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Title: Coopetitive IJVs – A strategy of managing the internationalisation challenges in China

Year: 2024

Version: Accepted manuscript

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Please cite the original version:

Jiang, S. & Tidström, A., (2024). Coopetitive IJVs – A strategy of managing the internationalisation challenges in China. *European journal of international management* 22(2), 309-336. <https://doi.org/10.1504/EJIM.2024.135938>

Coopetitive IJVs – A strategy of managing the internationalisation challenges in China

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Abstract

In order for international joint ventures (IJVs) to succeed, it is essential to manage the challenges related to internationalisation. IJVs can be seen as cooperative, however, there is often a simultaneous cooperative and competitive, i.e. coopetitive relationship between the companies involved. There is scarce research related to how coopetition can facilitate internationalisation, although coopetitive business relationships have been shown to increase value and performance of firms. This paper aims to explore how coopetitive IJVs can be used to manage challenges related to internationalisation into China. The empirical part is based on illustrative qualitative case study research including five cases of coopetitive IJVs in the automotive industry. The study sheds new light on the connectedness of IJVs and coopetition. Our findings show that through coopetitive IJVs, internationalisation challenges are managed by exchanging complementary and homogeneous resources. Moreover, our findings indicate the value of a dynamic and gradually developing competition between firms.

Keywords Internationalisation, IJV, Coopetition, Chinese market, Automotive industry, SME.

1 Introduction

Most studies on the challenges of internationalisation focus on large enterprises, despite the important role and increasing presence of SMEs in the international economy (Calabrò and Mussolino, 2013; Zhou *et al.*, 2020). SMEs taking their first steps towards internationalisation need resources and expertise to identify business opportunities abroad,

potential partners, foreign trade practices, export procedures, import regulations, standards, and specifications of products (Lobo *et al.*, 2020). In their internationalisation, most SMEs face limitations in terms of resources, skills, information, financial capital, managers' experience, and constraints inherent in the vulnerability of the external environment (Jeong *et al.*, 2019; Lobo *et al.*, 2020). These challenges can be viewed in light of the entry mode, which highly affects the success of the firm in the foreign market (Tse *et al.*, 2021). Existing literature highlights the value of forming international joint ventures (IJVs) with local firms in entering foreign markets as an IJV may improve firm performance, increase understanding of the local market, provide access to complementary resources, and reduce costs and risks, particularly in emerging markets like China (Beladi *et al.*, 2021; Loehde *et al.*, 2020; Tse *et al.*, 2021; Zhao and Castka, 2021). However, IJVs are more critical to manage in comparison with JVs between domestic firms as the IJV partners origin from different political, social, cultural and economic contexts, which may lead to tensions and failure in a different way than in JVs between domestic firms (Jin *et al.*, 2016). Moreover, the foreign firm needs to invest resources into the IJV host market. These investments are often unrecoverable and makes the foreign firm more vulnerable to the activities by the firm in the foreign country that have more control (Pangarkar and Klein, 2004).

Existing research on IJVs is related to firm performance (e.g., Ali *et al.*, 2021; Avny and Anderson, 2008), governance and control (e.g., Beladi *et al.*, 2021; Loehde *et al.*, 2020), and outcomes of IJVs (e.g., Kim *et al.*, 2021; Tse *et al.*, 2021) from the perspective of focal firms, i.e., the IJVs or the parent firms. Prior studies on IJVs tend to focus on market- and firm-level issues, whereas the relationship between the partners has received less attention (Jin *et al.*, 2016; Nippa and Reuer, 2019; Zhao and Castka, 2021). In IJVs the relationship between the partners can be considered as coopetitive (Nippa and Reuer, 2019; Shu *et al.*, 2017), as they cooperate by sharing complementary resources, simultaneously as they tend to pursue individual interests and engage in competitive activities (Shu *et al.*, 2017). Coopetition can be considered as “*more silent in IJVs than in other inter-firm relationships*” (Shu *et al.*, 2017, p. 43).

Bengtsson and Kock (2014: p.182) define coopetition as ‘*a paradoxical relationship between two or more actors simultaneously involved in cooperative and competitive interactions, regardless of whether their relationship is horizontal or vertical*’. Horizontal coopetition, or cooperation between competitors (Bengtsson and Kock, 1999; Fernandez *et al.*, 2018; Kock *et al.*, 2010), has recently attracted a great deal of research attention from various industries (Basterretxea *et al.*, 2019; McGrath *et al.*, 2019)

Research has shown that coopetition improves the performance and success of firms (Bengtsson and Kock, 2014; Berbegal-Mirabent *et al.*, 2020; Fernandez *et al.*, 2014), particularly in an international context (Ritala *et al.*, 2014). Collaborating with competitors provides access to new resources and facilitates the realisation of capabilities (Granata *et al.*, 2018; Yami and Neme, 2014). From a business network perspective, establishing foreign relationships improves the capacity of internationalisation for small- and medium-sized enterprises (SMEs) (Jeong *et al.*, 2019) and speed of internationalisation into emerging markets (Falahat *et al.*, 2020); in particular, there are studies (e.g., Bengtsson and Kock, 1999) showing that collaborating with competitors can enable exploration of new business opportunities and strengthen value chains (Crick, 2019). However, only a few studies (e.g., Basterretxea *et al.*, 2019; Kock *et al.*, 2010; Ritala *et al.*, 2014; Vanyushyn *et al.*, 2009) focus on the positive impact of coopetition on the internationalisation of firms.

Moreover, the studies focusing on internationalisation challenges mainly investigate large companies (Bengtsson and Johansson, 2014; McGrath *et al.*, 2019); and research on SMEs is scarce (Amal and Rocha Freitag Filho, 2010; Prater and Ghosh, 2006). IJVs can be considered as a good opportunity for SMEs aiming at expanding on an international market. However, much of the attention in prior literature on IJVs is on the motivations and strategies of foreign firms to form IJVs (Zhao and Castka, 2021) and on large foreign firms (Loehde *et al.*, 2020). Less attention has been paid to SMEs, and on the nature of the relationship between the partners (Zhao and Castka, 2021). IJVs are often viewed from a cooperative perspective (Nippa and Reuer, 2019) and only a few studies (e.g., Luo *et al.*, 2008; Shu *et al.*, 2017) focus on a competitive perspective of IJVs. Overall, there is a research gap related to inter-firm coopetition from a global perspective (Kallmünzer *et*

al., 2019) and more particularly, we lack knowledge about cooepetition related to IJVs at the inter-organisational level (Nippa and Reuer, 2019).

