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1 Expansion Paths of the Telecommunications Companies under
2 Globalisation. Telefónica and China Netcom Cooperation at the
3 Beginning of the 21th Century

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6
7 **Abstract**

8 This research addresses the paths taken by the telecommunications companies in their
9 expansion under the globalisation during the first years of the new millennium. The research
10 adopts a firm level perspective with a Europe based multinational - Telefónica- and a state
11 owned Chinese company -China Netcom- as actors. The key issue is to determine the pattern
12 of expansion selected by the partners and to elucidate the reasons of the choice. The study is
13 based on diverse sources, such as reports of the companies, studies of major institutions and
14 international press. The text is organized in three main sections, namely the conversion of
15 Asia into a target for the multinational, the corporate alliances and the globalisation and the
16 telecommunications in China and the entry Telefónica in China. The research discloses as a
17 pattern of expansion the collaboration by means of a blended approach of stake acquisition
18 and contribution of knowledge and skill.

19
20 *Index terms*— europe-china cooperation, china netcom, telefónica, globalisation, strategic alliances.

21 1 Introduction

22 international and inter-regional trade for multinational enterprises have increased in an incomparable trend
23 in the recent years, prompting the era of mass globalisation of companies and forcing them to strategise an
24 international business pattern (Kyove et al. 2021, 216-230). This trend can be traced back years earlier and, in
25 telecommunications, it is part of the international framework built up in the last two decades of the twentieth
26 century.

27 In a wide sense, economic globalisation refers to the increasing integration of economies around the world,
28 particularly through the movement of goods, services, labor, knowledge and capital across borders (IMF Staff,
29 2008). In this process, the connectedness and spread of technology, production, and communication worldwide
30 constitutes key issues (Kyove et al. 2021, 216-230). Globalisation acts into a two-way direction. Push defines
31 the going global of a company for the simple reason that it is pursuing added business potential, while pull form
32 is based on the needs of foreign customers (Javaid 2004, 24). In another view, the Public Telecommunications
33 Operators (PTO) entailed two dimensions in the global activities. In the "outgoing" dimension a PTO stretches
34 its service provision to other countries and in the "incoming" PTOs compete potentially with each other with
35 gains for one of them and loss for the other (Kurisaki 1995, 31). Significantly, the collaboration is absent of
36 this scheme.

37 From the 1980-1990s on, the world's major supranational agencies pointed out the strength of the globalisation
38 in the telecommunications. Commitments in telecommunications services, mostly in those of value-added,
39 were achieved during the Uruguay Round (1986-94), while the subsequent negotiations (1994-1997) on basic
40 telecommunications concluded with the Fourth Protocol to the General Agreement on Trade in Services (GATS)
41 in 1996. Telecommunications, like other services, were included in the 2000 Doha Round of services negotiations.
42 Improving telecommunications commitments remained a priority and was likely to be pursued in any future
43 negotiations (http://www.wto.org/english/tratop_e/serv_e/telecom_e/telecom_e.htm).

44 Scholars did not exactly jump the gun when it came to researching transnational companies based in developing
45 countries, and when they did, their studies were not strategy-related in nature (Jiang 2005). Experts show also
46 a negligence of the perspective of Chinese partners in the agreements (Strange 1998, 6).

47 We deal with the core of the relentless debates on internationalisation, dominated, for a time, by the gradualist
48 of the Stockholm school but fed and amplified by others ?? . Within the framework of the amendment of
49 mainstream theories (Cuervo-Cazurra 2011) and the setting aside of a linear process, one can ask whether
50 confrontation is the unique way to expand abroad. In this respect, international strategic alliances, for example,
51 provide firms with more strategic flexibility than other forms of internationalisation, equipping them to respond to
52 the emergence of new competitors and changing market conditions. Strengthening market presence, economising
53 on production and research costs, and accessing intangible assets such as managerial skills and knowledge of
54 markets entailed the diverse range of motives (Kang and Sakai 2000. 5). International alliances encompassed a
55 wide range of interfirm links, from joint ventures to production, cooperative research and marketing. The last
56 two activities predominated over the production in the number of ?? Aharoni (1966) and some business historians
57 (Wilkins 1970) anticipated in the defence of longitudinal view advocated by the Stockholm mainstream, based
58 initially in four Swedish manufacturing firms (Johanson and Wiedersheim 1975, 305-322; Johanson and Vahlne
59 1977, 23-32).

60 partnerships, partly reflecting the growing role of service firms.

61 International strategic alliances increased significantly in number (more than five-fold), pace, scale, complexity
62 and value in the last decade of the twentieth century, paralleling the growth in cross-border mergers and
63 acquisitions (M&As) to achieve global scale in operations. The majority of them involve firms from OECD
64 countries, although in the 1990s there was a surge with non-member Asian countries including China. Alliances
65 were being formed across a broad range of sectors, including chemicals and pharmaceuticals, computers and
66 electronic equipment, and financial and business services.

67 This research addresses the paths taken by the telecommunications companies in their expansion under the
68 globalisation during the first years of the new millennium. It adopts a firm level perspective (Nayak 2018, 52-71),
69 which puts on the stage a Europe based multinational -Telefónica-and a state owned Chinese company -China
70 Netcom-. The asymmetry of their status constitutes the main characteristic of both players. Telefónica entails a
71 case far from the early stage in an advanced expansion abroad, while its counterpart remains mainly centered on
72 the national market. Two interrelated issues to explore are the reasons for the choice of China over other Asian
73 countries with high growth potential, at a time when Telefónica was advocating continued expansion in Latin
74 America and in contrast to the traditional strategy of operator control followed in the region 2 . The central
75 question is to elucidate why the partners selected a particular pattern of expansion instead of other ways.

76 The study is based on diverse sources, such as reports of the companies, studies of major institutions and
77 international press. The text is organized in four main sections, two for each counterpart. They comprise the
78 conversion of Asia into a target for the multinational, the singularity of the telecommunications in China, the
79 overall framework of the entry China from Spain and the break of Telefonica into China.

80 2 I.

81 Liberalisation: Asia as a Target for the Giants

82 The state-owned monopoly carriers predominated in most countries and presented an insurmountable barrier
83 to foreign investment in the telecommunication services 3 . A neo-liberal perspective on state regulation swept
84 through the world since the 1980s (Yeo 2008, 1). Forty-four PTOs were privatised raising \$159 billion, about
85 one-third of this investment coming from outside the home countries. This process of privatisation increased the
86 opportunities for foreign investors to establish subsidiaries or to combine with others in joint ventures (Lin 2008,
87 34-40).

88 In Asia, Japan began opening up the market in 1990 and between 1992 and 1997 the operators in Malaysia
89 (1992), Singapore (1993), Pakistan (1994) and Indonesia (1995), followed by India 4 and Hong Kong (1997) 5 ,
90 among others, were privatised.

91 It will be enlightening to address the extent to which the globalisation standardised or diversified the paths of
92 market opening, which included the formation of international joint ventures, and the unique benefits of those
93 enterprises compared to other forms of international cooperation, such as distribution agencies and technology
94 licensing.

95 From the outset, the different nature and situation of the countries suggests strong discrepancies in their
96 patterns. If we take one from the abovementioned list, in Malaysia the Companies Act (1965) made the foreign
97 enterprises as ineligible to apply for the licences to provide the physical infrastructure for telecommunications as
98 well as services. Licence holders must be incorporated in Malaysia (Todd 2019, 60-61). Malaysian development
99 strategy went from an import substituting industrialisation (1957-1970) to the New Economic Policy (1970-1980),
100 the State-led attempt at industrial upgrading in early 1980s to an adjustment and liberalisation (mid-1980s-1996)
101 (OECD 1999, 113-117).

