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

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Keywords: *europe-china cooperation, china netcom, telefónica, globalisation, strategic alliances.*

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Introduction

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

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

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

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

We deal with the core of the relentless debates on internationalisation, dominated, for a time, by the gradualist of the Stockholm school but fed and amplified by others[1]. Within the framework of the amendment of mainstream theories (Cuervo-Cazurra 2011) and the setting aside of a linear process, one can ask whether confrontation is the unique way to expand abroad. In this respect, international strategic alliances, for example, provide firms with more strategic flexibility than other forms of internationalisation, equipping them to respond to the emergence of new competitors and changing market conditions. Strengthening market presence, economising on production and research costs, and accessing intangible assets such as managerial skills and knowledge of markets entailed the diverse range of motives (Kang and Sakai 2000. 5). International alliances encompassed a wide range of interfirm links, from joint ventures to production, co-operative research and marketing. The last two activities predominated over the production in the number of

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[1] Aharoni (1966) and some business historians (Wilkins 1970) anticipated in the defence of longitudinal view advocated by the Stockholm mainstream, based initially in four Swedish manufacturing firms (Johanson and Wiedersheim 1975, 305–322; Johanson and Vahlne 1977, 23–32).

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partnerships, partly reflecting the growing role of service firms.

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

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

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

I. Liberalisation: Asia as a Target for the Giants

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

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

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

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

The multinationals intended to intervene. In Malaysia, Swiss Telecom (Swisscom) adopted a mixed formula to enter the country, namely the acquisition of 30% stake in the holding company Malaysia's Mutiara Telecommunications and the provision of technical and operational assistance to this operator on its existing personal communications network service and help to launch trunk and international services (*CBR*, 15 May 1996). Mutiara Swisscom - in 1998 named DiGi-Swisscom-Berhad-owned entirely Mutiara Telecommunications Sdn. Bhd. Mutiara held domestic licences to operate the country's largest digital mobile network (GSM 1800) as well as a fixed network, an international gateway, VSAT and data network services. Swisscom planned to develop Mutiara as its main base in the Asia-Pacific region and contributed significantly to the growth of the company by means of its expertise in mobile networks and product, service and technology development (Swisscom 1997, 35).

[2] The point verges on the East Asian model heated debate of the start of the millennium with conflicting positions: Park 2002, pp. 330-53.
[3] Clifton, Comín and Díaz-Fuentes 2011, 761-781.
[4] 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.
[5] Hong Kong's telecommunications was liberalised with no foreign ownership restrictions: Office of the Communications Authority 2013, 13.

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Pakistan deserves particular focus because it became a market for the Chinese companies. Indeed, despite some failures in the sector China Mobile acquired 88.86 percent share in Paktel and all of the share capital of one of the Cellular Mobile Company - Paktel Limited. Orascom Telecom of Egypt, laid down first private sector undersea fiber optic cable for $60 million (Inam 2007, 21). Pakistan had a growing telecommunications sector, which attracted FDI of $1.55 billion during the first eleven months of 2006-2007 and remained the top earner of FDI in 2006. Apart the European investment from Telenor, major investments in telecommunications came from Middle East through two different forms. The Emirati UAE group WARID preferred to obtain in 2004 the sixth mobile cellular license in the country ($290 million)[6]. Instead, Emirates Telecommunication Corporation (ETISALAT) acquired in 2005 the 26 percent stake in the fixed line incumbent Pakistan Telecommunication Company ($2.6 billion). Qatar Telecom bought 75 percent stakes of Burraq Telecom for nationwide and international telephone networks.

Further attention merits India, considered one the most competitive and dynamic markets in South-East Asia by the end of 20th century (Swisscom 1997, 35). Swisscom entered the Indian market through a double pattern. Firstly, as a shareholder of an established local company and then as a provider of capacities and products to the infrastructures in construction. In 1996 the Swiss operator acquired a strategic stake of 32.5% in Sterling Cellular and provided management to set up a state-of-the-art GSM cellular network in the densely populated New Delhi, under the Essar Cellphone brand, a joint venture between Swisscom and the Essar group (Swisscom, 1997, 35). After two years, Swisscom recorded high losses in the mobile network operators in India and in 1998 decided to withdraw from the participations in the country, as it happened in Malaysia (Swisscom AG, 1998, 32).

FDI in the telecommunications sector increased substantially in India between 1995 and 1997, once the country recognized the importance of investment in the telecommunications sector and developed the 1994 New Telecom Policy (NTP)[7]. Some thirty telecommunications carriers entered the Indian market, considered highly appealing, through joint ventures in 1995. Many of them left not without a perceptible expansion, including the North American AT&T, three European - France Telecom, British Telephone and Swisscom - and Australian Telstra. At the end, only six major foreign telecommunications companies remained in the country, all from the Asia-Pacific region (Economist Intelligence Unit 2005; Green 2009, 6; IGI 2000, 33).

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

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

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

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

Orange Business Services, the enterprise communications arm of France Telecom, received the license to provide long distance network and network-related services to businesses and to offer more effectively services directly to multi-site customers - global and Indian-. This license would enable it to expand its operations in the country. The company, which would operate through its joint venture company Equant Network Services India Private Ltd, employed more than 2,000 people in India, serving more than 680

[6] WARID snatched the cellular deal from many international bidders after it met its financial requirements because economic reforms undertaken by the government augured large growth in that dynamic sector: *Gulf News*, 28 May 2004. In 2000, China Mobile Communications ranked 5th in the list of the top 50 TNCs from developing countries: *CNNMoney*, 24 July, 2006.