The aim of this paper is to explore how cooepetitive IJVs can be used to manage challenges related to internationalisation into China. The empirical part is based on qualitative case study research including five cases of cooepetitive IJVs between European and Chinese firms within the automotive industry. There are several reasons why we focus on the Chinese market. First, it is considered to be an economically important market for foreign firms in order to secure global competitiveness (Loehde *et al.*, 2020). Second, IJV is a common entry mode for foreign firms expanding to China (Konara *et al.*, 2020; Loehde *et al.*, 2020). Moreover, in China there are both state- and industrial regulations that require or encourage the establishment of cooepetitive IJVs between foreign and Chinese firms (Cai and Karasawa-Ohtashiro, 2021; Konara *et al.*, 2020; Shu *et al.*, 2017). For example, the steadily increasing demand in China for automotive products has attracted all major international automotive firms and made China the largest automotive market in the world (Loehde *et al.*, 2020; Cai and Karasawa-Ohtashiro, 2021). However, there are foreign investment restrictions in China, which encourages IJVs between foreign and Chinese firms (Cai and Karasawa-Ohtashiro, 2021).

By combining literature on IJVs and cooepetition, the contribution of our study is as follows:

1. Our findings complement studies on cooperative IJVs (Nippa and Reuer, 2019; Shu *et al.*, 2017; Zhao and Castka, 2021) by showing that competition within an IJV strengthens firm's industrial competitive position.
2. Our findings shed new light on the management of internationalisation challenges by showing that the exchange of complementary and homogeneous resources through cooepetitive IJVs facilitates the handling of internationalisation challenges.
3. Our study extends the knowledge on the benefits of cooepetition from a sales perspective (Basterretxea *et al.*, 2019; Kock *et al.*, 2010; Vanyushyn *et al.*, 2009) to a broader scope of business activities.

4. Our findings indicate that value capturing occurs near to customers, which is in contrast with many existing cooptition studies (e.g., Bengtsson and Kock, 2000; Fernandez *et al.*, 2014; Gnyawali and Park, 2009; Ritala and Hurmelinna-Laukkanen, 2009).
5. Furthermore, our findings add knowledge to cooptition research on dynamic capabilities (Bouncken *et al.*, 2015) by showing that cooptition improves firms' dynamic capabilities through the integration and reconfiguration of asset positions (Teece *et al.*, 1997).

The paper is structured as follows. First, a theoretical review on internationalisation, IJVs and cooptition is presented. Second, the methodology, involving a qualitative case study of five cooptitive relationships in China, is described and followed by a presentation of key findings. Third, a discussion on the empirical findings is presented in relation to the extant literature. Finally, the paper is concluded with theoretical and managerial implications. Limitations and avenues for future research are also elaborated on.

2 Literature review

2.1 Internationalisation challenges related to the Chinese market

Scholars have put forward internationalisation challenges on both macro- and micro-levels (Brouthers *et al.*, 2003, 2008; Kogut, 1988a; Konara *et al.*, 2020; Larimo *et al.*, 2016; Liu *et al.*, 2020a; Nippa and Reuer, 2019; Rana and Elo, 2017). The challenges maybe related to economic, political, industrial, financial, sociocultural, and individual aspects (Chi and McGuire, 1996; Krishnan *et al.*, 2006; Lu and Hébert, 2005; Mendy and Rahman, 2019; Puck *et al.*, 2013). Economic and political challenges, or country-level risk (Agarwal and Ramaswami, 1992), do not seem to be highly influential for the choice of entry mode (Brouthers, 2013; Pla-Barber *et al.*, 2011; Ramírez-Hurtado *et al.*, 2018), or for the continuing of firms' activities after entering foreign markets (Benito, 1997; Meschi, 2005; Meschi and Riccio, 2008). In addition, country-level risk is beyond firms' control and management (Konara *et al.*, 2020; Stocker and Abib, 2019). Therefore, the economic and political challenges are excluded from this study.

Research has highlighted the impact of the change of industrial environment on the success of firms' operation in a foreign market (Hennart *et al.*, 1998; Kogut, 1988b, 1991; Konara *et al.*, 2020). As far as the internationalisation of European firms to China is concerned, it is important to pay attention to the industrial competitive context (Ivarsson and Alvstam, 2013). Intense competition against not only international rivals but also local competitors is one of the drawbacks of SMEs' internationalising into emerging markets (Che Senik *et al.*, 2014). Many SMEs are attracted by the opportunities arising from the ever-changing nature of the Chinese market but neglect the threats inherent in competition (Lee *et al.*, 2013). The dynamic business environment in China, marked as it is by ambiguity, complexity, and incentive policies (Li and Farrell, 2021; Yeung and Mok, 2002) means an increasing number of Chinese firms have developed into competitive rivals defending their own market and expanding their business even beyond own territory (Lee *et al.*, 2011). Foreign SMEs are challenged in attempts to operate in such a strong and rapidly growing competitive context with competitors of different sizes, with different qualities, and from different backgrounds (Hashim and Hassan, 2008) that are continuously upgrading in all industries over time (Lee *et al.*, 2013), which is an unusual situation in the context of SMEs' internationalisation experiences (Yeung and Mok, 2002).

Second, financial strength influences international cooperation throughout the transactional lifecycle from the start of partner selection (Dollinger *et al.*, 1997), ownership and governing control within cooperation (Das and Teng, 2002; Lu and Hébert, 2005), to the termination of transaction (Meschi *et al.*, 2017; Reuer, 2002). Many SME managers find access to financial resources is the biggest challenge in internationalisation (Cea *et al.*, 2021; Kraus *et al.*, 2017; Lobo *et al.*, 2020; Zhou *et al.*, 2020). The financial challenges are often related to limited internal funds and difficulties in acquiring loans and external equity (Che Senik *et al.*, 2014; Kraus *et al.*, 2017; Kuivalainen *et al.*, 2010), which again may decrease possibilities of investing for internationalisation (Kuivalainen *et al.*, 2010; McNaughton and Bell, 2004). Investors are often concerned about the risk of high agency costs, which can be an issue if funding is not properly utilised to address the risks of internationalisation (Doukas and Pantzalis, 2003). As the success of

internationalisation is strongly associated with financial resources, access to sufficient funding is a challenge for SMEs in their international activities in the Chinese market (Bellone *et al.*, 2010; Kuivalainen *et al.*, 2010).