102 The multinationals intended to intervene. In Malaysia, Swiss Telecom (Swisscom) adopted a mixed formula
103 to enter the country, namely the acquisition of 30% stake in the holding company Malaysia's Mutiara
104 Telecommunications and the provision of technical and operational assistance to this operator on its existing
105 personal communications network service and help to launch trunk and international services (CBR, 15 May

106 1996). Mutiara Swisscom -in 1998 named DiGi-Swisscom-Berhad-owned entirely Mutiara Telecommunications
107 Sdn. Bhd. Mutiara held domestic licences to operate the country's largest digital mobile network (GSM 1800) as
108 well as a fixed network, an international gateway, VSAT and data network services. Swisscom planned to develop
109 Mutiara as its main base in the Asia-Pacific region and contributed significantly to the growth of the company by
110 means of its expertise in mobile networks and product, service and technology development (Swisscom 1997, 35).
111 Further attention merits India, considered one the most competitive and dynamic markets in South-East Asia
112 by the end of 20th century (Swisscom 1997, 35). Swisscom entered the Indian market through a double pattern.
113 Firstly, as a shareholder of an established local company and then as a provider of capacities and products to
114 the infrastructures in construction. In 1996 the Swiss operator acquired a strategic stake of 32.5% in Sterling
115 Cellular and provided management to set up a state-of-the-art GSM cellular network in the densely populated
116 New Delhi, under the Essar Cellphone brand, a joint venture between Swisscom and the Essar group (Swisscom,
117 1997, 35). After two years, Swisscom recorded high losses in the mobile network operators in India and in 1998
118 decided to withdraw from the participations in the country, as it happened in Malaysia (Swisscom AG, 1998, 32).

119 FDI in the telecommunications sector increased substantially in India between 1995 and 1997, once the country
120 recognized the importance of investment in the telecommunications sector and developed the 1994 New Telecom
121 Policy (NTP) 7 . Some thirty 6 WARID snatched the cellular deal from many international bidders after it met
122 its financial requirements because economic reforms undertaken by the government augured large growth in that
123 dynamic sector: Gulf News, 28 May 2004. In 2000, China Mobile Communications ranked 5th in the list of
124 the top 50 TNCs from developing countries: CNNMoney, 24 July, 2006. 7 The NTP opened up basic telecom
125 services in addition to value added services such as cellular services and radio paging. This policy brought with
126 it the creation in 1997 of the Telecom Regulatory Authority of India, an independent body that separated the
127 Government's regulatory functions from its service-providing functions: National Institute of Public Finance and
128 Policy 2017, 2.

129 telecommunications carriers entered the Indian market, considered highly appealing, through joint ventures
130 in 1995. Many of them left not without a perceptible expansion, including the North American AT&T, three
131 European -France Telecom, British Telephone and Swisscom -and Australian Telstra. At the end, only six major
132 foreign telecommunications companies remained in the country, all from the Asia-Pacific region (Economist
133 Intelligence Unit 2005; Green 2009, 6; IGI 2000, 33).

134 Along with the FDI, India, remarkable by the size and exceptional diversity of its market, presents a
135 story of international technology and knowledge transfer, international joint ventures, as well as financial and
136 political capabilities of firms. According Nayak (2018, 52-71), unlike China's or Japan's telecommunications
137 transformations, both driven by limited foreign participation, India's path to a modern telecom industry resulted
138 from global participation.

139 The 1997 Asian crisis temporarily reduced the flow of foreign investment, which began to focus on the
140 mobile phone service market and building manufacturing facilities for mobile phone handsets. Two years later,
141 India designed a new NTP to further liberalise the telecommunications sector and promote the importance of
142 telecommunications to the Indian economy.

143 As it occurred elsewhere, mobile services in India provided leverage for the expansion of telecommunications.
144 In term of agreements, the government inked 120 arrangements with sixteen firms to launch mobile services (India
145 Weekly, 25 April 2008).

146 France Telecom decided to enter the Indian cellular segment through acquisitions and by bidding for new
147 cellular circles or licensed service areas mostly corresponding to the borders of the India states. The France
148 headquartered multinational procured a 26% shareholding in BPL Mobile Communications, which launched its
149 wireless network at the end of 1995 to cover the Mumbai (Bombay) metropolitan area. The remaining shares
150 were held by BPL Cellular Holdings, which had interests in wireless, Internet and broadband services throughout
151 India (France Telecom 2003, 67). It achieved the second modality by means of a joint venture with BPL Mobile,
152 the cellular operator in Mumbai (IGI 2000, 33).

153 Orange Business Services, the enterprise communications arm of France Telecom, received the license to provide
154 long distance network and networkrelated services to businesses and to offer more effectively services directly to
155 multi-site customersglobal and Indian-. This license would enable it to expand its operations in the country. The
156 company, which would operate through its joint venture company Equant Network Services India Private Ltd,
157 employed more than 2,000 people in India, serving more than 680 local and multinational clients (The Economic
158 Times, 25 June 2008).

159 For its part, BPL and AT&T Wireless joined in a joint venture named BPL Mobile Cellular Ltd. (The Times
160 of India, 25 July 2003). The agreement not lasted long because AT&T Wireless Services, the nation's thirdlargest
161 cell phone company, sold its 49 percent stake in India's BPL Mobile Cellular to the BPL Mobile Group (The
162 New York Times, 4 December 2003) 8 .

163 The action was not restricted to Europe based multinationals. One of the foreign/local joint ventures was
164 adopted in 2008 when NTT Docomo, the leader in Japan, partnered with Tata Tele Services Ltd. (TTSL), which
165 ranked fifth in the Indian market. Which were the reasons? NTT was aiming to capture the knowledge that TTSL
166 had on the local market, close to theoretical view of Kang and Sakai (2000), and the ownership of telecom license
167 exclusive of the top local firms in India. For its part, TTSL wanted to increase its share in the growing home

168 mobile market with the 3G technology (Case Study Solution, [https://www.thecasesolutions.com/nttdocomo-](https://www.thecasesolutions.com/nttdocomo-joint-venture-with-tata-in-indian-mobile-telecom -3108)
169 [joint-venture-with-tata-in-indian-mobile-telecom -3108](https://www.thecasesolutions.com/nttdocomo-joint-venture-with-tata-in-indian-mobile-telecom -3108)).

170 India's first mobile networks were largely developed by Telstra, the Australian communications major, which
171 attempted to enter through a double way: provision of services and acquisition of a carrier. Telstra secured the
172 first domestic telecom service license in India in the early 1990s, sold its stake and missed out on India's massive
173 mobile boom (Bhaskar 2022, 8). It offered national and international long distance services and committed to
174 acquire an Internet service provider licence in India (Business Standard, 19 January 2013).

175 Special interest presents the Norwegian telecom firm Telenor entry in India because it highlights the similarities
176 and differences in the entry patterns of a multinational into the same area. With a large experience gained, in
177 2008, Telenor joined the real estate firm Unitech Ltd in a joint venture named Unitech Wireless and entered
178 India taking control of a 60 percent stake in the local operator to provide telecom services. Unitech Wireless
179 launched the following year its India operation across eight circles, initially under the brand name Uninor. Unitech
180 Wireless was the only player among the new telecommunications entrants that sold out a majority stake to a
181 foreign carrier. Other transactions comprised the acquisition of 45% Swan stake by the Emirati ETISALAT and
182 Chennai-based S Tel, a GSM service provider, selling 49% to Bahrain Telecom to gain entry into the rapidly
183 growing market (Economic Times, 19 January 2009; Venture Capital Circle, 10 February 2010). 8 Besides other
184 partners, France Telecom undertook to provide Bangkok InterTeletech Company Limited (BITCO) in Thailand
185 with financial, technical and commercial support (France Telecom 2003, 67).

186 In 2009, Telenor invested \$1.2 billion for a majority stake alongside India's number two property firm. Strongly
187 indebted, in 2012, Unitech settled all over its telecom joint venture Uninor with Norway's Telenor amicably
188 (Economic Times, 11 October 2012) 9 . In 2017, Telenor ASA agreed with Bharti Airtel Limited to take
189 full ownership of Telenor India (<https://www.telenor.com/ab out/who-we-are/history/our-history/>; Business
190 Standard News, 20 January 2013; Gooderham, Ulset and Elter, 2019 [np]).

191 It is worth stopping to reflect on the policy followed by Uninor. The company adopted the top-of-the-pyramid
192 business model which segmented marketing of premium services with an overtly emotional, aspirational appeal.
193 Uninor was the first mobile operator in India to introduce the 'dynamic pricing', which gave consumers substantial
194 discounts and resulted in a significant reduction in tariffs. Uninor replaced this model with mass marketing of
195 basic local services with a utilitarian appeal. It aligned its operations with the guidelines given by the consultancy
196 McKinsey and underpinned in two factors. The first assumed that the high average revenue per user (ARM) that
197 Telenor required from Uninor was most readily achievable in the premium services, higher-income segment of the
198 market. The second assumed that there was an opportunity to capture a viable share of the top-of-the-pyramid
199 market.

200 Enormous interest entails the way to achieve the goals. To accelerate the launch of services in the Indian
201 market, Uninor forged a vertical alliance with the Swedish multinational Ericsson as its equipment supplier and
202 Indian Wipro as its IT partner. Unlike any other Telenor business unit it would outsource its customer service
203 to gain a much lower cost and greater flexibility (Gooderham, Ulset and Elter, 2019 [np]).

