominant brands of the merged overseas enterprises can be actively used, and the product brands can be distributed differently based on the production of multiple series of products, so that multiple brands can support each other, and the commodities eventually cover consumers with different preferences overseas, thus forming joint forces for market expansion and improving the position of enterprises in the international market.

At the same time, enterprises should take note of the coexistence of opportunities and risks in developing and expanding new business sectors. Therefore, in the process of internationalization development, attention should be paid to the establishment of a series of monitoring indicators such as profit contribution, market performance, cost input, etc. for the existing overseas business sectors of the enterprise, and the actual potential of each business sector should be regularly grasped from them, so as to provide reliable basis for the formulation of resource allocation plans and the evaluation of business scale, thus adjusting the business proportion between the business sectors with better potential and high added value and those with relatively weak development and backward production capacity in the future. It is also important to pay attention to the operational risks of various business sectors, strengthen the crisis warning of business units or institutions, and formulate feasible exit and withdrawal mechanisms for risk businesses such as listing, selling and clearing.

5. CONCLUSION AND PROSPECT

The Belt and Road Initiative provides a broad international market space for the international development of enterprises. Chinese enterprises located in the initiating country of the Belt and Road Initiative should grasp this historical opportunity and implement correct and appropriate international development strategies to seek deep cultivation of overseas markets, realize global distribution and further promote the upgrading of related industries.

Hunan construction machinery enterprises are in a leading position in China's construction machinery industry and are also typical in the international development of similar enterprises nationwide. They do not only face some common problems in the internationalized development of national construction machinery enterprises, such as weak import demand in overseas markets and low level of supporting cooperation among enterprises, but also have some unique advantages among its peers, such as a series of successful overseas mergers and acquisitions and transnational investment experiences. The suggestions on the direction of entry strategy and industrial chain strategy put forward in this paper will have certain reference value and significance for similar enterprises in the country to implement internationalization development strategy and government departments to formulate supporting policies for related industries and enterprises.

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