Human resource is a critical vehicle of firms' international activities (Kabst, 2004; Mendy and Rahman, 2019) in terms of building social construction, delivering core functions, achieving core business objectives, and meeting local legitimacy (Drumm, 1999; Dolan *et al.*, 2005; Horgan and Muhlau, 2005; Li *et al.*, 2016; Ostroff and Schmitt, 1993; Rogers and Wright, 1998; Tan and Meyer, 2010). Internationalisation challenge relates to human resources (Lobo *et al.*, 2020) and labour supply (Hessels and Parker, 2013), particularly in relation to highly skilled employees, is identified to be a determinant of the internationalisation of SMEs (Buzavaite and Korsakiene, 2019; Mendy and Rahman, 2019). Expanding business into an international market can lead to conflict in the distribution of human resources between the home market and the international operation (Levy, 2005; Williamson *et al.*, 2003). It may also be challenging to recruit appropriate human resources in the foreign market, particularly in China, where competition of skilled labour is intense (Hashim and Hassan, 2008). Another reason offered by Bretos and Errasti (2018) is the low switching cost for skilled workers moving between competing firms, which makes retaining skilled workers a constant challenge.

Alongside the challenge of recruiting and retaining skilled labour, the sociocultural distance between home and host countries that greatly impacts on the longevity and structural configuration of international transaction also challenges SMEs' internationalisation activities (Barkema and Vermeulen, 1997; Lu and Hébert, 2005; Reuer, 2002; Meschi and Riccio, 2008; Tower *et al.*, 2019). The sociocultural distance often emerges in the internationalisation process of SMEs (Kraus *et al.*, 2017) as barriers in executing transactions in foreign countries (Bjorvatn and Wald, 2021). The sociocultural distance between China and Europe, for example, concerning language and culture (Hofstede, 1991; Loehde *et al.*, 2020), challenges European SMEs in terms of accessing and assessing business information and data (Ojala, 2008), establishing business relationships (Zhao and Castka, 2021), and maintaining partnerships (Tower *et al.*, 2019).

In brief, firms seek to explore and seize business opportunities by expanding their operations into foreign markets, where they particularly in emerging economies, are facing varying challenges (Konara *et al.*, 2020). The unfamiliar and competitive foreign context (Park *et al.*, 2017) and internal constraints in resources and capabilities (Kraus *et al.*, 2017; Lobo *et al.*, 2020) challenge a firms' strategy on whether and how to enter foreign markets (Brouthers *et al.*, 2003). Organic growth may not be the optimal solution because of the need to internationalise fast (Devece *et al.*, 2019). Therefore, establishing partnerships with other firms is arguably a good choice for firms to manage the internationalisation challenges (Beckman *et al.*, 2004; Gnyawali and Park 2009, 2011).

2.2 *Coopetitive IJVs*

There are four main entry modes for internationalisation: wholly owned subsidiaries (WOSs), mergers and acquisitions (M&As), contractual agreements (CAs), and international joint ventures (IJVs) (Pla-Barber *et al.*, 2011; Yiu and Makino, 2002). The selection of entry mode often depends on the trade-off between the costs of control and the costs of resource commitment (Anderson and Gatignon, 1986; Cespedes, 1988). WOSs and M&As provide control over the invested resources (Meschi and Riccio, 2008). However, these entry modes may imply high costs related to the management of local operation (Hennart, 1988; Woodcock *et al.*, 1994). CAs, on the other hand, is coupled with lower control (Woodcock *et al.*, 1994). However, IJVs allow firms to control their core competencies by deliberating resource sharing with IJV partners (Anderson and Gatignon, 1986; Woodcock *et al.*, 1994). IJVs are particularly suitable for firms that are willing to share some of their own resources in order to get access to the resources of another firm. The costs and risks inherent in IJVs can therefore be lower in comparison with other entry modes such as M&As (Davidson, 1982; Hennart, 1988; Hill *et al.*, 1990; Woodcock *et al.*, 1994).

IJVs in China has attracted growing interests from researchers (Cheng *et al.*, 2016; Zhao and Mills, 2019) with topics including IJV formation (Xia *et al.*, 2008; Loehde *et al.*, 2020), IJV ownership structure (Liu *et al.*, 2020b; Owens, 2010), IJV management (Liu

et al., 2014; Wang *et al.*, 2020), and IJV performance (Tse *et al.*, 2021). Despite the considerable academic achievements in the field of internationalisation and IJVs into China, there is scarce research examining how IJVs specifically facilitate the emerging challenges during the internationalisation process in the Chinese market. In order to be able to understand how IJVs can facilitate the management of challenges, we focus on its coepetitive nature.

Coepetition is described as a paradoxical relationship that includes simultaneous forces of cooperation and competition (Bengtsson and Kock, 2014; Bengtsson *et al.*, 2016; Czakon *et al.*, 2020) and emerges at the individual, organisational, inter-organisational levels (Enberg, 2012; Luo *et al.*, 2006, 2006; Raza-Ullah *et al.*, 2014; Tsai, 2002), as well as on the network level (Bengtsson and Kock, 2000; Peng and Bourne, 2009; Peng *et al.*, 2012). In addition, coepetition may be distinguished as horizontal coepetition, which refers to the coepetition between competitors (Dahl *et al.*, 2016; Gnyawali and Park, 2011), and vertical coepetition that often exists between buyers and suppliers (Kim *et al.*, 2013; Lacoste, 2012; Soppe *et al.*, 2014). The majority of coepetition literature focuses on the inter-organisational level (Bouncken *et al.*, 2015) between horizontally competing firms (e.g., Dahl *et al.*, 2016; Gnyawali and Park, 2011), which is also the focus of this paper.

Coepetition has been studied through various academic lenses, in particular the game theory (Devece *et al.*, 2019; Ritala and Hurmelinna-Laukkanen, 2009). Brandenburger and Nalebuff (1995, 1996) describe the phenomenon of coepetition as a game between competing firms that first cooperating to create a bigger “pie” and later competing to share the “pie”. In other words, coepetition allows competing firms to cooperate and compete by following a logic of value creation and value capture (Lavie, 2007; MacDonald and Ryall, 2004). In a coepetitive relationship, firms pool the similar and/or complementary resources they possess to create total value for all partners and/or firm-level value for individual firm(s) (Bouncken *et al.*, 2020a, 2020c) and then capture a certain amount of the created value at firm-level as the returns from the relationship for their inputs (Bouncken *et al.*, 2020b, 2020c; Lavie, 2006; Ritala and Tidström, 2014).