204 In the South Asia area, Telenor entered in Bangladesh in 1999 as a first-mover -there was little competition
205 -and through a joint venture with Grameen Bank of Bangladesh. The joint venture, GrameenPhone, segmented
206 the market and provided services to the wealthier people and the business community. As an addition to this
207 top-of-the pyramid operation, the joint venture undertook the organization of its less commercial activities in
208 rural areas. In Telenor Thailand (DTAC), Malaysia (Digi) and Pakistan, where Telenor was present from 2005,
209 the conditions of entry were similar (Gooderham, Ulset and Elter, 2019 [np]). Thailand, for example, although
210 DTAC failed to win a 4G licence, remained Telenor's most lucrative market and 9 Both Uninor and Unitech's
211 managing director were later charged in India's 2G telecoms scandal (Economic Times, 12 October 2011). Telenor
212 said the Central Bureau of Investigation covered the period prior to the Telenor Group's entry into India and
213 that its investments in the joint venture with Unitech Wireless were always cleared by the Government of India:
214 The Hindou, 4 April 2011. This overview begs a clear conclusion: the existence of certain preferential areas
215 for companies and the complete absence of Telefónica in those markets. Nevertheless, the Spanish operator did
216 explore some the vibrant Asia-Pacific markets in the 1980s. In Indonesia -certainly a promising player within 11
217 -Telefónica had negotiated a comprehensive intervention in the value chain, including the installation, operation
218 and temporary maintenance of telecommunications networks, prior to their transfer to local hands. Through
219 its subsidiary Telefónica Internacional, the product provider of Telefónica's holding company in the country, it
220 embarked on the ambitious PBH-PELITA VI project, alongside local operator PT Intikom Telepersada, with
221 which it considered a joint participation. The delay due to slow bureaucracy helped to form a consortium with
222 the association to its own core (Telefónica International Netherlands BV and Compañía de Teléfonos de Chile) of
223 Banco Hispanoamericano and the local operator, without closing the doors to possible incorporations. Telefónica
224 was particularly interested in the privatisation of the local carrier PT Telekomunikasi and even reached the final
225 phase of the international tender within the consortium Mitra Usaha Telenusa Komunikasi, which included GTE
226 and the local group PT Bahana (itself an alliance between the Central Bank of Indonesia and the Indonesian
227 Ministry of Finance). The company was finally privatised for 1.6 billion, 39.7% more than Indosat (Indonesian
228 Satellite Corporation), responsible for international services.

229 In general, the markets of the Far East opposed great difficulties for the Spanish companies present since
230 the 1980s, due to the powerful competition from Japan -backed by very powerful credits -and the American,

231 British and Australian influence, as well as the existence of operators and alliances with very strong interests in
232 these markets. In this situation, which was not exactly the most favourable, Telefónica decided to leave. The
233 definitive factor was the uncertainty involved 10 Later, an autonomous entity with its headquarters in Singapore
234 -Telenor Asia -set-up to manage the group's Asian operations and Thailand's CP Group finalised the merger
235 of True Corporation and Total Access Communication (DTAC), the second and third-largest mobile operators
236 in Thailand: The Business Times, 7 March 2023. 11 Some sectors of the Spanish institutions such as Eugenio
237 Bregolat, then ambassador in Indonesia, highlighted the shift of the center of gravity from the Atlantic to the
238 Pacific and the importance of technology transfer as a substantial tool to intensify the Spanish economic influence
239 in the area: El País, 9 June 1984.

240 in entering the country, a feeling shared by the North American GTE.

241 A similar fate befell the attempts to enter New Zealand and the Philippines at the end of 1989. In the
242 former, Telefónica reached an agreement with Bell Atlantic International and Ameritech (American Information
243 Technologies Co.) to bid for Telecom Corporation of New Zealand. Political vicissitudes legislative elections
244 around the corner -and a change in the initial objectives led to the abandonment of the consortium by Telefónica.
245 The privatisation followed the pattern of full competition with a lack of regulatory authority.

246 Nothing was in vain, however, because the fiascos taught the managers lessons and forced them to fine-tune
247 procedures. Telefónica learned the importance of maturity and experience in the international markets (Calvo,
248 2017, 276-277).

249 Telefónica's attempts to enter the Far East during the final decade of the 20th century provide a sobering
250 insight. The moves of the Spanish operator towards those markets, in general very conducive to foreign direct
251 investment, were an exception.

252 3 II.

253 4 The Singularity of the Telecommunications in China

254 Often, developing countries excluded of the high ranks in the telecommunications indicators exceeded the
255 more advanced countries in growth of this sector. The reasons for this include higher overall economic
256 growth rates as well as efforts to expand the sector rapidly from poor infrastructure and service levels
257 (http://www.wto.org/english/tratop_e/serv_e/telecom_e/telecom_e.htm).

258 Within its meteoric rise as a superpower and the shift from a centrally-based, functionally-specialised Soviet
259 model to an organized on a multi-layer-multiregional basis (Goodhart and Xu, 1996), China represents the
260 singularity of building up its extensive telecommunications network in merely a decade (China implemented
261 three major reforms at corporate level in 1994-2002 in its attempts to build a competitive market system as in the
262 Western countries. Administrative power was decentralised, market relations were developed and responsibility
263 for performance was delegated to company managers. At the infrastructure level, there was a considerable
264 expansion.

265 The reforms comprised the addition of two new companies -China Unicom in 1994 by the state council to
266 compete with the former monopoly China Telecom and China Mobile in 2000-to the two already in existence
267 -China Jitong and new China Netcom 12 . Those five major telecommunication service operators provided almost
268 all telecommunication services in the national market. The market shares of total telecommunications service
269 revenue at the end of 2001 were as follows: China Telecom, 50.4%; China Mobile, 37.5%; China Unicom, 10.6%.
270 In the IP telephony market, China Telecom predominated clearly (75.6% call-hours), ahead of China Unicom
271 (18.4%), China Jitong (3.6%) and China Netcom (1.5%), which carved a niche market for itself in network
272 leased-line service (OECD 2003, 8) 13 .

273 The final result of the reform was a market fragmented in six main operators, namely, China Telecom, China
274 Unicom, China Mobile, China Netcom, China Railway Communication Co. or China Railcom, which changed its
275 name to China Tietong in 2004, and China Satcom (OECD, 2003; South China Morning Post, 31 January 2004)
276 14 . The historic operator, China Telecom, after the restructuring in May 2002 remained close to the ministry
277 that was also nominated to be regulator of the telecommunication market (ITU, 2006).

278 The structure of the Chinese telecommunications market presented two main features. The first referred
279 to competition among various governmental bodies such as the Ministry of Information Industry (MII), the
280 Ministry of Railways, the Ministry of Powers, SARFT, and the Shanghai Municipal Government. This situation
281 differed substantially from that in developed countries, where private telecommunication companies vie for power.
282 Second, one of the bodies -MII-was able to influence the entire Chinese telecommunication market 12 The State
283 Council has the power to outline legislation and policy guidelines and review the major projects submitted by the
284 ministries and provincial governments. It comprises the Prime Minister, four Deputy Prime Ministers, and eight
285 counsellors selected from among twenty two ministries, including the MII responsible for telecommunications
286 regulation enforcement, and five commissions. Under the State Council are also the provincial administrations:
287 OECD, 2003, 13. 13 In April 1999, IP telephony service was introduced to provide universal access at low rates
288 in a context of low rates of direct access to fixed phones: OECD 2003, 8. 14 Relating the international status,
289 by the end of 2001, China took a giant step towards joining the major international institutions by accepting
290 commitments to join the World Trade Organisation (WTO) 15 . During the WTO prolonged negotiations -almost

291 fifteen years-, liberalisation of the telecommunications was a critical issue both because of its growth potential
292 and because it was considered one of China's 'key national industries' (Pangestu and Mrongowius 2002, 1).

293 The WTO Agreement lowered the risks for domestic and foreign investors through changes in the market
294 and policy expectations about the supply, pricing and demand growth of communications services (Cowhey
295 and Klimenko 2001). In the telecommunications, it permitted to establish joint ventures without quantitative
296 restrictions but with gradual ceilings from 25% to 49%, and provide services in several cities (Press/243, 17
297 September 2001).