[7] The NTP opened up basic telecom services in addition to value added services such as cellular services and radio paging. This policy brought with it the creation in 1997 of the Telecom Regulatory Authority of India, an independent body that separated the Government's regulatory functions from its service-providing functions: National Institute of Public Finance and Policy 2017, 2.

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local and multinational clients (*The Economic Times*, 25 June 2008).

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

The action was not restricted to Europe based multinationals. One of the foreign/local joint ventures was adopted in 2008 when NTT Docomo, the leader in Japan, partnered with Tata Tele Services Ltd. (TTSL), which ranked fifth in the Indian market. Which were the reasons? NTT was aiming to capture the knowledge that TTSL had on the local market, close to theoretical view of Kang and Sakai (2000), and the ownership of telecom license exclusive of the top local firms in India. For its part, TTSL wanted to increase its share in the growing home mobile market with the 3G technology (Case Study Solution, https://www.thecasesolutions.com/ntt-docomo-joint-venture-with-tata-in-indian-mobile-telecom-3108).

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

Special interest presents the Norwegian telecom firm Telenor entry in India because it highlights the similarities and differences in the entry patterns of a multinational into the same area. With a large experience gained, in 2008, Telenor joined the real estate firm Unitech Ltd in a joint venture named Unitech Wireless and entered India taking control of a 60 percent stake in the local operator to provide telecom services. Unitech Wireless launched the following year its India operation across eight circles, initially under the brand name Uninor. Unitech Wireless was the only player among the new telecommunications entrants that sold out a majority stake to a foreign carrier. Other transactions comprised the acquisition of 45% Swan stake by the Emirati ETISALAT and Chennai-based S Tel, a GSM service provider, selling 49% to Bahrain Telecom to gain entry into the rapidly growing market (*Economic Times*, 19 January 2009; *Venture Capital Circle*, 10 February 2010).

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

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

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

In the South Asia area, Telenor entered in Bangladesh in 1999 as a first-mover - there was little competition - and through a joint venture with Grameen Bank of Bangladesh. The joint venture, GrameenPhone, segmented the market and provided services to the wealthier people and the business community. As an addition to this top-of-the pyramid operation, the joint venture undertook the organization of its less commercial activities in rural areas. In Telenor Thailand (DTAC), Malaysia (Digi) and Pakistan, where Telenor was present from 2005, the conditions of entry were similar (Gooderham, Ulset and Elter, 2019 [np]). Thailand, for example, although DTAC failed to win a 4G licence, remained Telenor's most lucrative market and

[8] Besides other partners, France Telecom undertook to provide Bangkok InterTeletech Company Limited (BITCO) in Thailand with financial, technical and commercial support (France Telecom 2003, 67).

[9] Both Uninor and Unitech's managing director were later charged in India's 2G telecoms scandal (*Economic Times*, 12 October 2011). Telenor said the Central Bureau of Investigation covered the period prior to the Telenor Group's entry into India and that its investments in the joint venture with Unitech Wireless were always cleared by the Government of India: *The Hindou*, 4 April 2011.

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this carrier stayed and continued to invest despite setbacks (*The Report: Thailand 2016*, 2016, 169)[10].

In the same area, Telenor launched commercial operations in Myanmar (Birmania) in 2014 to fulfil domestic and international services. On 25 March 2022, Telenor completed the sale of Telenor Myanmar almost one year after the military coup (https://www.telenor.com/about/who-we-are/history/our-history/)

This overview begs a clear conclusion: the existence of certain preferential areas for companies and the complete absence of Telefónica in those markets. Nevertheless, the Spanish operator did explore some the vibrant Asia-Pacific markets in the 1980s. In Indonesia - certainly a promising player within[11] - Telefónica had negotiated a comprehensive intervention in the value chain, including the installation, operation and temporary maintenance of telecommunications networks, prior to their transfer to local hands. Through its subsidiary Telefónica Internacional, the product provider of Telefónica's holding company in the country, it embarked on the ambitious PBH-PELITA VI project, alongside local operator PT Intikom Telepersada, with which it considered a joint participation. The delay due to slow bureaucracy helped to form a consortium with the association to its own core (Telefónica International Netherlands BV and Compañía de Teléfonos de Chile) of Banco Hispanoamericano and the local operator, without closing the doors to possible incorporations. Telefónica was particularly interested in the privatisation of the local carrier PT Telekomunikasi and even reached the final phase of the international tender within the consortium Mitra Usaha Telenusa Komunikasi, which included GTE and the local group PT Bahana (itself an alliance between the Central Bank of Indonesia and the Indonesian Ministry of Finance). The company was finally privatised for 1.6 billion, 39.7% more than Indosat (Indonesian Satellite Corporation), responsible for international services.

In general, the markets of the Far East opposed great difficulties for the Spanish companies present since the 1980s, due to the powerful competition from Japan - backed by very powerful credits - and the American, British and Australian influence, as well as the existence of operators and alliances with very strong interests in these markets. In this situation, which was not exactly the most favourable, Telefónica decided to leave. The definitive factor was the uncertainty involved in entering the country, a feeling shared by the North American GTE.