Competing firms are a group of firms that often share similar knowledge and market vision, and possess complementary resources, that facilitate the collaboration to create more value than what they could achieve alone (Bengtsson and Kock, 2000; Gnyawali and Park, 2009; Quintana-García and Benavides-Velasco, 2004; Ritala and Hurmelinna-Laukkanen, 2009) including enhanced learning (Ritala and Hurmelinna-Laukkanen, 2009; Tsai, 2002), strengthened innovations (Bengtsson and Kock, 2014; Bouncken *et al.*, 2018; Bouncken and Fredrich, 2012; Park *et al.*, 2014; Quintana-García and Benavides-Velasco, 2004) and improved firm performance (e.g., Berbegal-Mirabent *et al.*, 2020; Pellegrin-Boucher *et al.*, 2013). The value creation can further be specified into a scale-type that aiming to achieve economies of scale from the input of similar resources and a link-type that targeting at synergy creation from the combination of complementary resources (Hennart, 1988). Coopetition scholars distinguish between value creation (positive-sum logic) and value appropriation (zero-sum logic) (Bouncken *et al.*, 2020c; Luo, 2008; Ritala and Tidström, 2014). Nonetheless, value appropriation is often outlined in relation to tensions (Fernandez and Chiambaretto, 2016; Fernandez *et al.*, 2014; Tidström, 2014), dependence (Afuah, 2000), and opportunistic behaviour (Bouncken and Fredrich, 2012; Gnyawali and Park, 2009; Levy *et al.*, 2003), and it is often realised through competition (Fernandez *et al.*, 2014; Gnyawali and Park, 2009; Gnyawali *et al.*, 2006; Ritala and Hurmelinna-Laukkanen, 2009). It has also been found that competing activities usually occur closer to customers while cooperative behaviour of value creation often exists far away from customers (Bengtsson and Kock, 2000; Bouncken *et al.*, 2015).

Despite the richness in coopetition research, internationalisation has received scarce attention (Bouncken *et al.*, 2015), although inter-organisational collaboration often occurs between competitors from the same industry (Rai, 2016), which implies that coopetition may facilitate internationalisation into new markets (Bengtsson and Kock, 2014; Gnyawali and Park, 2009; Luo and Rui, 2009). Studies show that coopetition may facilitate internationalisation in terms of increasing market size, improving market position, capturing additional market share, and creating new markets (Jankowska, 2011; Ritala and Hurmelinna-Laukkanen, 2009; Ritala *et al.*, 2014). Coopetition is also reported to enhance interactions with new customers in distant markets through joint sales and aftersales services (Basterretxea *et al.*, 2019), exploring international sales opportunities

(Vanyushyn *et al.*, 2009), and accessing new distribution networks and contacts (Devece *et al.*, 2019; Kock *et al.*, 2010). As far as emerging markets are concerned, there are studies showing that institutions in emerging markets facilitate cooperation between firms, and this leads to increased internationalisation of the firms (Monticelli *et al.*, 2018).

From the perspective of cooperation, IJVs have been studied related to the conflicts of control and interest distribution between IJV partners (e.g., Luo *et al.*, 2008; Shu *et al.*, 2017). Moreover, cooperation enables IJVs to be flexible in addressing environmental changes and uncertainties and, consequently, to achieve better performance. (Shu *et al.*, 2017). Another stream of research focuses particularly on large automotive IJVs between competitors in China (e.g., Fernandez and Liu, 2007). Despite the prominence of cooperation in internationalisation and IJVs, how cooperation facilitates the internationalisation of foreign firms into China through IJVs remains underexamined. Under the complex, fast changing and uncertain environmental context, cooperation becomes an attractive strategy for firms, especially for the SMEs that lack resources, to overcome conditions and seize opportunities from markets (Bengtsson and Johansson, 2014; Devece *et al.*, 2019; Gnyawali and Charleton, 2018; Gnyawali and Park, 2011). Therefore, more research is needed relating to the benefits of cooperation for SMEs (Chiambaretto *et al.*, 2020). There is a need to advance our knowledge on cooperative IJVs at inter-organisational level by examining the linkage between IJVs formed by foreign and Chinese competitors and the internationalisation challenges that foreign SMEs confront in China (Nippa and Reuer, 2019).

3 Methodology

3.1 Research approach

The empirical part of this study is based on qualitative case study research, which is appropriate when the study is exploratory, context-specific, and involves business relationships (Bradley, 2010; Farquhar, 2012). Qualitative approach is commonly used in IJVs studies (Zhao and Castka, 2021) to be able to understand the reasons of the complex research objectives (Hwang and Kim, 2018; Loehde *et al.*, 2020). Moreover, several

coopetition scholars (e.g., Basterretxea *et al.*, 2019; Bouncken *et al.*, 2015; McGrath *et al.*, 2019) also argue that given the complex nature of coopetition and the theoretical understanding of it is still developing, the adoption of qualitative approaches increases understanding. We use qualitative case study research to understand and interpret a specific context through a number of cases (Farquhar, 2012). In this study we chose five cases consisting of cooperative business relationships between a European and a Chinese company within the automotive industry. The particular choice of five cases was based on our aim of receiving sufficient and in-depth information about the researched phenomenon.

The cases were purposefully selected based on certain criteria (Siggelkow, 2007). First, all cases involve a European SME that operates within the automotive industry in the Chinese market. As internationalisation in China is often a lengthy process for European firms, we chose to focus on European firms that have significant experience of operating in China; in this case, established by their exporting to China for at least ten years, which should be an appropriate period to be able to identify the nature of challenges and how those challenges were addressed through cooperative activities.

Another criterion for the cases was that they all involve local cooperation between the companies in China in the form of IJVs, which is said to be an appropriate form for international technological competition (Hung and Chang, 2012; Tse *et al.*, 2021) and a preferred entry mode to foreign markets for SMEs (Sestu *et al.*, 2020). Moreover, we chose to focus on cooperative IJVs to ensure the cases included formal cooperation alongside competitive activities.

The cases are summarised in Table I. All cases involve competition between the firms that sell competing products that are not produced as part of the IJVs to similar customers in China. As far as cooperation is concerned, Cases 1, 2 and 3 involve cooperative activities related to procurement, manufacturing, sales, and service. In addition to these activities, Cases 4 and 5 cover a wider scope of activities by including R&D as well.

