

The motives and location choice of OFDI: the case of China

BY

HouChao, Leo, Li

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ABSTRACT

This research investigates the location choice of Chinese companies' outward foreign direct investment (OFDI). It addresses the question of why companies with similar motivations will invest in different types of locations. In more details, how a company's motivation affects their location for OFDI, and what it is about some Chinese companies that allows them to invest in certain countries. It also seeks to examine the extent to which classical theories can explain the OFDI from emerging markets in the case of China.

Chinese official data has certain flaws, such as low quality at firm level and the omission of some important investments due to the data collection methods. Thus this research uses data collected from a private survey. Logistic regression analysis was applied to a sample of 129 companies, and the following conclusions made:

Firstly, a company's investment motivation is the determining factor for their investment. Chinese MNEs motivated to acquire created assets, such as brand name, technology and managerial expertise are more likely to invest in developed countries rather than less developed countries. There is no clear evidence of efficiency seeking as a motivation for Chinese companies, but natural resource seeking FDIs are considerable from China.

Meanwhile, this research finds evidence of capital seeking FDI. As a result of the Chinese government's capital control policy, some Chinese companies invest overseas to access the host countries' stock market. This kind of investment is generally performed using some unconventional method, such as 'reverse takeover' or 'round-tripping'.

Secondly, the Chinese Government plays an important role in Chinese OFDI. The Government's foreign policy may influence a company's investment

decision making. E.g. companies with a stronger relationship with the Government are more likely to invest in developed countries rather than Hong Kong.

This research also finds evidence that a closer government relationship enhances companies' competitive advantages when performing the investment. This research suggests that a strong connection with the Government acts as an ownership advantage in the case of Chinese firms.

Thirdly, Internalisation of Internationalisation (i2) is suggested and developed in this research. This term encapsulates the systematic knowledge transfer that is hypothesised as occurring during the operation of a joint venture or other form of alliance with foreign investors in China. It is proposed that this knowledge transfer from foreign firms to the domestic company enables Chinese companies to acquire knowledge of international operation even before engaging with the overseas market. This research finds that companies with exposure to i2 are better prepared and therefore more likely to undertake OFDI. The thesis concludes that previous participation in international business collaboration increases the probability of OFDI by these Chinese firms.

This research finds that classical OFDI theories are still reliable in explaining the emerging market OFDI in the case of China. However, IB theories should also draw more attention to the fact that asset augmenting can play a major role in this investment environment. Moreover, some new concepts such as capital seeking and i2 should be added into the theoretical framework.

DECLARATION

To the best of my knowledge and belief this thesis contains material not previously published by any other person. It does not contain material that has been accepted for the award of any other degree or diploma in any university, except where due acknowledgement has been made.

SIGNATURE:

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GLOSSARY

CNDRC	:	Chinese national development and reform commission
DC	:	developed country
FDI	:	foreign direct investment
HK	:	Hong Kong city
i2	:	internalisation of internationalisation
IDP	:	investment development paths
IE	:	international entrepreneurship
INV	:	international new venture
LDC	:	less developed country
M&A	:	merger and acquisition
MNE	:	multinational enterprise
MOFTEC	:	ministry of foreign trade and economic co-operation
NIC	:	newly industrialised countries
OLI	:	the ownership advantage, localisation advantage and internalisation advantage, introduced by dunning eclectic theory
PTI	:	process theory of internationalisation
RTO	:	reverse takeover
SAFE	:	state administration of foreign exchange
TCL	:	a Chinese eclectic manufacture
TWMNE	:	third world multinational enterprise
TWOFDI	:	third world outward foreign direct investment

CHAPTER 1 INTRODUCTION

A wide body of research exists on the internationalisation of companies. However, this has mainly been based on firms from developed countries. Little research has been performed on foreign direct investment from China. The majority of outward foreign direct investment was between developed countries, or from developed to less developed countries (UNCTAD 2006). The rapid growth of the economies in less developed countries and their impressive international expansion have enabled some of the less-developed countries to evolve as a source of outward foreign direct investment (Rios-Morales and Brennan 2006; UNCTAD 2006). This has raised the question of to what degree the emerging market outward foreign direct investments differ from those from developed countries (Dunning 2000; Giroud 2005; Dunning 2006; Mathews 2006).