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

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

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

II. The Singularity of the Telecommunications in China

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

Within its meteoric rise as a superpower and the shift from a centrally-based, functionally-specialised Soviet model to an organized on a multi-layer-multi-regional basis (Goodhart and Xu, 1996), China represents the singularity of building up its extensive telecommunications network in merely a decade (Lu and Wong 2003; Yan and Pitt 2002), as well as achieving technological catch-up (Mu and Lee 2005, pp. 759-783).

Telecommunications in this country experienced slow development before the late 1970s, so that teledensity or number of telephones per population was only 0.43% in 1980. Already in 1994, the government admitted the ability of the telecommunication infrastructure in the People's Republic of China (hereinafter, China) to satisfy the nation's basic demands and decided to open the sector to competition. Throughout the 1980s, the telecom industry achieved double-digit growth and by the end of 2002, after the adoption of the 'Go Global' policy, China had the largest telecommunications market in the world (Chang 2005, 105-121).

[10] Later, an autonomous entity with its headquarters in Singapore - Telenor Asia – set-up to manage the group's Asian operations and Thailand's CP Group finalised the merger of True Corporation and Total Access Communication (DTAC), the second and third-largest mobile operators in Thailand: *The Business Times*, 7 March 2023.

[11] Some sectors of the Spanish institutions such as Eugenio Bregolat, then ambassador in Indonesia, highlighted the shift of the center of gravity from the Atlantic to the Pacific and the importance of technology transfer as a substantial tool to intensify the Spanish economic influence in the area: *El País*, 9 June 1984.

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China implemented three major reforms at corporate level in 1994-2002 in its attempts to build a competitive market system as in the Western countries. Administrative power was decentralised, market relations were developed and responsibility for performance was delegated to company managers. At the infrastructure level, there was a considerable expansion.

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

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

The structure of the Chinese telecommunications market presented two main features. The first referred to competition among various governmental bodies such as the Ministry of Information Industry (MII), the Ministry of Railways, the Ministry of Powers, SARFT, and the Shanghai Municipal Government. This situation differed substantially from that in developed countries, where private telecommunication companies vie for power. Second, one of the bodies –MII- was able to influence the entire Chinese telecommunication market through its control of leading Chinese telecommunication companies - China Telecom, China Mobile and China Unicom (OECD 2003, 21).

Relating the international status, by the end of 2001, China took a giant step towards joining the major international institutions by accepting commitments to join the World Trade Organisation (WTO)[15]. During the WTO prolonged negotiations -almost fifteen years-, liberalisation of the telecommunications was a critical issue both because of its growth potential and because it was considered one of China's 'key national industries' (Pangestu and Mrongowius 2002, 1).

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

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

International observers did not expect China's accession to the WTO to solve all problems and disputes in the telecommunications sector and its players. However, they assumed that the international rules of the game would be much more relevant for the Chinese telecommunications sector than in the past (Holbig and Ash (eds.) 2002, 101)[17].

[12] The State Council has the power to outline legislation and policy guidelines and review the major projects submitted by the ministries and provincial governments. It comprises the Prime Minister, four Deputy Prime Ministers, and eight counsellors selected from among twenty two ministries, including the MII responsible for telecommunications regulation enforcement, and five commissions. Under the State Council are also the provincial administrations: OECD, 2003, 13.

[13] In April 1999, IP telephony service was introduced to provide universal access at low rates in a context of low rates of direct access to fixed phones: OECD 2003, 8.

[14] Coming from a Big One and Little Two: DeWoskin 2001, 654.

[15] Premier Zhu Rongji committed to substantially open China's wireless services and equipment markets in exchange for U.S. backing of China WTO membership (*RCR Wireless News,* 11 October 1999).

[16] According Kanungo (2015, 88-89), telecommunications remained a strategic sector as it contributed both to the manufacturing as well as services. With the joining of the WTO its strategic importance increased because of the global connectivity and the issues of national security and sovereignty.

[17] In a thorough overview, Voon and Mitchell (2010, 1-55) have identified a number of potential WTO violations by China in regulating its telecommunications services, from inconsistencies associated with China's obligations concerning transparency, regulatory independence and competition to the minimum registered capital requirements for basic telecommunications service suppliers when providing services on a resale basis.

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Some scholars credit China's commitments to market access and national treatment in telecommunications services as modest in scope, which did not prevent a delay in the implementation of regulatory disciplines. Nevertheless, China embarked on a long road towards a complete transformation of the telecommunications sector, with little external influence and free from external ownership and control. This was mainly due to the driving role taken by the government and industry in the prospect of joining the WTO and opening up to the world (Roseman 2005, 25-48).

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

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

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

As it is known, foreign companies could only to invest in a network's construction but not operate the system[19]. Nevertheless, foreign investors found in the Chinese/Chinese-Foreign (CCF) or Zhong-Zhong-Wai financing model a route to circumvent China's longstanding prohibition of foreign ownership, operation and management of telecoms enterprises (*RCR Wireless News*, 5 October 1998). The Chinese government itself used this mechanism to sign 45 CCF joint ventures with foreign investors in Unicom's cellular projects with life spans ranging from 15 to 20 years and amounting in total $1,400 million (McGregor 2009, 241; *Telecompaper*, 7 September 1999).

The CCF provided capital needed for start-up carriers to compete with historic operators in a similar way as that of the high-yield debt market in Western nations. China Unicom had begun setting up CCF agreements with various companies, including Sprint Corp., Deutsche Telekom and Bell Canada International in 1994 to access much-needed funds to construct Global System for Mobile communications (GSM) networks together with diverse telecommunications projects. Other carriers as Itochu of Japan, Korea Telecom and Singapore Telecom went on to swell the ranks. China Unicom raised 72 percent of its financing through CCF scheme, used most of this capital to finance mobile telecommunications ventures (*RCR Wireless News*, 5 October 1998), and built out about two million GSM lines in some nine hundred major Chinese cities[20].