Table I Summary data of Cases

Dyadic countries	Informants					Cooperation activity	Competition activity
	No.	Position	Gender	Industry experience	Interview method		
Case 1	UK	1	CEO	Male	20 yrs.	Online	Procurement, Manufacturing, Sales & Service
		2	Managing Director	Male	24 yrs.	Online	
	China	3	Financial Director	Female	14 yrs.	f2f	
		4	HR Director	Female	20 yrs.	Online	
Case 2	Germany	5	CEO	Male	18 yrs.	Online	Procurement, Manufacturing, Sales & Service
		6	Sales Director	Male	23 yrs.	Online	
		7	Head of Bus. Devt.	Male	14 yrs.	Online	
	China	8	General Manager	Male	15 yrs.	Online	
		9	Project Director	Female	21 yrs.	Online	
Case 3	Portugal	10	EVP	Male	20 yrs.	Online	Procurement, Manufacturing, Sales & Service
	China	11	Deputy GM	Female	10 yrs.	f2f	
		12	Head of Purchasing	Male	11 yrs.	f2f	
Case 4	Germany	13	CEO	Male	26 yrs.	Online	R&D, Procurement, Manufacturing, Sales & Service
		14	Sales Director	Male	23 yrs.	Online	
		15	Representative, China	Male	16 yrs.	f2f	
	China	16	General Manager	Male	29 yrs.	Online	
		17	Head of Sales	Male	15 yrs.	Online	
Case 5	Finland	18	CEO	Male	30 yrs.	f2f	R&D, Procurement, Manufacturing, Sales & Service
	China	19	General Manager	Female	20 yrs.	Online	
		20	Deputy GM	Female	16 yrs.	Online	
		21	Sales Director	Female	11 yrs.	Online	

3.2 Data collection and analysis

The empirical material consisted of interviews and written documents. We conducted a total of 21 semi-structured interviews. The interview topics included the challenges of the internationalisation process, the nature and development of the cooperative IJVs relationships, and the benefits of cooperative IJVs in relation to the internationalisation challenges. Semi-structured interviews allowed us to capture the same topics in each interview, simultaneously as we were able to adjust some of the questions according to the profession, experience, and perception of an individual informant. In order to increase the trustworthiness of the empirical material, the authors used experiment-like replication logic when conducting the interviews (Yin, 2003), meaning that the informants were asked to elaborate on their answers.

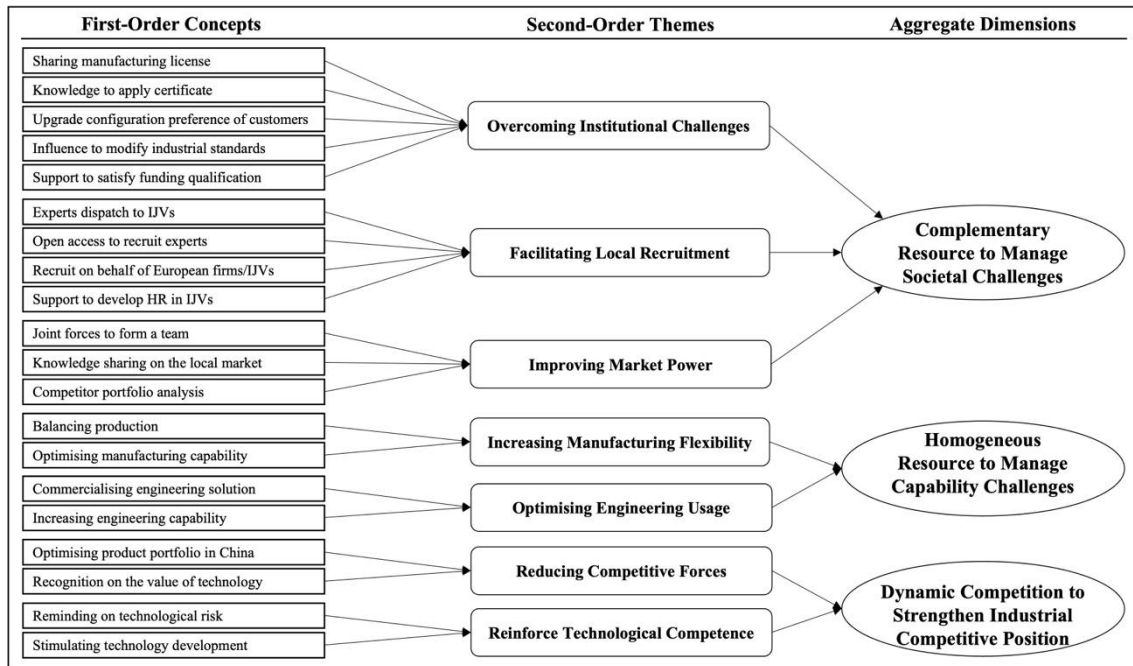
The informants are listed in Table I. They were chosen based on their knowledge of and involvement in the cooperative business relationships. All informants were senior level executives, who were largely involved in the competition for both executive and operational activities, meaning they were capable of offering an overall perspective on the competition, the internationalisation, and the associated challenges. Sixteen informants were interviewed online and five interviews were conducted face to face (f2f)

in the offices of the informants. The interviews with European managers were conducted in English and with Chinese managers in Chinese. One of the authors is from Finland and the other is of Chinese origin, which adds credibility to the cultural understanding and interpretations of the data (Koporcic and Ivanova-Gongne, 2020). The interviews lasted for between 45 minutes and two hours with the average length being approximately 60 minutes. All interviews were recorded and transcribed and the transcripts were reviewed and confirmed by the informants.

Written documents related to the companies involved were also used as research material. The documents included the IJV agreements, business plans, internal project reports, and board resolutions. The use of these documents helped confirm the information elicited from the interviews and also increased the trustworthiness of the study (Tidström and Rajala, 2016).

The material gathered from the interviews and from the written documents was analysed in a similar way. We followed a systematic analysis process starting from a more general level and proceeding towards a more detailed level. In the first phase of analysis, the aim was to acquire an understanding of the empirical material as a whole, and to categorise the material as relevant to the study or irrelevant. In the following phase of analysis, the relevant material was categorised by systematic coding in order to receive a general picture of the researched phenomenon based on the content of data in relation to the research topics and questions (Bradley, 2010). After that, the analysis followed as a process of moving back and forth between empirical material and existing literature (Bradley, 2010; Farquhar, 2012). The coding process started with identifying challenges of internationalisation and by coding specific challenges into larger groups. Thereafter, we identified and coded activities of the cooperative business relationship in relation to how these facilitated the management of particular internationalisation challenges. A summary of the data structure (Gioia *et al.*, 2013) is demonstrated as figure 1. The findings of the empirical study are presented in the following section.

Figure 1 Data structure



4 Findings

4.1 Acquiring complementary resources to manage societal challenges

European firms confront a number of *institutional challenges* in China relating to industrial regulation, qualification norms to external funding, and configuration preferences from customers. First, China has regulations governing the automotive sector that differ considerably from those in Europe including the regulations on both firm-level and product-level. The strictest regulation at firm-level was the foreign ownership caps (FOC) before 2018 that made IJVs with Chinese competitors the only possibility for foreign firms to manufacture automotive products in China. The gradual removal of FOC opens an opportunity for foreign firms; but the difficulties of acquiring the automotive manufacturing licence (AML), in terms of the strict requirements on investment, manufacturing process, product advancement and sales volume, as well as the uncertainty in time and cost, continue to constrain the actions European firms can take in the Chinese market. Chinese competitors possess the required AML as a core resource and have also accumulated knowledge in applying and acquiring AML. To cooperate with local competitors, the AML possessed by the Chinese firms can be shared with the IJVs or the Chinese firms can lead the process of applying a new AML for IJVs from which European

firms have an opportunity to learn the knowledge how an application of AML can be appropriately prepared.