298 In short, WTO Agreement allowed competition to the near-monopoly held so far by China Telecom, permitting
299 significant foreign investment in indigenous enterprises, and abolishing tariff concessions and discriminatory
300 procurement processes. Nevertheless, the WTO regime was carefully restricted by acknowledgements that states
301 can legitimately impose regulations for reasons ranging from the protection of consumers to maintaining the
302 overriding public interest or national security (WTO 2000). Already half a year after the conclusion of the US-
303 China Agreement on accession to WTO, a multitude of regulations which enhanced state control over activity in
304 cyberspace was introduced (State Council 2000) 16 .

305 International observers did not expect China's accession to the WTO to solve all problems and disputes
306 in the telecommunications sector and its players. However, they assumed that the international rules of the
307 game would be much more relevant for the Chinese telecommunications sector than in the past (Holbig and
308 Ash (eds.) 2002, 101) 17 . 15 Premier Zhu Rongji committed to substantially open China's wireless services
309 and equipment markets in exchange for U.S. backing of China WTO membership (RCR Wireless News, 11
310 October 1999). 16 According Kanungo (2015, 88-89), telecommunications remained a strategic sector as it
311 contributed both to the manufacturing as well as services. With the joining of the WTO its strategic importance
312 increased because of the global connectivity and the issues of national security and sovereignty. 17 In a thorough
313 overview, Voon and Mitchell (2010, 1-55) have identified a number of potential WTO violations by China in
314 regulating its telecommunications services, from inconsistencies associated with China's obligations concerning
315 transparency, regulatory independence and competition to the minimum registered capital requirements for basic
316 telecommunications service suppliers when providing services on a resale basis. Some scholars credit China's
317 commitments to market access and national treatment in telecommunications services as modest in scope, which
318 did not prevent a delay in the implementation of regulatory disciplines. Nevertheless, China embarked on a long
319 road towards a complete transformation of the telecommunications sector, with little external influence and free
320 from external ownership and control. This was mainly due to the driving role taken by the government and
321 industry in the prospect of joining the WTO and opening up to the world (Roseman 2005, 25-48).

322 A huge amount of dollars worth in foreign investment poured into China since it opened its economy in
323 1979 because of the potential to be a high lucrative venture. Despite favourable elements in the regulation and
324 international commitments, the political and legal risks in a country with an economy and foreign investment legal
325 structure that was young and unpredictable. Furthermore, the risks of foreign investment were especially great
326 in the telecommunications industry, because of its politically sensitive character (Chuang 1999-2000, 508-538).

327 Within this framework foreign carriers attempted with varying success to enter Chinese markets by developing
328 strategic relationships with state-owned carriers, and foreign investors secured equity shares that do not
329 constituted direct investment by international standards and engaged in technology and knowledge transfers
330 in exchange for limited business scope in its market (Hsueh 2011, 91-94).

331 In the basic telecommunications services (BTS) segment no foreign-invested telecommunications enterprise
332 licensees existed. Some attempts failed as it happened with an earlier joint venture between Cable and Wireless
333 and Shenzhen Telecommunications Development Company. The same fate befell a joint venture between
334 AT&T and the State-owned companies Shanghai Telecom (a wholly-owned subsidiary of China Telecom) and
335 Shanghai Information Investment Inc., before accession to the WTO. Thus AT&T touted its status as the lone
336 foreign service provider to have a telecom joint venture in China. The new company -Shanghai Symphony
337 Telecommunications Co Ltd (UNISITI)-obtained the grant of the provision of limited data transmission services
338 in the Shanghai region of Pudong (Voon and Mitchell 2010, 1-55) 18 .

339 As it is known, foreign companies could only to invest in a network's construction but not operate the 18
340 AT&T built out its Multi-protocol Label Switching (MPLS) network by deploying switches and teaming with
341 service providers in China. The CCF provided capital needed for start-up carriers to compete with historic
342 operators in a similar way as that of the high-yield debt market in Western nations. China Unicom had begun
343 setting up CCF agreements with various companies, including Sprint Corp., Deutsche Telekom and Bell Canada
344 International in 1994 to access much-needed funds to construct Global System for Mobile communications (GSM)
345 networks together with diverse telecommunications projects. Other carriers as Itochu of Japan, Korea Telecom
346 and Singapore Telecom went on to swell the ranks. China Unicom raised 72 percent of its financing through
347 CCF scheme, used most of this capital to finance mobile telecommunications ventures (RCR Wireless News, 5
348 October 1998), and built out about two million GSM lines in some nine hundred major Chinese cities 20 .

349 Nevertheless, unlike the previous behaviour, in 1998, the Chinese government declared CCF partnerships
350 with foreign companies improper. The MII reiterated that China Unicom's CCF contracts violated government
351 policies and regulations and needed to be corrected. It ordered China Unicom to resolve the situation (South
352 China Morning Post, 3 September 1999). China Unicom worked, not without resistance, to 19 The Chinese
353 government initially encouraged foreign companies to establish joint ventures and the multinationals created

354 several of them, beginning with Shanghai Bell between Alcatel, Belgian Bell and the Posts and Telecom Industry
355 Corporation as a major shareholder. NEC and Siemens followed the suit with Tianjin (Tianjin NEC) and Beijing
356 International Switching Systems Corporation and with Shanghai Mobile Communications, respectively: Chang
357 2013, 93. 20 The 2G standards GSM and CDMA rivalled to conquer the Chinese market. Companies invested
358 in start-up Chinese firms engaged in the development of a standard, as Qualcomm did through a \$100 million
359 programme to promote CDMA-based products, applications and services. This costly technology faced diverse
360 problems, namely a shortage of handsets, complaints about poor reception, slow subscription rates, and declining
361 enthusiasm for the new technology: 21 .

362 Analysts pointed out that the end of CCF as a viable option would force foreign companies either to take
363 minority stakes in telecommunications ventures through stock listings or find a viable alternative investment
364 vehicle, such as the leasing-contract arrangement drawn up by Siemens AG (The China Business Review,
365 November-December 1999, 5).

366 In fact, seven years after China joined the WTO, foreign strategic investors have been confined to small stakes
367 in a group of operators. The list included China Mobile 0941.HKCHL.N; Vodafone: 3.3 percent; China Unicom;
368 SK Telecom: 6.6 percent; China Netcom: Spain's Telefonica SA: 5 percent; SK Telecom: around 3.8 percent
369 (Reuters Staff).

370 Telefónica had in U.K.-based mobile operator Vodafone a mirror to look in. At the start of the new millennium,
371 when technology bubble had swelled to its largest proportions, Vodafone bought new shares issued by China
372 Mobile, which was seeking to finance the acquisition of mobile phone equipment in seven Chinese provinces,
373 municipalities and autonomous regions (Beijing, Shanghai, Tianjin, Lianing, Shandong, Hebei and Guangxi). In
374 2002, Vodafone wanted to increase the stake in China Mobile to a 25 percent. On another hand, Vodafone Group
375 PLC and Hewlett-Packard Co. (HP) planned to invest in Aspire Holdings Ltd., a subsidiary of China Mobile
376 (Hong Kong) Ltd., the publicly-listed arm of China's biggest mobile operator, China Mobile Communications
377 Corp. As part of the deal, Vodafone will work on R&D of wireless data services in China, a specialty of Aspire,
378 as well as systems and gateway integration services for China Mobile in mainland China (China Mobile, Hong
379 Kong, 9 January 2002; Computerworld, 10 January 2002; Independent, 5 October 2000) 22 .

380 It is worth noting that Vodafone entered in China without a previous representative office, the basic step to
381 enter a market 23 To overcome untold obstacles, companies had to be able to count on major support from
382 institutions at the highest level. Despite strict limitations to foreign capital, Telefónica took advantage of the
383 opportunity window open by the Chinese policy and entered the market of this country via cooperation with a
384 traditional fixed-line carrier linked to central power to compete.