Nevertheless, unlike the previous behaviour, in 1998, the Chinese government declared CCF partnerships with foreign companies improper. The MII reiterated that China Unicom's CCF contracts violated government policies and regulations and needed to be corrected. It ordered China Unicom to resolve the situation (*South China Morning Post*, 3 September 1999). China Unicom worked, not without resistance, to

[18] AT&T built out its Multi-protocol Label Switching (MPLS) network by deploying switches and teaming with service providers in China. Throughout 2004, it deployed additional MPLS nodes in Beijing, Shanghai and Guangzhou in southern China. The joint venture was first planned by 2000: *South China Morning Post*, 22 September 2000. Shanghai Telecom held 60% share in Unisiti, AT&T 25% and Shanghai Information Investments 15% share: *Network World*, 25 April 2005.

[19] The Chinese government initially encouraged foreign companies to establish joint ventures and the multinationals created several of them, beginning with Shanghai Bell between Alcatel, Belgian Bell and the Posts and Telecom Industry Corporation as a major shareholder. NEC and Siemens followed the suit with Tianjin (Tianjin NEC) and Beijing International Switching Systems Corporation and with Shanghai Mobile Communications, respectively: Chang 2013, 93.

[20] The 2G standards GSM and CDMA rivalled to conquer the Chinese market. Companies invested in start-up Chinese firms engaged in the development of a standard, as Qualcomm did through a $100 million programme to promote CDMA-based products, applications and services. This costly technology faced diverse problems, namely a shortage of handsets, complaints about poor reception, slow subscription rates, and declining enthusiasm for the new technology: *South China Morning Post*, 18 March 2002 and 10 June 2003. China's market in the 2G mobile standard was dominated by the so-called "guerilla handsets", of a doubtful reputations. Here are the milestones of the mobile networks in China: 2002: China Unicom launched new CDMA-based mobile network to serve alongside its GSM network; 2006: decision to award a license for China's first 3G network to China Mobile; 2008: China Mobile launch of initial trials of locally-developed TD-SCDMA 3G; 2009: China launch its 3G mobile communications services when its indigenous standard of TD-SCDMA became technologically ready: Chen and Wen 2013, 3 and 7; Wolf 2012, 34.

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oust angered foreign investors from its telecommunications projects (Wu 2001, 14; *RCR Wireless News*, 23 August and 11 October 1999; *South China Morning Post*, 11 January 2000). All CCF arrangements were terminated in 1999-2000 and the related loss on this termination was charged to the income statement as incurred (China Unicom 2007, 116)[21].

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

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

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

It is worth noting that Vodafone entered in China without a previous representative office, the basic step to enter a market[23]. It arrived later as it did a China Sourcing Centre, which coordinated Vodafone Group's global demand for Chinese handsets and network equipment deployed (An Interview with Vittorio Colao, Chief Executive, Vodafone Group Plc., *Leaders*, 2009; *RCR Wireless News*, 9 November 2001).

On the other hand, Chinese companies started a pattern to internationalise their operations, either through overseas acquisitions or listings on foreign sharemarkets. One of the first moves by a mainland Chinese company into the global telecommunication's sector was conducted by China Netcom leading the Asia Netcom consortium. This entity, made up by US-based Newbridge Capital and Softbank Asia Infrastructure fund, bought for $120million Asia Global Crossing, a subsidiary of the North American Global Crossing, which provided voice and data 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 Overall Framework: Political Capabilities and Knowledge Accumulation

To overcome untold obstacles, companies had to be able to count on major support from institutions at the highest level. Despite strict limitations to foreign capital, Telefónica took advantage of the opportunity window open by the Chinese policy and entered the market of this country via cooperation with a traditional fixed-line carrier linked to central power to compete.

Regarding one of the main actors of this story, a strong point emanated from the political capabilities accumulated by Spain in China, an aspect lacking when Telefonica attempted the entry in Indonesia, at least with the intensity inherent to the China case (Garcia and Pacheco, 2014). The cornerstone of the relations between Spain and the People's Republic of China was the first diplomatic relations in 1973 – five years before the Chinese 'open door' policy and still under the cruel Franco's dictatorship. The Embassy of Spain opened an Economic and Commercial Office six years later, already in the democratic period (Dezcallar 2022, 443-453). It is worth noting that in the early 1970s, the European Economic Community was not particularly an early riser in the relations with Asian countries. In fact, it advocated an external relations policy with a regionalist approach, which gave rise to the so-called Community preference pyramid. In this approach, the EEC's relations with Asian countries were informal and contacts had a low priority. Later, the situation was radically transformed; relations between the EU and Asia underwent a real

[21] 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.

[22] The Vodafone Group sold its 3.2 percent stake in China Mobile Ltd. for about $6.6 billion: *New York Times*, 8 September 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 Pakistan - R&D institute in the USA- overseas office in Islamabad (Pakistan): Prange 2012, 24-29.

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metamorphosis: from last place in the pyramid, Asia came to figure among the EU's priorities, with the economy, cooperation and security being the areas of greatest relevance in the relationship Roldán (coord.) 2003, 114-115; EU-ASEAN: Creating a new dynamic, Press release, 3 July 1996).