'It is the key for our cooperation with this competitor that they have a subsidiary with the necessary industrial licence for automotive manufacturing'.

[HBD, Case 2]

'Because of the license, we need a local competitor as partner for local manufacturing'.

[CEO, Case 5]

The challenge at product-level often relates to industrial norms and standards, and product certification (e.g., China Compulsory Certificate or commonly known as a CCC Mark). Though application and metric are publicly available, the essential challenge is how to achieve the quality and unmask the logic of satisfying the metric within a reasonable time and cost. Chinese firms are experienced in managing local regulation processes and satisfying requirements, meaning they can therefore assist the European parties with how best to deal with the regulations. Moreover, if the Chinese firms were key players in the industry, they were usually able to influence the revision of industrial standards related to the products. In the automotive industry, the ability to influence the industrial standards to a higher level may increase the demand of products in favour of European firms.

Secondly, according to the sales director of case 2, many end-users of their products set the configuration of vehicles at a basic level with elementary functions to bargain a competitive purchasing price and maintenance cost. The European premium vehicles, on the other hand, provide advanced solutions that would increase the operational efficiency and durability; the average yearly-operating cost is lower because of the longer lifecycle. However, the sophisticated operation requires proper training and maintenance from the operators and the higher purchasing price arising from the advanced configuration challenges the budget of customers. It is a challenge for European firms to approach local customers and sell the products with a different philosophy in design, operation, and costing than what the customers had been used to. Through cooperative relationship, Chinese firms are able to utilise their relational resources helping European firms to

access target customers that are willing to test the products. Simultaneously the European firms receive valuable customers' feedback on products and could then feed that information into engineering development for new configuration to change the preferences of customers. The configuration preference change is a gradual process; but once the configuration is upgraded and customers acknowledge the benefits, it is difficult to be downgraded.

Thirdly, a common challenge for the European firms relates to acquiring external funding including government subsidies, bank loans, and private investments. Through cooperation in IJVs with local Chinese firms, this challenge can be managed.

'We were looking for different alternatives until we arrived at the current one, which helps us to have strong government support in subsidising the project'.

[MD, Case 1]

In China, local government commonly subsidises organisations to enhance their competitiveness against organisations from other regions. Access to such subsidy is only possible to the local organisations or their partners. The qualification terms and procedures required to access subsidies differ between industries so there is no set process. The local Chinese firms have the best knowledge on the options and experiences in the procedures to acquire specific subsidies in their own industries. There are often barriers in obtaining industry-specific subsidies by organisations from different industries. In other words, cooperating with competitors is arguably the optimum alternative to target and access government subsidies and be qualified for acquiring the subsidies.

In addition to subsidies, cooperation with local partners also provides European SMEs access to bank loans.

'With our local partner, it is much easier to get a bank loan'.

[EVP, Case 3]

According to the financial director of case 1, it is possible for IJVs to apply bank loans when they possess local asset and have been operating under strong financial strength for a period of time provided that their shareholders are willing to provide guarantees. In this case, the guarantee from European firms is usually not sufficient for Chinese banks because of the recourse risk in foreign countries. The local asset and bank credits of Chinese firms become important conditions for banks to consider granting loans to IJVs.

Moreover, access to private investors is facilitated through cooperating with local competitors. Chinese firms usually have diversified financing channels due to their local identities and the credibility established from their long presence in the industry. The managing director of case 1 reveals the central role of the Chinese cooperative partner acting as an intermediary in connecting local investors and explaining IJV business and profit model in a professional way that is still easy to understand, which is difficult to achieve for organisations outside the industry.

The challenge of *getting access to local labour* is considered a major constraint for the European SMEs operations in China. Firstly, the SMEs do not possess excess experts for long-term foreign projects. Second, they do not possess the necessary knowledge and relations of the local labour market and employment legislation in order to be able to recruit and attract local experts in China. However, labour can be accessed from the Chinese partners involved in the IJV.

‘This is an advantage we can take from the Chinese side. We can utilise the human resources from the local partner when our engineers are not able to do the work. So, for small companies, this is maybe the future’.

[CEO, Case 5]

Another important role of Chinese firms is to access experts and recruit on behalf of European firms or IJVs before the human resource (HR) system functions appropriately in IJVs. The experienced HR experts of Chinese firms have the knowledge and relations to efficiently sift and recruit specific labour for the start of IJVs. When IJVs are capable of independently recruiting, the role of the Chinese firms is then evolved from active to

passive. They offer their expertise for emergent cases or as a support to European firms or IJVs in recruitment upon request. According to the sales director of case 4, European automotive SMEs can learn from their large competitors that usually reduce psychic distance by employing people who are familiar with both Chinese and European languages and cultures through their Chinese cooperative partners.

From a market perspective, cooperation in IJVs strengthens the power of the European firms as they face strong competitive pressure from local competitors. The direct competition between the IJV-partners is reduced and controllable due to the cooperative agreements and an improved understanding of each other. This permits the firms to work as a team that strengthens the competitive advantage and market position of the involved firms, simultaneously as competition with external competitors is intensified.

'...when the relationship with our partner goes stronger, you make more difficulties for other local competitors'.

[MD, Case 1]

In the cooperative business relationships, the Chinese parties share knowledge with the European parties related to the Chinese market and competitor portfolio including available products, engineering data, and pricing and cost analysis.

'With our partner we can get information about other competitors, (including) their organisations, their products, their prices, and so on. Alone, we are not able to get such information to re-arrange our strategies to beat them'.

[EVP, Case 3]

This provides great opportunities for the European firms to analyse the market and also to understand the competitive landscape and the nature of the products available in the market. That information, in turn, enables the European firms to monitor the rival moves of competitors in the Chinese market. In other words, European firms utilising cooperative arrangements can erect barriers to protect against competition in China.

4.2 *Acquiring homogeneous resources to manage capability-related challenges*

European firms and their Chinese cooperative partners have some resources in common, for instance to production and engineering. By sharing and combining such homogeneous resources it is possible to achieve economies of scale and to manage capability-related challenges. First, the cooperation within the IJVs *optimises manufacturing capability by balancing production capacity*.