385 Regarding one of the main actors of this story, a strong point emanated from the political capabilities
386 accumulated by Spain in China, an aspect lacking when Telefonica attempted the entry in Indonesia, at least with
387 the intensity inherent to the China case (Garcia and Pacheco, 2014). The cornerstone of the relations between
388 Spain and the People's Republic of China was the first diplomatic relations in 1973 -five years before the Chinese
389 'open door' policy and still under the cruel Franco's dictatorship. The Embassy of Spain opened an Economic and
390 Commercial Office six years later, already in the democratic period (Dezcallar 2022, 443-453). It is worth noting
391 that in the early 1970s, the European Economic Community was not particularly an early riser in the relations
392 with Asian countries. In fact, it advocated an external relations policy with a regionalist approach, which gave
393 rise to the so-called Community preference pyramid. In this approach, the EEC's relations with Asian countries
394 were informal and contacts had a low priority. Later, the situation was radically transformed; relations between
395 the EU and Asia underwent a real At the end of 1984, Spain and China reached an agreement on cooperation in
396 the development and implementation of industrial projects in third countries, including the supply of machinery,
397 equipment and services, as well as other forms of common interest. Bilateral agreements and contracts between
398 agencies and companies and in the commitment to grant favourable financial treatment for cooperation projects
399 would follow. ICTs -telecommunications, electronics and informatics -were among the areas of preference 24 .

400 A constant flow of official visits at the highest level contributed to enhance the institutional ties (Fanjul 2003,
401 154), in particular under the socialist rule. In 1993, fifteen years after the decisive turn of Deng Xiaoping,
402 Beijing upgraded bilateral relations with Spain to the level of a Comprehensive Strategic Partnership. Later,
403 the Spanish Asia Pacific Framework Plan 2000-2002 sought business and technology cooperation through a
404 number of initiatives to be developed in Europe and China. They included, firstly, the opening of an Office of
405 the Centre for Technological and Industrial Development in China and, immediately afterwards, a Discussion
406 Forum on cooperation projects in the area of the environment between European and Asian entities. Thirdly a
407 Spanish-Chinese Machine Tool Institute was created in Tianjin. In addition, with a view to improving the rate of
408 return for Spanish companies, intellectual activities -studies, seminars and information dayswere envisaged. The
409 programme included sectoral actions, with a Strategic Plan aimed at promoting design and fashion. Scientific
410 cooperation included the promotion of collaboration between Spanish universities and specialised centres with
411 their counterparts in other countries of the area through agreements or conventions, as well as cooperation and
412 the exchange of scientific and technical experts.

413 The Plan 2000-2002 had as a pillar the role of Spain as a bridge in the triangulation with China and Latin
414 America. Spain began to explore the chances in its triangulation role by means of a study and a Forum Spain-Asia
415 Pacific-Iberoamerica with representatives of the diverse sectors of the society and the political world (Ministerio
416 de Asuntos Exteriores 2004, 11-14; Bregolat 2007, 382-383; Fornes and Mendez 2018, 195).

417 In 2005, the Spanish government elaborated together with the business association CEOE the China Plan,
418 which allocated 400 million to promote the internationalisation of Spanish enterprises to that 24 The Spanish
419 Economic and Commercial Offices in Beijing, Shanghai and Hong Kong, together with the Ministry of Tourism in
420 Beijing, developed a very intense and varied programme of trade promotion, through trade fairs, trade missions,
421 business centres, scholarship holders, market studies, among other actions, especially effective in a market such
422 as China (Sebastián 2008, 85).

423 Relating specialised entities intervention, the CDTI and Torch 25 signed a MOU in 2002 and the for-
424 mer opened an office in Shanghai. In 2006 the bilateral China programme was launched to support
425 the joint development of technological innovation projects between Spanish and Chinese companies (with
426 the participation of at least one from each country). Such projects are intended to develop innovative
427 and market-oriented products, processes and services (Economía Industrial, 362, 2006, 17; Ortega 2018;
428 <https://www.cdti.es/index.asp?MP=101&MS=842&MN=2&TR=C&IDR=101>).

429 In terms of financing, China was the main recipient of FAD credits (Foreign Aid Fund) granted by the Spanish
430 government in the period 1977-2002, with 986,879 million or 14.60% of the total, ahead of Morocco (519,430
431 or 7.68%), Mexico (501,680 or 7.42%) and Argentina (401,382 or 5.94%) (González and Larrú 2004, 6). The
432 distribution of the FAD in 2003 was a clear demonstration of the priority that the Spanish government gave
433 to China in its policy of supporting the internationalisation of companies (Cinco Días, 1 September 2003). 25
434 Enhancing international cooperation and promoting the internationalisation of China's new/high tech industries
435 was one of the major tasks of the Chinese Torch Programme -a guidance for developing new/high tech industries
436 in China, approved by the State Council and implemented by the Ministry of Science and Technology. The
437 approach to the internationalisation consisted in establishing wide cooperative relation with various countries and
438 regions and enter into various forms of and technological, financial, enterprise and commercial sectors in foreign
439 countries through governmental or nongovernmental channels. http://gr.china-embassy.gov.cn/eng/kxjs/gjjh/200408/t20040803_3367260.htm A person very knowledgeable of the Chinese society (Bravo 2008, 122 and 124)
440 unveils a couple of valuable insights. To start with the political capital accumulated by Spain, he points out that
441 in the wake of Hu Jintao's visit in 2005, when the CMDP was signed, Spain became a privileged partner -"China's
442 best friend in Europe" -in the political dialogue with China. The authorities of this country remembered with
443 gratitude the respect and comprehension shown by Spain in the three "t's" (Tibet-Tiananmen-Taiwan) in the
444 face of the prevailing hostile attitude (Bregolat 2007, 245-249) 26 .

445 Relating to Telefónica network, he noted that China discovered Telefónica in Latin America -Argentina or
446 Brazil-through contacts of leading Chinese personalities with a senior representative of the Spanish multinational,
447 a curious case of triangulation 27 .

448 Another interesting issue to understand the scenario previous to the entry in China as an operator was a certain
449 experience on the Chinese market, captured from the Chinese providers in Spain and through the commercial
450 events in China.

451 The first way resulted in vertical alliances. In 2004, Telefónica concluded two of them with the Chinese leader
452 Huawei -considered the "Cisco" of China and protagonist of meteoric rise (Reuters Staff, 1 July 2009)-with the
453 aim to provide equipment to its subsidiaries in two Latin American countries. The deals involved the provision
454 of routers in Brazil and DSLAM devices in Chile, as a major IP DSLAM vendor to Telefónica (Digital 360, 18
455 October 2004; Boutellier et al. 2008, 513; Larçon 2009, 189) 28 . Telefónica chose also the SingleRAN technology,
456 a solution from Huawei that allowed one set of telecom equipment to simultaneously provide wireless networks
457 in multiple standards, i.e. second generation (2G) and 3G. In 2008, Telefónica Europa and Huawei started a
458 cooperation to extend the 3G coverage and signed an agreement to create an innovation centre in Spain with half
459 hundred employees to provide technical support services to customers throughout the Spanish-speaking world
460 (Telefónica 2008, 50 and 134). In the global competition, Vodafone began a collaboration between a Spanish
461 team of telecom experts working for it and Huawei and 26 Key representatives of Telefonica highlighted the
462 potential of China in telecommunications (Nadal Ariño 2006, pp. 82-84), while others drew attention of the
463 changing role of China in the world: Casado 2006, pp. 66-69. 27 Telefónica strengthened ties with China.
464 As we will see, favourable market conditions and good relationships helped the Chinese succeed as equipment
465 suppliers and increasingly as network providers in Latin America: Hulse 2007, 17. See also Higuera 2015, 15.
466 28 It proves impossible to give a full account of the extensive literature on the subject. ZTE, the second-biggest
467 telecom equipment maker of China, and Telefónica agreed to sell Movistar-branded phones in a dozen of Latin
468 American countries: China Telecom Monthly Newsletter, March 2010, 8. benefitted from the investment to create
469 a collaborative organization named Mobile Information Center (Li 2017, 166; RealWire, 3 January 2008) 29 .

470 In another way, Telefónica could contact the headquarters of a joint venture with 3Com and the representative
471 offices that Huawei opened, first in Madrid (2001) and then in five cities (Barcelona, Valencia, Sevilla, A Coruña
472 y Bilbao), as well as to collaborate with the headquarters of Huawei Technologies S.L. (Huawei España), created
473 in 2004 (Melo 2018, 84) 30 .