At the end of 1984, Spain and China reached an agreement on cooperation in the development and implementation of industrial projects in third countries, including the supply of machinery, equipment and services, as well as other forms of common interest. Bilateral agreements and contracts between agencies and companies and in the commitment to grant favourable financial treatment for cooperation projects would follow. ICTs - telecommunications, electronics and informatics - were among the areas of preference[24].

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

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

In 2005, the Spanish government elaborated together with the business association CEOE the China Plan, which allocated €400 million to promote the internationalisation of Spanish enterprises to that destination. Then the Spanish government deepened this endeavour with the Integral Plan for the Development of the Chinese market, which contained a set of measures to support business activities. From the 2005 Asia-Pacific Action Plan on, three other plans were launched until 2012 with a total of €1,445 million: the Chinese Comprehensive Market Development Plan (CMDP) 2005-2007, with an extension until 2009, and a new one for 2008-2010 and the last for 2008-2012 (IGADI 2011, 1). Noteworthy, the CMDP emphasised specially the investment as a strategic variable for the future of relations with China, and took into consideration elements that had hitherto been overlooked, such as the different service sectors (Cacho 2005, 149-153; *Cinco Días*, 16 November 2005).

The Spanish Economic and Commercial Offices in Beijing, Shanghai and Hong Kong, together with the Ministry of Tourism in Beijing, developed a very intense and varied programme of trade promotion, through trade fairs, trade missions, business centres, scholarship holders, market studies, among other actions, especially effective in a market such as China (Sebastián 2008, 85).

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

In terms of financing, China was the main recipient of FAD credits (Foreign Aid Fund) granted by the Spanish government in the period 1977-2002, with €986,879 million or 14.60% of the total, ahead of Morocco (519,430 or 7.68%), Mexico (501,680 or 7.42%) and Argentina (401,382 or 5.94%) (González and Larrú 2004, 6). The distribution of the FAD in 2003 was a clear demonstration of the priority that the Spanish government gave to China in its policy of supporting the internationalisation of companies (*Cinco Días*, 1 September 2003).

[24] *BOE*, 9 February 1985, 3312-3313.

[25] Enhancing international cooperation and promoting the internationalisation of China's new/high tech industries was one of the major tasks of the Chinese Torch Programme - a guidance for developing new/high tech industries in China, approved by the State Council and implemented by the Ministry of Science and Technology. The approach to the internationalisation consisted in establishing wide cooperative relation with various countries and regions and enter into various forms of and technological, financial, enterprise and commercial sectors in foreign countries through governmental or non-governmental channels. http://gr.china-embassy.gov.cn/eng/kxjs/gjjh/200408/t20040803_3367260.htm

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A person very knowledgeable of the Chinese society (Bravo 2008, 122 and 124) unveils a couple of valuable insights. To start with the political capital accumulated by Spain, he points out that in the wake of Hu Jintao's visit in 2005, when the CMDP was signed, Spain became a privileged partner –"China's best friend in Europe" - in the political dialogue with China. The authorities of this country remembered with gratitude the respect and comprehension shown by Spain in the three "t's" (Tibet-Tiananmen-Taiwan) in the face of the prevailing hostile attitude (Bregolat 2007, 245-249)[26].

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

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

The first way resulted in vertical alliances. In 2004, Telefónica concluded two of them with the Chinese leader Huawei - considered the "Cisco" of China and protagonist of meteoric rise (Reuters Staff, 1 July 2009)- with the aim to provide equipment to its subsidiaries in two Latin American countries. The deals involved the provision of routers in Brazil and DSLAM devices in Chile, as a major IP DSLAM vendor to Telefónica (*Digital 360*, 18 October 2004; Boutellier et al. 2008, 513; Larçon 2009, 189)[28]. Telefónica chose also the SingleRAN technology, a solution from Huawei that allowed one set of telecom equipment to simultaneously provide wireless networks in multiple standards, i.e. second generation (2G) and 3G. In 2008, Telefónica Europa and Huawei started a cooperation to extend the 3G coverage and signed an agreement to create an innovation centre in Spain with half hundred employees to provide technical support services to customers throughout the Spanish-speaking world (Telefónica 2008, 50 and 134). In the global competition, Vodafone began a collaboration between a Spanish team of telecom experts working for it and Huawei and benefitted from the investment to create a collaborative organization named Mobile Information Center (Li 2017, 166; *RealWire*, 3 January 2008)[29].

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

Going to the commercial events in China, in 1985, only two Spanish companies participated in the first electronics fair in Shanghai: Telefónica and Fermax. The date coincides with the years of the Luis Solana mandate in the Spanish carrier, when it was a monopoly partly owned by the state, and the final moments of the industrial holding which provided the company equipment and materials. About three decades later, Telefónica opened its Representative office in Beijing. The location in the capital rather than in the more fashionable and financial Shanghai obeyed to be close to the key institutions for the development of business in general and the sector in particular: government and the ministry of Telecommunications[31]. The bureau started its activity in February 2005 through four main areas, namely institutional relations, corporate development, purchasing and technology prospecting. The objective of the first area was to open a channel for relations between the countries where Telefónica operated and Asia, while establishing deep and stable relations with the Chinese authorities. Key elements were the relationship with the SASAC (State-owned Assets Supervision and Administration Commission, the equivalent of the Spanish SEPI), the MII (Ministry of Information Industry) and the NDRC (National Development and Reform Commission), among other Chinese government agents with influence in telecommunications. The second objective was to increase the list of Chinese manufacturers as suppliers, not only to reduce the costs but also to learn about trends in technological innovation in the region. The office was conceived in 2004 from a plan which implemented the Shanghai born highly qualified Ms Margaret Chen Hong. Expatriated in Spain from 1993, she joined Telefónica as a consultant and jumped to

[26] Key representatives of Telefonica highlighted the potential of China in telecommunications (Nadal Ariño 2006, pp. 82-84), while others drew attention of the changing role of China in the world: Casado 2006, pp. 66-69.