According to the CEO of case 4, the automotive business is subject to sudden peaks and fluctuations in sales because the sector is largely project based. Therefore, it is challenging for SMEs to optimise production capacity. When engaging in cooperative relationships in China, European firms can acquire valuable product- and production-related knowledge from the Chinese partners. Moreover, it is possible to balance production and sales fluctuations by utilizing the facilities and workforce of the Chinese partners when needed, and the reverse, to rent out facilities or act as subcontractors for competitors when the own production capacity is excess.

‘In a cooperative situation, you can outsource the production of the majority of components locally by using the foreign technology. Similar components and products can be manufactured in the same workshop by the same machinery with different labels’.

[MD, Case 1]

The balanced production capacity optimises the usage of manufacturing capability that results in lower unit costs and enhanced product development.

Production includes engineering, which is a key competence required in the automotive industry; however, it is also a challenge in international operations. Firms invest in developing engineering solutions in order to be different from competitors. Entering into cooperative relationships enables the increase of unit of sales through transferring engineering solutions from the European firms to the Chinese firms. However, it is important that this transfer does not threaten the core business of the European firms. The

Chinese firms may utilise the engineering solutions for their existing products or further development, if this does not compete with the European firms or the IJVs. Due to the large potential and depth of the Chinese market, the engineering solutions can be used for far more wide-ranging applications and for a longer time. In case 5, the commercial value of the engineering solutions from the European firm is maximised and brings additional financial return that can be allocated for further development or other expenditures. The Chinese firm also benefits from the transaction because its engineering process can be upgraded in a short time without committing too much of its own resources.

In addition, there are limited possibilities to adjust the engineering capability of the European firms in order to match the production requirements. For example, the material of superstructure for a certain type of vehicle is different in China than in Europe, and the requirement for the cooling efficiency within the vehicle is significantly tighter in China than in Europe. On the other hand, the engineering capability of Chinese firms within the automotive industry is growing rapidly; particularly, the capability to adjust to foreign practices. This creates another opportunity to achieve engineering synergy, that is, the potential of engineering co-development, after the establishment of mutual trust in cooperative relationships. In fact, an increasing number of European automotive companies have established their engineering facilities in China for various purposes, including solution development, engineering testing, and material research and procurement. For SMEs, it is costly to establish their own engineering facilities in China. Cases 4 and 5 demonstrate that it is more feasible to keep a shared engineering development in the IJVs in order to protect the interests of the European firms.

4.3 Dynamic change of competition strengthens the industrial competitive position

In cooperative business relationships there is a challenge related to tensions and opportunistic behaviour. The core competence of the European firms are their technological know-how and intellectual property. As competitors, Chinese firms recognise the value of technological competence and, therefore, they are willing to enter various agreements with European firms to ensure the long-term technological input from European firms. Both formal and informal mechanisms are utilised in all cases by

European firms in order to minimise the risk of harming their technological competences. Formal agreements on technology transfer or licencing are signed between European and Chinese firms as an attachment to the IJV contract for a legal protection. Moreover, a gradual introduction of new products or upgrades on existing products are commonly used by European firms to IJVs.

‘There are different types of products. Cooperation started on a specific product to reach a larger scale by joining together... but we couldn’t allow to produce our core component and product outside our (European) factory’.

[CEO, Case 2]

Notwithstanding the risk embedded in competitive tension, positive influences are also identified in relation to facilitate European firms to optimise their product portfolio and continuously improve their technology. Through the IJV, free competition is not allowed between the European and Chinese firms in terms of the product portfolio that the European firms offer in China. The firms can only compete concerning the products that are not included in the IJV contract.

It is not uncommon that a category of products of European firms is within premium margin, but these products are not related to the IJV due to technical difficulties or the preferences of the European firms. This implies that a smaller, but more focused product portfolio with higher margin can directly be sold on the Chinese market by the European firms. In this way, the European firms also compete with their Chinese IJV partners. However, the nature of the competition is temporary, as the European firms are searching for development possibilities for products with lower margin that can be scaled up in the IJVs. By controlling the scope and schedule of new product development, the European firms can adjust their product portfolio related to the IJVs in order to reduce the direct competition with their Chinese partners. Moreover, they can benefit from scaled production in IJVs while maximising financial returns from their own products with premium margin.

Access to appropriate technological capabilities is a considerable challenge for firms operating within the automotive industry. When European firms cooperate with Chinese competitors, their technology development is enhanced, as they need to maintain a technological advantage in relation to their cooperation partner. However, also the Chinese firm benefits from the IJVs as they get increased understanding of the competitiveness of the products from European firms.

'We transfer technology and the knowhow (to IJV), they (Chinese firm) can improve their quality. So there should be some advantage in engineering and R&D'.

[CEO, Case 5]

'With our (European firm) technology, they (Chinese firm) can improve their products to a higher level... We have to be ahead of them. We need to have something more advanced before they fully digest the current technology'.

[RC, Case 4]

The potential risk and challenge related to the technological learning, know-how and development in Chinese firms, adds a pressure on European firms to further strengthen their technological capability rather than relying on existing advantage. The optimised product portfolio and continuously improving technology aspiring from dynamic competition in cooperation strengthens the industrial competitive position of European firms in the Chinese market.

To sum up, European SMEs can manage internationalisation challenges in China by establishing IJVs with Chinese firms. Challenges related to the societal context, i.e. institutional, labour and market power challenges, can be managed through sharing and developing complementary resources such as knowledge, human and financial resources. As far as the operational context is concerned, challenges related to manufacturing and engineering can be managed by combining homogeneous resources. Third, challenges coupled with the competitive context, such as competition between the firms involved in the IJVs and with external competitors, can be managed by adapting the product portfolio and strengthening the technological capability.

5 Discussion

Our findings shed new light on existing research on IJVs, particularly from the perspective of IJVs between cooperating competitors. Coopetitive IJVs involve companies that are similar to each other in terms of processes. However, the competitors involved in the IJVs are also different for example related to knowledge of the market. This implies that there are natural incentives for competitors to engage in IJVs, where they can cooperate and get access to each other's resources. The similarities and differences between the firms facilitate the agreement between the firms, particularly related to the contribution of each firm. Coopetitive IJVs may reduce the challenges in IJVs related to partner selection (Larimo and Rumpunen, 2007; Mba and Agumba, 2018) arising from information asymmetry (Welcher, 2019) as well as task conflict because of different business models (Owens *et al.*, 2018).

Our study contributes to prior research on IJVs and internationalisation by illuminating how IJVs between foreign and Chinese competitors facilitate the internationalisation of European SMEs on both the macro and micro levels. In accordance with prior research, coopetitive IJVs provide firms with contextual benefits at a macro-level through the learning acquired from IJV partners (Tsai, 2002) and by accessing new resources and capabilities either from or through the coopetitive relationship (Granata *et al.*, 2018; Yami and Nemeh, 2014). Our study further indicates the macro-benefits including a better understanding of, and ability to monitor competitors; familiarisation with industrial regulations; breaching industrial barriers; and identifying sales and marketing opportunities. Similarly, coopetition strengthens firm-specific advantages (Dunning, 1980) at the micro level.