474 Going to the commercial events in China, in 1985, only two Spanish companies participated in the first
475 electronics fair in Shanghai: Telefónica and Fermax. The date coincides with the years of the Luis Solana
476 mandate in the Spanish carrier, when it was a monopoly partly owned by the state, and the final moments of the
477 industrial holding which provided the company equipment and materials. About three decades later, Telefónica
478 opened its Representative office in Beijing. The location in the capital rather than in the more fashionable
479

480 and financial Shanghai obeyed to be close to the key institutions for the development of business in general
481 and the sector in particular: government and the ministry of Telecommunications 31 . The bureau started
482 its activity in February 2005 through four main areas, namely institutional relations, corporate development,
483 purchasing and technology prospecting. The objective of the first area was to open a channel for relations
484 between the countries where Telefónica operated and Asia, while establishing deep and stable relations with the
485 Chinese authorities. Key elements were the relationship with the SASAC (State-owned Assets Supervision and
486 Administration Commission, the equivalent of the Spanish SEPI), the MII (Ministry of Information Industry)
487 and the NDRC (National Development and Reform Commission), among other Chinese government agents with
488 influence in telecommunications. The second objective was to increase the list of Chinese manufacturers as
489 suppliers, not only to reduce the costs but also to learn about trends in technological innovation in the region.
490 The office was conceived in 2004 from a plan which implemented the Shanghai born highly qualified Ms Margaret
491 Chen Hong. Expatriated in Spain from 1993, she joined Telefónica as a consultant and jumped to 29 Huawei set
492 up R&D centers abroad, such as those in Bangalore (1999), Stockholm and the US (2001): Chang 2013, 93. 30
493 The joint venture with 3Com created in 2003 aimed to compete with Cisco in the top range switching. 3Com
494 was courted by Huawei but national security issues put a projected acquisition associated with the partner Bain
495 Capital on hold: Computerworld, 20 February 2008. 31 Mauricio Sartorius, Personal communication with the
496 author, 11 July 2023. Sartorius highlighted that "seeing is believing". 83-84), taking advantage of its potential
497 with its presence in Europe and Latin America (Mauricio Sartorius, Personal communication with the author,
498 11 July 2023), thus to its capacity to act as a bridge between China and those "natural markets" 32 .

499 Telefónica sought to strengthen its position in China by seeking to widen its network of ties (guanxi) with the
500 country's business community 33 . One example 32 The "bridge model" puts national policy as a facilitator of
501 international trade and emphasizes the role of companies, making corporate bridge-building an essential form of
502 economic triangulation. Triangulation occurs where barriers exist to trade and investment between two countries
503 and a third party (e.g., a country) acts as a facilitator or bridge: Casanova and Rodríguez-Montemayor 2014,
504 373 -391. Latin America became the fastest-growing overseas market for Huawei: He and Chen 2022, 456;
505 Wolf 2012, 147. 33 Two cases illustrate key points about the establishment and sequence of Spanish companies
506 in China. Sequence of the transport company Alsa: first landing in China (1984) joint venture with Chinese
507 transport companies as taxi company-Tianjin Alsa passenger transport joint venture (Expansión, 15 November
508 2005)). https://www.expansion.com/especiales/china/pione_ros.html. The president of the transport company
509 Alsa China pointed out that developing a business project in China required two fundamental elements, namely
510 patience and perseverance. It took Alsa, successful in its choice of adequate partners, three years of negotiations
511 with its Chinese partner and another two to obtain the necessary permits to get it up and running a joint
512 venture in China. As a fundamental aspect of business work in China, he emphasised the need to generate
513 trust in local interlocutors, based on serious and continuous work and fulfilling the commitments made. This
514 businessman identified as the main obstacle the difference in business mentality, the Spanish one focused on
515 economic profitability and the Chinese one, especially if it was a state-owned company, oriented towards other,
516 non-economic aspects. For his part, Rovetta (Técnicas Reunidas) stressed that, in addition to the importance
517 of guanxi or relations or business protocol, in the end, success depended on a technically attractive offer, a
518 competitive price, a correct policy of alliances with partners, and the right strategy and its attendance and
519 active involvement at the highest level (Business Week, 4102-4113, 2008, 70)-as did the savings bank La Caixa,
520 when had purchased through Criteria a 9.72% stake in the Bank of East Asia (BEA) -at the Global China
521 Business Meeting, which had been held so far in Geneva and Frankfurt. The summit was organised by Casa
522 Asia and supported by the China Federation of Industrial Economics. The organisers intended to translate the
523 summit into a commitment to further multilateral projects (Cinco Días, 21 October 2008). In sum, it can be
524 said that Telefónica went to China with its flanks lightly covered, facilitating its action in the country.

525 For their part, the Chinese authorities and the managers of China Netcom saw Telefónica as a strategic
526 partner of reference, in general, because of its expansion as a multinational company and in particular because
527 of its privileged position in Latin America, a preferred area for Chinese companies in the last five-year plans.
528 The difficulties encountered in the market were twofold. Firstly, there were limitations on foreign participation
529 imposed on telecommunications because of its strategic nature. The second obstacle for international companies
530 stemmed from the need to adjust to Chinese culture and the local way of doing business. In Telefónica's prospects,
531 China was presented as a place where the presence of a company with a global strategic vision was necessary.
532 The reasons lay in its size and growth potential due to the combination of two effects -accelerated growth of its
533 economy and a still insufficient supply of services (Martín 2008, 169) 34 .

534 5 IV.

535 Collaboration to Expand: Telefónica and China Netcom 34 The growth prospects were based on several factors.
536 Growth-driven demand for telecommunications services would increase continuously fueled by a robust economic
537 growth. Development in China's telecommunications sector was uneven with regional and rural-urban imbalances.
538 Finally, further deregulation and subsequently increasing competition would lead to an expansion in demand:
539 Wu 2001, 16-17. See also interesting insights in He 1997, 55-88. versed person in the Chinese society -the former
540 ambassador Eugenio Bregolat (Bregolat 2007)-, we know the basis of the project -investment in Pudongbut we
541 ignore the details of the project, such as the form, possible partners and financing 35 . It is possibly one of the

542 many projects announced by the large and diverse delegation of Spanish enterprises that accompanied the Prime
543 Minister on his official trip to China in 1985, within the so-called "Spain's Strategy in China", the backbone of
544 which was the coordination of the government and companies efforts to enter the Chinese market (Sebastián 2008,
545 83). It was a culmination of the personalist diplomacy started by Spain from 1978. Spain was trying to expand
546 markets, given the difficult competition from Germany in the EEC, especially in steel and industrial products.
547 The delegation included a representative of Telefónica financing (Martín 2019, 119 and 512-514). The news brings
548 a certain amount of intrigue because it takes us back to the early years of Telefónica's internationalisation as a
549 network operator. But in those years Telefónica had its focus on the Latin American market and the conditions
550 were not mature.

551 In the absence of certainty, it seems legitimate to speculate. With a strong possibility, the episode takes us
552 back to the end of Luis Solana's term of office, when the internationalisation strategy was being designed and
553 the creation of a real corporate expansion machine was being devised. The key pieces were two units -Telefónica
554 Internacional de España S.A. (TISA) duplicated in Telefónica Internacional and an administrative section -the
555 international coordination department. At the same time, Telefónica Internacional de España was reinforced with
556 a management control department with the task of supervising and monitoring the management of the group's
557 Latin American companies. Coinciding with the change in the presidency, an international business strategy
558 committee was tasked with the mission of coordinating TISA's strategies with those of Telefónica de España
559 (Calvo 2017, 263-264).

560 The break of Telefónica into state-run telecommunications sector took place through a dual mode and a double
561 movement. It started in 2005 by means of a strategic alliance with China Netcom (CNC), one of the already
562 mentioned leading fixed-line operators in China that was looking to form global alliances.

563 This company was rooted in several episodes of the already mentioned restructuring of the Chinese
564 telecommunications sector.

565 The centrality of China Netcom requires more detailed explanation. In 1996, the technological backwardness
566 in China's telecommunications industry led the government to create a new company to build a fiber-optic
567 network linking some 300 cities. To this purpose it incorporated China Netcom and attracted skilled personnel
568 as managers, among them Edward Tian, a U.S.-educated entrepreneur and founder of the telecom start-up
569 AsiaInfo, whom the then-vice premier Zhu Rongji persuaded to move to lead the new company. Tian recruited
570 Western-educated Chinese top executives from companies like Microsoft, Oracle and McKinsey, the consulting
571 firm. Netcom turned from its initial idea of a Chinese version of Qwest or Level 3, a wholesaler of capacity on its
572 network, into an eclectic purveyor of telecommunications services. As a sign of culture clash, many China Telecom
573 employees considered Tian as an American outsider trying to reform a state-owned enterprise in unacceptable
574 "un-Chinese" ways of managing (Abrami, Kirby and McFarlan 2014, 107-111). The company changed course
575 again, focusing on providing data services to big corporate customers. In August 1999 China Netcom (Group)
576 Company Limited, or CNC China, was incorporated as a facilities-based telecommunications operator in China
577 and established two months later to attract investments by foreign investors.