[27] Telefónica strengthened ties with China. As we will see, favourable market conditions and good relationships helped the Chinese succeed as equipment suppliers and increasingly as network providers in Latin America: Hulse 2007, 17. See also Higueras 2015, 15.

[28] It proves impossible to give a full account of the extensive literature on the subject. ZTE, the second-biggest telecom equipment maker of China, and Telefónica agreed to sell Movistar-branded phones in a dozen of Latin American countries: *China Telecom Monthly Newsletter*, March 2010, 8.

[29] Huawei set up R&D centers abroad, such as those in Bangalore (1999), Stockholm and the US (2001): Chang 2013, 93.

[30] The joint venture with 3Com created in 2003 aimed to compete with Cisco in the top range switching.
3Com was courted by Huawei but national security issues put a projected acquisition associated with the partner Bain Capital on hold: *Computerworld*, 20 February 2008.

[31] Mauricio Sartorius, Personal communication with the author, 11 July 2023. Sartorius highlighted that
"seeing is believing".

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senior management positions – director for Asia in 2004, an unusual occurrence in Telefónica (Margaret Chen, Personal communication with the Author, 10 August 2023).

Mauricio Sartorius, who held a degree in Economics from the Universidad Complutense of Madrid and a MBA from New York University, was appointed Telefónica's chief representative in Beijing. 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. The pillars on which this group was based were the digital home, broadband service platforms, Internet Protocol Television and new wireless access technologies, including Wi-Max and Wi-Bro. As a third line of action, of corporate nature, Telefónica was entrusted with the active search for business and investment opportunities in China and the rest of Asia in association with suitable partners (Nadal Ariño 2006, pp. 83-84), taking advantage of its potential with its presence in Europe and Latin America (Mauricio Sartorius, Personal communication with the author, 11 July 2023), thus to its capacity to act as a bridge between China and those "natural markets"[32].

Telefónica sought to strengthen its position in China by seeking to widen its network of ties (*guanxi*) with the country's business community[33]. One example is its attendance and active involvement at the highest level (*Business Week*, 4102-4113, 2008, 70)- as did the savings bank La Caixa, when had purchased through Criteria a 9.72% stake in the Bank of East Asia (BEA) - at the Global China Business Meeting, which had been held so far in Geneva and Frankfurt. The summit was organised by Casa Asia and supported by the China Federation of Industrial Economics. The organisers intended to translate the summit into a commitment to further multilateral projects (*Cinco Días*, 21 October 2008). In sum, it can be said that Telefónica went to China with its flanks lightly covered, facilitating its action in the country.

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

IV. Collaboration to Expand: Telefónica and China Netcom

Telefónica tried unsuccessfully to get a foothold in the Chinese market (*Expansión*, 15 November 2005). An episode is revealing of Telefónica's intentions but suffers from a lack of proper information about the precise circumstances. Based on the testimony of a well

[32] The "bridge model" puts national policy as a facilitator of international trade and emphasizes the role of companies, making corporate bridge-building an essential form of economic triangulation. Triangulation occurs where barriers exist to trade and investment between two countries and a third party (e.g., a country) acts as a facilitator or bridge: Casanova and Rodríguez-Montemayor 2014, 373 – 391. Latin America became the fastest-growing overseas market for Huawei: He and Chen 2022, 456; Wolf 2012, 147.

[33] Two cases illustrate key points about the establishment and sequence of Spanish companies in China.
Sequence of the transport company Alsa: first landing in China (1984)-joint venture with Chinese transport companies as taxi company-Tianjin Alsa passenger transport joint venture (*Expansión*, 15 November 2005)). https://www.expansion.com/especiales/china/pioneros.html. The president of the transport company Alsa China pointed out that developing a business project in China required two fundamental elements, namely patience and perseverance. It took Alsa, successful in its choice of adequate partners, three years of negotiations with its Chinese partner and another two to obtain the necessary permits to get it up and running a joint venture in China. As a fundamental aspect of business work in China, he emphasised the need to generate trust in local interlocutors, based on serious and continuous work and fulfilling the commitments made. This businessman identified as the main obstacle the difference in business mentality, the Spanish one focused on economic profitability and the Chinese one, especially if it was a state-owned company, oriented towards other, non-economic aspects. For his part, Rovetta (Técnicas Reunidas) stressed that, in addition to the importance of *guanxi* or relations or business protocol, in the end, success depended on a technically attractive offer, a competitive price, a correct policy of alliances with partners, and the right strategy and tactics: Cosmen 2002; Rodríguez 2013, 52-54; Sebastián and Rovetta 2018, 109-116. Nutrexpa illustrates the importance of patience and persistence (three years of travels to China), as well as government support, not to mention cultural resources (a feng-shui master to adapt the furniture): Khan and Ebner 2019, 347; Cacho 2005, 123-124. Expansion sequence of Nutrexpa: first contact in China (1985)-negotiations with the chocolate state enterprise Li Min-joint venture Nutrexpa Tianjin Food+ joint venture Gao le Gao Tianjin Food (*Daily Report: China*, 180-189, 1990, p. 6; *Expansión*, 15 November 2005; Soler, 2003, pp. 34-36).