Prior research on internationalisation of European firms to China puts forward the industrial competitive context as a challenge (Che Senik *et al.*, 2014; Ivarsson and Alvstam, 2013). Chinese firms may learn from foreign firms and rapidly develop competing products (Lee *et al.*, 2011). Our findings show that this challenge can be managed through a coopetitive IJV between a local Chinese firm and a European SME.

A beneficial strategy for the European firms is to gradually intensify the cooperation with their Chinese partner, simultaneously as they put an effort into preserving a technological advantage. The findings also enrich the research on IJVs radical innovation (Wang *et al.*, 2020) by showing that the dynamic competition within coepetitive IJVs continuously stimulates the engineering development.

We extend the understanding of customer' orientation of IJV literature (Park *et al.*, 2017) by evidencing that coepetitive IJVs not only help firms to familiarise and meet customer needs as many extant IJVs literature suggest (e.g., Han *et al.*, 1998; Day, 1994; Olshavsky and Spreng, 1996; Sim *et al.*, 2007), but also influence the change of customers' preferences through the relational support from local coepetitors.

As far as coepetition research is concerned, our findings differ from existing studies indicating that value creation is often realised through cooperative behaviour far away from customers, whereas the capturing of value is usually realised through competing activities closer to customers (Bengtsson and Kock, 2000; Bouncken *et al.*, 2015). In contrast to this, our findings demonstrate cooperative activities close to customers in coepetitive IJVs. Chinese actors share their relational resources to European actors through the IJVs. This enlarges the 'pie' by including European-style configuration to the offerings of the IJVs. Because of the large size of the Chinese market, both firms within the IJVs can capture value from the joint product configurations without directly competing with each other on the market, that is value can be captured from the added value caused by join value creation. This finding adds a new perspective to the common view of crating and capturing value in coepetition (e.g., Fernandez *et al.*, 2014; Gnyawali and Park, 2009; Gnyawali *et al.*, 2006; Ritala and Hurmelinna-Laukkanen, 2009).

Our findings reflect the link between coepetition and firm capability, which has been scarcely researched in coepetition literature (Bouncken *et al.*, 2015). There are studies examining the moderating role of firm capability on coepetitive relationships (Bengtsson *et al.*, 2016; Wu, 2014). Quintana-García and Benavides-Velasco (2004) has shown that coepetition facilitates the improvement of innovation capabilities, and our findings show that coepetition also facilitates access to manufacturing and engineering capabilities. The

findings show cooperating with Chinese competitors allows European firms to balance their manufacturing capability to the changing production demand through the integration and reconfiguration of asset positions (Teece *et al.*, 1997), including facilities, labour, and know-how, between the European and Chinese competitors. The same effect also applies to the Chinese firms, which entails a positive-sum benefit on dynamic capabilities of both cooperative firms from pooling homogeneous resources and capabilities into cooperation. The improved dynamic capabilities may strengthen the industrial competitive position of both firms to outperform other competitors in the Chinese market.

6 Conclusion

The findings of our study contribute both to existing research on internationalisation and IJVs and to cooperation research. Most research on IJVs focus on a cooperative perspective (Nippa and Reuer, 2019; Shu *et al.*, 2017; Zhao and Castka, 2021), whereas we add to existing knowledge related to cooperative IJVs and more particularly on the management of internationalisation challenges. Our findings shed new light on internationalisation challenges by adding a cooperative IJV perspective. Based on our findings it is possible to conclude that both complementary as well as homogeneous resources exchanged through the cooperative IJVs can be seen as a management strategy for handling societal- and capability-related challenges. Moreover, our findings show the value of gradual and dynamic competition within an IJV, in order to strengthen the industrial competitive position.

The study contributes to cooperation research by adding insights related to internationalisation and cooperative IJVs between European and Chinese firms (Chiao *et al.*, 2021; Crick and Crick, 2021; Markovic *et al.*, 2021). Most literature focuses on the benefits of cooperation from a sales perspective (e.g., Basterretxea *et al.*, 2019; Kock *et al.*, 2010; Vanyushyn *et al.*, 2009). We explore the impact of cooperation on internationalisation from different angles. First, business activities other than sales are discussed; for example, procurement, engineering, and production. Meanwhile, macro factors from the industrial context are also investigated and suggested to be important for initiating cooperation. By cooperating with Chinese competitors, SMEs from Europe can

tackle the dynamic challenges in forms of complying with industrial regulations, obtaining financial benefits, overcoming labour shortages, enriching engineering applications, and balancing production capacity. Secondly, our findings show that coopetition value capture may also exist near to the customers via cooperative behaviour, which differs from existing coopetition literature (e.g., Bengtsson and Kock, 2000; Fernandez *et al.*, 2014; Gnyawali and Park, 2009; Ritala and Hurmelinna-Laukkanen, 2009). Thirdly, the study adds a dynamic capability perspective to coopetition, which is under-researched in extant coopetition research (Bouncken *et al.*, 2015). Our findings reveal the positive impact of coopetition in improving firms' dynamic capabilities.

The findings of the study have several managerial implications. First, the study demonstrates possible challenges that European SMEs may face when internationalising into the Chinese market. Second, the study demonstrates how cooperation with local competitors through IJVs can facilitate the managing of the challenges. Managers from small firms may consider forming cooperative IJVs if the scarce resources constrain their international expansion. However, managers should carefully evaluate what kind of and how much resources they should allocate to cooperative IJVs in order to preserve the competitive advantage of the firm. It is consequently critical to be aware of and to balance the similarities and differences between the firms involved in an IJV. This study also provides specific empirical insights for foreign automotive SMEs on the value of cooperating with Chinese competitors in the form of IJVs when expanding their businesses into China.

A limitation with our study is that it is based on qualitative case study research, which makes it difficult to generalise the findings. Moreover, the geographical context is related to China, and therefore the findings may not be applicable to other countries. The specific characteristics of the automotive industry may give rise to findings that are different from other industries. Therefore, a possibility for future research is to study our findings in various industries and markets. Another avenue for future studies would be to explore how cooperative IJVs can facilitate the internationalisation of firms from a network perspective, that is, by including actors such as suppliers and customers that directly or indirectly influence the cooperative IJVs. Moreover, in this study, we did not focus on the

tensions arising from coopetitive IJVs. This is an important topic for future research to explore, particularly within the context of competition and internationalisation.

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