578 Towards the end of 2001, within a comprehensive restructuring plan of the fixed-line telecommunications
579 sector, China Telecommunications Group Corporation merged its assets in ten Northern provinces with China
580 Netcom Holdings and Jitong Communications Company Limited to form China Network Communications Group
581 Corporation, or China Netcom Group. China Telecommunications Group retained the telecommunications
582 assets in the remaining twenty one and both China Netcom Group and China Telecom Group were entrusted
583 to operate the nationwide fixed-line networks and provide the appropriate services (Securities and Exchange
584 Commission -hereinafter SEC-on October 26, 2004, 1-2). These events reflected the government's objective to
585 separate regulation from operation of telecommunication services in order to invigorate market growth through
586 independent management and wider market competition (OECD 2003, 7) 36 .

587 China Netcom became a growing innovative firm with almost 3,000 employees and an open, creative culture,
588 despite the fact that it was jointly owned by four government agencies. By the end of 2001, Netcom planned to
589 wire 700 office buildings in 33 cities with broadband connections. It will then link the buildings to its fiber optic
590 network and Internet data centers, covering what it estimates to be 70 percent of China's corporate market (New
591 York Times, 21 August 2001). 37 .

592 In May 2002 China Telecommunications Corp. split geographically into two groups. China Telecom retained
593 21 provincial (municipal and autonomous) corporations, holding 70 percent of the trunk-line transmission network
594 assets, and forming the new China Telecom Corporation Limited. For its part, the remaining 30 percent of its
595 network resources and ten subsidiaries in north China were merged into China Netcom Group.

596 China Netcom was mandated to meet the listing requirements of the Hong Kong stock market and New
597 York Stock Exchange. From this initial step, China Netcom sought to further develop the company's corporate
598 governance practices to meet international corporate governance standards. The company hoped to convince the
599 capital markets and potential investors that it was a modern corporation, even with the state as a majority owner
600 (Abrami et al. 2010).

601 The investors backed the company at two levels: capital and experience. They offered Tian advice on how
602 to build and run a commercial enterprise, a difficult task under the Chinese bureaucracy. The list of investors
603 in China Netcom -\$325 million in total included Chinese banks -Bank of China and China Construction Bank-,
604 high technology companies -Dell Computer-and others (Goldman Sachs, Rupert Murdoch's News Corporation).

605 As an extra layer of scrutiny, Tian submitted a financial report to his investors each month, which acknowledged
606 money losses but predicted that it would break even in two years.

607 CNC provided local and long-distance fixed-line phone service in ten northern Chinese provinces, including the
608 cities of Beijing and Tianjin. The company also operated a high-speed data network for corporate and residential
609 clients according to Bloomberg 38 .

610 Telefónica doubled its move with an investment by acquiring 2.99 percent stake (\$290 million or ?240 million)
611 in this company, the Hong Kong and New York-listed operator and the second largest in the country after China
612 Telecom. Although limited in financial risk and scope, the transaction gave Telefónica a position in the gigantic
613 market and allowed it to be at the forefront of the transformation of the Asian country (Expansión, 15 November
614 2005). By a second round, in September 2005, the company strengthened its presence with the 37 The expert
615 McFarlan was charged with incompetence for presenting Silicon Valley culture in China in a positive light and
616 Tian soon stepped down successively from his CEO role and from the China Netcom board. 38 China Netcom
617 signed up a long list of corporate customers that included China Mobile, Unisys, Mastercard, ExxonMobil, and
618 GE Medical. Some 20,000 workers dug 8,600 kilometers of trenches -a distance 1,400 kilometers longer than the
619 Great Wall -and laid cables connecting all of China's 17 largest cities: Wired, 1 February 2001. purchase of anew
620 2.01 percent for \$ 242 million, which gave it the right to a seat on the board of directors (Financial Times, 26
621 October 2004; Hulse 2007, 16; SEC 2006, 33).

622 The entry into China's state-owned telecomsthe climbing of the Chinese wall -gave Telefónica access to a region
623 with great potential and opened up a fertile avenue for collaboration between the two companies (SEC 2006, 33;
624 Financial Times, 30 June 2005; Yeung et al. 2011) 39 .

625 China Netcom sought out the partnership with Telefónica -the "taciturn lone ranger"-because it was interested
626 in extending its geographical operations of fixed and mobile services. International telecoms groups were vying to
627 enter the Chinese market, whose mobile penetration rate was around 25%, well below that of developed markets,
628 yet they feared the "big trick of Chinese privatisations" (Financial Times, 14 October 2005).

629 China Netcom tried several Asian operators, such as Singapore Telecom, Korea Telecom and Japan's NTT.
630 However, an official resistance to FDI, despite the pressing need for foreign capital, technology, and management
631 expertise (Clegg et al., 1996, 111-137), and regulatory uncertainty in China's telecommunications sector deterred
632 potential foreign investors from buying stakes in the operator.

633 In fact, only a few companies had invested in the country because they were still banned from operating
634 networks or offering value-added services. The ban was not total because foreign companies were able to exploit
635 inter-ministerial rivalries (Laperrouza 2014, 158) as well as political competition. As an example, the Chinese
636 MII sabotaged Unicom's growth by delaying the company's connection to the Chinese telephone system and
637 reluctantly acceded to the connection requests of some government leaders (McGregor 2009, 241). In a second
638 example, Shanghai had established two similar state corporations in less than two years. The first was the city-
639 controlled enterprise Shanghai Science and Technology Investment Corporation, founded in 1992 and close to 39
640 Mianheng, actively channelled public funds into building telecommunication infrastructure for both telephone
641 and Internet users. SAIL was a "mysterious" company that had held no official opening ceremony, published no
642 results, and made no public announcements (Ho 2013, 71-92).

643 Conversely, Telefónica guaranteed technical capability to build fixed networks with unparalleled speed and
644 international experience to manage them. Industry insiders intimated that China Netcom had ceded a
645 comparatively high percent equity stake to Telefónica (Hsueh 2011, 91-94).

646 China Netcom pledged to present internationalisation as one of its three main strategies. Following in the
647 footsteps of China Telecom, its main rival, China Netcom opened a European office in 2005. The office, located in
648 London, was not focused on providing local services but rather on assisting Chinese state-owned companies with
649 a presence in Europe and European companies interested in developing their business in the Chinese market.
650 China Netcom planned to offer new services in southern China, so it did not plan to renew its non-compete
651 agreement with China Telecom (Silicon, 2 November 2007).

652 Unlike the FDI, China Netcom forged alliances such as with Singapore Telecom to provide data transmission
653 devices for Singapore companies with subsidiaries or partners in China (Financial Times, 15 November 2005;
654 South China Morning Post, 10 October 2006; 9 September 2005). Through the alliance with Telefónica China
655 Netcom aimed in particular to strengthen the presence in the south of the country, where fixed-line competitor
656 China Telecom was predominant, and abroad. Telefónica would bring at once international management expertise
657 and technology -exactly what China was looking for (Clegg et al. 1996, 111-137)-, capital and a channel for
658 accessing the Latin American market, where Telefónica predominated as an operator (Financial Times, 25 July
659 and 15 November 2005).

660 The plan was to be implemented in phases over a relatively short period of time, so that the initial percentage
661 would be up to 5 percent of CNC's capital, with a total investment of 400 million to qualify for the right to
662 appoint a member to the board of directors. In this feature the agreement depended on external factors, such
663 as the relaxation of foreign investment laid down by China's entry into the WTO in 2001, which imposed pro-
664 competitive regulatory principles and allowed gradual foreign involvement in its telecommunications business
665 through the control up to 49 percent of fixed-line. Ultimately, Telefónica and China Netcom/Unicom worked in
666 win-win business areas such as international roaming, sharing big clients when they are exploring international

667 businesses (Margaret Chen, Personal communication with the Author, 10-11 August 2023; Annex 1), within the
668 above mentioned pull form of globalisation (Javaid 2004, 24) 40 .

669 The strategic cooperation agreement encompassed virtually all activities of the two operators, from joint
670 purchasing to network and customer management, to R&D of new products and services. More precisely,
671 they included ten topics: international business area; the existing business of China Netcom and its parent
672 company; the provision of telecommunications companies and services in the southern provinces of China; business
673 call centre; management exchange with Telefónica and company executives every six months; the purchase of
674 technology, terminals, infrastructure, distribution or usage rights and other components; technology assistance
675 and knowledge transfer provided by Telefónica in various areas, an issue highlighted in the theoretical approach
676 (Kang and Sakai 2000), and the ownership of telecom; provision of mobile service and other mutually agreed
677 forms 41 .