[34] The growth prospects were based on several factors. Growth-driven demand for telecommunications services would increase continuously fueled by a robust economic growth. Development in China's telecommunications sector was uneven with regional and rural-urban imbalances. Finally, further deregulation and subsequently increasing competition would lead to an expansion in demand: Wu 2001, 16-17. See also interesting insights in He 1997, 55-88.

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versed person in the Chinese society –the former ambassador Eugenio Bregolat (Bregolat 2007)-, we know the basis of the project - investment in Pudong - but we ignore the details of the project, such as the form, possible partners and financing[35]. It is possibly one of the many projects announced by the large and diverse delegation of Spanish enterprises that accompanied the Prime Minister on his official trip to China in 1985, within the so-called "Spain's Strategy in China", the backbone of which was the coordination of the government and companies efforts to enter the Chinese market (Sebastián 2008, 83). It was a culmination of the personalist diplomacy started by Spain from 1978. Spain was trying to expand markets, given the difficult competition from Germany in the EEC, especially in steel and industrial products. The delegation included a representative of Telefónica financing (Martín 2019, 119 and 512-514). The news brings a certain amount of intrigue because it takes us back to the early years of Telefónica's internationalisation as a network operator. But in those years Telefónica had its focus on the Latin American market and the conditions were not mature.

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

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

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

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

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

China Netcom became a growing innovative firm with almost 3,000 employees and an open, creative culture, despite the fact that it was jointly owned by four government agencies. By the end of 2001, Netcom planned to wire 700 office buildings in 33 cities with broadband connections. It will then link the buildings to its fiber optic network and Internet data centers,

[35] 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).

[36] 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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covering what it estimates to be 70 percent of China's corporate market (*New York Times*, 21 August 2001).[37].

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

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

The investors backed the company at two levels: capital and experience. They offered Tian advice on how to build and run a commercial enterprise, a difficult task under the Chinese bureaucracy. The list of investors in China Netcom - $325 million in total- included Chinese banks -Bank of China and China Construction Bank-, high technology companies - Dell Computer- and others (Goldman Sachs, Rupert Murdoch's News Corporation). As an extra layer of scrutiny, Tian submitted a financial report to his investors each month, which acknowledged money losses but predicted that it would break even in two years.

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

Telefónica doubled its move with an investment by acquiring 2.99 percent stake ($290 million or €240 million) in this company, the Hong Kong and New York-listed operator and the second largest in the country after China Telecom. Althought limited in financial risk and scope, the transaction gave Telefónica a position in the gigantic market and allowed it to be at the forefront of the transformation of the Asian country (*Expansión*, 15 November 2005). By a second round, in September 2005, the company strengthened its presence with the purchase of anew 2.01 percent for $ 242 million, which gave it the right to a seat on the board of directors (*Financial Times*, 26 October 2004; Hulse 2007, 16; SEC 2006, 33).

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

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

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

In fact, only a few companies had invested in the country because they were still banned from operating networks or offering value-added services. The ban was not total because foreign companies were able to exploit inter-ministerial rivalries (Laperrouza 2014, 158) as well as political competition. As an example, the Chinese MII sabotaged Unicom's growth by delaying the company's connection to the Chinese telephone system and reluctantly acceded to the connection requests of some government leaders (McGregor 2009, 241). In a second example, Shanghai had established two similar state corporations in less than two years. The first was the city-controlled enterprise Shanghai Science and Technology Investment Corporation, founded in 1992 and close to

[37] The expert McFarlan was charged with incompetence for presenting Silicon Valley culture in China in a positive light and Tian soon stepped down successively from his CEO role and from the China Netcom board.

[38] China Netcom signed up a long list of corporate customers that included China Mobile, Unisys, Mastercard, ExxonMobil, and GE Medical. Some 20,000 workers dug 8,600 kilometers of trenches - a distance 1,400 kilometers longer than the Great Wall - and laid cables connecting all of China's 17 largest cities: *Wired*, 1 February 2001.

[39] Telefónica sought to accompany Chinese steps abroad, while the presence on the board of directors offered a closer perspective of the domestic evolution of the sector and ties with Chinese suppliers: Fernández Valbuena and Mielgo 2008, 88. Significantly, the specialised press in Latin America picked up the issue: *The Yearbook of Latin American Telecommunications*, 2006, 338. The international law firms Simmons & Simmons and Paul, Weiss, Rifkind, Wharton & Garrison, together with Clifford Chance, advisor in China Netcom's listing on the international stock exchanges, assisted Telefónica on its strategic alliance with China Netcom: *Asialaw Profiles*, 2007, 92; Simmons & Simmons, 12 January 2006. For the entry of Telefónica in China, see Calvo 2021, 16-17.

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political opponent of Jiang Mianheng's father. Shanghai Alliance Investment Ltd. (SAIL), established by the Shanghai municipal government in 1994 but controlled by Mianheng, actively channelled public funds into building telecommunication infrastructure for both telephone and Internet users. SAIL was a "mysterious" company that had held no official opening ceremony, published no results, and made no public announcements (Ho 2013, 71-92).

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

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

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

The plan was to be implemented in phases over a relatively short period of time, so that the initial percentage would be up to 5 percent of CNC's capital, with a total investment of 400 million to qualify for the right to appoint a member to the board of directors. In this feature the agreement depended on external factors, such as the relaxation of foreign investment laid down by China's entry into the WTO in 2001, which imposed pro-competitive regulatory principles and allowed gradual foreign involvement in its telecommunications business through the control up to 49 percent of fixed-line. Ultimately, Telefonica and China Netcom/Unicom worked in win-win business areas such as international roaming, sharing big clients when they are exploring international businesses (Margaret Chen, Personal communication with the Author, 10-11 August 2023; Annex 1), within the above mentioned pull form of globalisation (Javaid 2004, 24)[40].

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

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

European and U.S. financial firms pressed China to open its brokerage and other financial industries to wider foreign investment, including by raising ownership caps. Telecommunications was undergoing a sweeping government-mandated restructuring aimed at boosting competition. China Securities Regulatory Commission (CSRC) eased the rules on foreign brokerage firms' joint ventures, expanding a bit their business scope and lowering the requirements for foreign firms entering the sector. However, in the face of the hopes of many investors, it

[40] Zhiling (2002), 37. With only a fifth of the mobile market, it could have more than 200 million customers by 2015: *Financial Times*, 7 July 2005; Telefónica, 2005, 16; *Expansión*, 30 June and September 2005; *CincoDías*, 22 July 2005; *El País*, 22 November 2014. Four of Hong Kong's mobile operators – quite apart from China Unicom, which failed to secure any spectrum- bid for a total of 50MHz of radio spectrum in the 2.5/2.6GHz band. The total raised from the auction amounted to HK$1.54bn ($200m) and was allocated to SmarTone (two blocks), Genius Brand, a joint venture between Hutchison and HKT (2×5 MHz block), China Mobile Hong Kong (one 2×5 block) and CSL (one 2x5MHz block): *Telecoms*, 20 March 2013.

[41] SEC, 14 November 2005. Telefónica centralised the procurement of network infrastructures, fixed and mobile terminals and information systems through the management unit set up in Munich under the name of Telefónica Compras Globales and local teams in each country: Telefónica, 2009, 6; *El Economista*, 25 June 2009. Initiatives such as the first seminar on the subject by Telefónica reveal an effort to gain a better understanding of telecommunications in China: Telefónica 2006, 18.

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retained a ban on foreign majority ownership of ventures (*The Economic Times*, 13 September 2008; Reuters, 28 December 2007).

Telefonica SA wanted to take advantage of the new chance to expand its holdings in China Netcom and China Unicom Ltd., which were due to merge. The approach of the Spanish carrier was to spend €800 million ($1.2 billion) to become the biggest shareholder, with a 5.5 percent in the combined company (*The Economic Times*, 13 September 2008).

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

Nevertheless, on the same day that PCCW's minority shareholders voted against the sale, China Netcom proposed to Telefónica to strengthen the relationship between the two despite this. In less than a month, this proposal has become a reality by means of a new board member without a requirement of any prior payment in the form of a share purchase in either PCCW or China Netcom. The Spanish and Chinese partners were committed to develop their strategic alliance in specific projects, one of the most important of these will focus on mobile third generation (3G). The Chinese government was expected to award 3G concessions imminently and China Netcom had no experience in this business. Secondly, Telefónica had to manage to gain access to its partner's technological innovations, particularly in fixed telephony, broadband and digital TV activities through the appointment of an executive at Netcom's R&D centre in China. The final aspect referred to triangulation, i.e. the will to enhance the relationship and exchange of products between China and Latin America (*Cinco Días*, 20 December 2006).

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

V. Conclusion

This article looks at the pathways of international expansion in the age of globalisation. It brings two companies at different stages of development into the picture. In the case of China Netcom, a newly created public company, and in the case of Telefónica, a former semi-public monopoly turned multinational. Both companies had recently undergone a process of liberalisation. The research addresses the extent to which the globalisation standardised or diversified the paths of market opening, which included the formation of joint ventures, and the unique benefits of those enterprises compared to other forms of international cooperation, such as distribution agencies and technology licensing. The research brings a very generous explanation of a pattern of expansion the collaboration by means of a blended approach of stake acquisition, contribution of knowledge and skill. The pattern by which Telefónica entered the Chinese market contravened the principles zealously guarded in Latin America, based on entry into companies in a position of control. This pattern was imposed by PRC regulation. To this should be added the setting up a critical mass to get a strong position from which to reach vertical advantageous agreements with the providers. To overall knowledge the article adds a more precise acquis of the content and extent of China Netcom/Telefónica strategic cooperation agreement. Finally, some notions as triangulation scheme have to be revised.

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[42] A person well acquainted with international alliances refers to the attempt of Telefónica to be present in China as futile, "something physically and metaphysically impossible, as it has finally happened": Jesús Banegas, Personal communication with the author, 9 July 2023.

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Annex 1: China: Telefónica's new challenge. International experience and government support.

Entering China was a new challenge for Telefónica. The determining factor in the decision to enter the market in this great Asian country was globalisation itself, as the vast majority of the Spanish operator's new suppliers came from there. The weight of Telefónica's experience in Latin America was also a decisive factor. A key role was played by the close communication between Telefónica and the PRC government to convey the importance of Telefónica and Spain's neutral position in China. Telefónica arrived late compared to other companies but with its third place in the world ranking it was welcomed in China.

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

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

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