678 Soon China Netcom and Telefónica achieved settlements at two levels. They signed a management consultancy
679 agreement and a letter of intent to explore joint procurement while China Netcom Labs and Telefónica started
680 collaborative activities at early value chain (Telefónica 2007, 29 and 143).

681 European and U.S. financial firms pressed China to open its brokerage and other financial industries to
682 wider foreign investment, including by raising ownership caps. Telecommunications was undergoing a sweeping
683 government-mandated restructuring aimed at boosting competition. China Securities Regulatory Commission
684 (CSRC) eased the rules on foreign brokerage firms' joint ventures, expanding a bit their business scope and
685 lowering the requirements for foreign firms entering the sector. However, in the face of the hopes of many
686 investors, it 40 Telefonica SA wanted to take advantage of the new chance to expand its holdings in China
687 Netcom and China Unicom Ltd., which were due to merge. The approach of the Spanish carrier was to spend
688 ?800 million (\$1.2 billion) to become the biggest shareholder, with a 5.5 percent in the combined company (The
689 Economic Times, 13 September 2008).

690 In essence, one everlasting issue was ¿why to expand in a government-hiper controlled market with limitations
691 to the level of investments and where majority ownership was impossible? A first way was to strengthen the
692 presence in China using as a pedestal for its accession the incursion with China Netcom as ally in the attempted
693 purchase of Pacific Century Cyberworks Ltd. (PCCW), a global company headquartered in Hong Kong which
694 diversified interests. China Netcom asked Telefónica for help and Telefónica gave its support with an unexpected
695 consequence. Telefónica tried to play its cards but without success. It was already a partner with China Network
696 Communications, which owned 19.9 percent of PCCW, through a 5 percent holding in its unit, China Netcom.
697 The Spanish operator partnered with two foundations run by Li Ka-shing to join the financier Francis Leung,
698 dubbed "Godfather of Red Chips", in acquiring 8% stake of the total 22.7 percent of the consortium that
699 Telefónica belonged to. Finally, this plan failed when PCCW minority shareholders refused the purchase offer
700 from the consortium (China Securities Journal, 1 December 2006; Europa Press, 1 December 2006) 42 .

701 Nevertheless, on the same day that PCCW's minority shareholders voted against the sale, China Netcom
702 proposed to Telefónica to strengthen the relationship between the two despite this. In less than a month, this
703 proposal has become a reality by means of a new board member without a requirement of any prior payment
704 in the form of a share purchase in either PCCW or China Netcom. The Spanish and Chinese partners were
705 committed to develop their strategic alliance in specific projects, one of the most important of these will focus
706 on mobile third generation (3G). The Chinese government was expected to award 3G concessions imminently
707 and China Netcom had no experience in this business. Secondly, Telefónica had to manage to gain access to its
708 partner's technological innovations, particularly in fixed telephony, broadband and digital TV activities through
709 the appointment of an executive at Netcom's R&D centre in China. The final aspect referred to triangulation,
710 i.e. the will to enhance the relationship 42 A person well acquainted with international alliances refers to the
711 attempt of Telefónica to be present in China as futile, "something physically and metaphysically impossible, as
712 it has finally happened": Jesús Banegas, Personal communication with the author, 9 July 2023. and exchange
713 of products between China and Latin America (Cinco Días, 20 December 2006).

714 China Netcom Group Corporation (Hong Kong) Limited merged with China Unicom on 15 October 2008. The
715 parent company China United Network Communications Group Company Limited (Unicom Group) officially
716 merged with China Network Communications Group Corporation (Netcom Group) on 6 January 2009. The
717 frustrated move did not prevent to see the real intentions of Telefónica in China, which was not confined to two
718 companies and a single territory -mainland China.

719 V.

720 6 Conclusion

721 This article looks at the pathways of international expansion in the age of globalisation. It brings two companies
722 at different stages of development into the picture. In the case of China Netcom, a newly created public company,
723 and in the case of Telefónica, a former semi-public monopoly turned multinational. Both companies had recently
724 undergone a process of liberalisation. The research addresses the extent to which the globalisation standardised or
725 diversified the paths of market opening, which included the formation of joint ventures, and the unique benefits
726 of those enterprises compared to other forms of international cooperation, such as distribution agencies and
727 technology licensing. The research brings a very generous explanation of a pattern of expansion the collaboration
728 by means of a blended approach of stake acquisition, contribution of knowledge and skill. The pattern by which

729 Telefónica entered the Chinese market contravened the principles zealously guarded in Latin America, based on
730 entry into companies in a position of control. This pattern was imposed by PRC regulation. To this should be
731 added the setting up a critical mass to get a strong position from which to reach vertical advantageous agreements
732 with the providers. To overall knowledge the article adds a more precise acquis of the content and extent of China
733 Netcom/Telefónica strategic cooperation agreement. Finally, some notions as triangulation scheme have to be
734 revised. Entering China was a new challenge for Telefónica. The determining factor in the decision to enter the
735 market in this great Asian country was globalisation itself, as the vast majority of the Spanish operator's new
736 suppliers came from there. The weight of Telefónica's experience in Latin America was also a decisive factor.
737 A key role was played by the close communication between Telefónica and the PRC government to convey
738 the importance of Telefónica and Spain's neutral position in China. Telefónica arrived late compared to other
739 companies but with its third place in the world ranking it was welcomed in China.

740 In addition to the web of general agreements, the Spanish government specifically supported Telefónica's actions
741 from the very beginning. The first meeting of Telefónica's top five executives with Chinese representatives was
742 officially attended and facilitated by the Spanish ambassador José Pedro Sebastián de Erice, an eye-opener to
743 Telefónica's importance and credibility. The difficulties would have been insurmountable without one person to
744 stand up for the company.

Source: Based on Margaret Chen, Personal communication with the Author, 10-11 August 2023. 1 2 3 4

through
telecommunication companies -China Telecom, China
Mobile and China Unicom (OECD 2003, 21).

its control of leading Chinese

Figure 1:

Figure 2:

oust
telecommunications projects (Wu 2001, 14;

angered foreign investors from its

Figure 3:

Crossing, telecommunication services to small and large businesses and competed with Telstra's division Reach (Financial Review, 19 November 2002).
III. Entering China from Spain. the

which provided voice and data

Overall Framework: Political
Capabilities and Knowledge
Accumulation

Figure 4:

The office had a staff of three persons, which extended with local talent (Financial Times, 25 July 2005; BBC, 19 March 2014; Tertulias Fulbright, https://asoc-fulbright.es/?page_id=2334).

The company established a group in charge of creating links with Chinese suppliers and in the exploitation and monitoring of technological development in China.

and monitoring technological

Figure 5:

Figure 6:

¹ The point verges on the East Asian model heated debate of the start of the millennium with conflicting positions: Park 2002, pp.

² 330-53.3 Clifton, Comín and Díaz-Fuentes 2011, 761-781.

³ In India, the announcement of the new economic policy in July 1991 opened the telecommunication sector to private companies, reason why more regulation was required. The Telecommunications Regulatory Authority of India (TRAI) was established in 1997 to regulate the telecom service providers: Chen et al. 2021, p. 1.

⁴ Hong Kong's telecommunications was liberalised with no foreign ownership restrictions: Office of the Communications Authority 2013, 13.

⁵ The agreement with CCT Telecom Holdings China Business Times one of the smaller overseas investors in China Unicom -to unwind two mainland-based mobile-telephone joint ventures banned by Beijing set a compensation package involving between 800 million yuan (about HK\$747.76 million) to one billion yuan in cash and share options: South China Morning Post, 2 February 2000

⁶ .22 The Vodafone Group sold its 3.2 percent stake in China Mobile Ltd. for about \$6.6 billion: New York Times, 8 September

⁷ 2010.23 Representative offices are considered as useful and relatively inexpensive vehicles for establishing a presence in China, although complicated to set up: Devonshire-Ellis, Scott and Woollard (eds), 2011. In the equipment sector, ZTE followed this sequence: contract in

⁸ Bregolat, represented Spain in China in three periods(1986-1991, 1999-2003 and 2011-2013); he is the author of a recognized work(Bregolat 2007).

⁹ In comparative terms, international telecom services were offered in India by Videsh Sanchar Nigam Ltd., a government-owned company: National Institute of Public Finance and Policy 2017, 2.

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