1.1 The Research Questions

This research will focus on the 'motivation and location choice' of Chinese enterprises' outward foreign direct investment (OFDI). It will investigate the integration of companies' choice of location, motivation and certain internationalisation capabilities.

This research splits it into three questions, namely, companies' internationalisation capacities, their investment motives, and the application of the existing theories to emerging market OFDI.

This research firstly considers the question of companies' internationalisation capabilities--what would be the advantages for Chinese overseas investors; are the same competitive advantages (ownership advantages) on which developed countries' investors rely, also applicable to the Chinese? Wells (1977; 1981; 1983) and Lall (1983) suggested that technological advantages

are essential for third world countries' OFDI. However, Yang (2006) raised doubts on whether Chinese companies comfortably rely on their technological advantage during their investment. This research therefore seeks the international investment advantage which allows the Chinese companies to invest and compete in an overseas location. This research also considers how these advantages would facilitate the companies' investment activities.

Secondly, this research investigates companies' motivations for OFDI-- Is it an asset augmenting or exploiting strategy on which Chinese firms rely? As Dunning(1980, 2000) suggested, there are three types of OFDI motivations: market seeking; efficiency seeking and resource seeking, and it will be interesting to research if all three types of motivation will be demonstrated by Chinese companies or if any new motivations will be found. It will also be interesting to research how companies' internationalisation capabilities would affect their location choice.

The third question concerns the internationalisation process of the Chinese companies. The Process Theory of Internationalisation (Johanson and Vahlne 1990) suggested a learning by doing process where companies' international investment should be a relatively slow process, while International Entrepreneurship (Oviatt and McDougall 2005a) argued that companies could invest in an alternative way which could simply be a reaction to a business opportunity and therefore a faster process. Our question is which of these theories is more likely to fit the Chinese international investment situation and if both of the theories can correctly explain some business activities, what is the inter-correlation between these two theories.

1.2 A Research on Location Choice

China has a high GDP growth rate. The Chinese OFDI has also progressed dramatically (Wu and Chen 2001; Yang 2005; Cooke 2006). Some recent deals, e.g. Lenovo's takeover of IBM's PC and laptop business, TCL's M&A with Thomson, HuaWei group's investment in Europe, CNPC's investment in Indonesia, seem to foretell the coming of a Chinese overseas expansion stage.

The level of development places China in an interesting position—the country is relatively more advanced than other developing countries, but less developed than developed countries. Due to their different motivation and internationalisation capabilities, Chinese MNEs choose to invest to different types of locations. A more interesting question is how those investments to developed countries and less developed countries differ.

Hong Kong is an economically independent region for China. Benefiting from the history, language and polices, Chinese investors declare they have more knowledge about the Hong Kong market, and are more willing to use Hong Kong as a stepping stone through their long term business development plan, and the amount of total investment to Hong Kong is considerable. Thus this research will also examine if investments in Hong Kong are different from those to other countries.

Nonetheless, this research will separates the target investments locations into three groups: developed countries, less developed countries, and Hong Kong.

1.3 Research Data

Specific to OFDI and internationalisation research, the reliability of data has become a major problem. Official sources of data distort reality for several reasons, i.e. the relatively short statistical history, Government bureaucracy and regulation systems (Yang 2005 and Giroud 2005); unusual OFDI

activities, such as capital flight (Shi J.X. 2003, H. Wu & CH. Chen 2001, Gunter 1996, and Song 1999), non-economic motives (D.Wall 1997, Lin 1998 and Cai 1999), and round tripping (Wong 2006; Gan 2006) also create 'noise' and can be misleading.

Chinese official OFDI statistics are collected by the Ministry of Foreign Trade and Economic Cooperation of China (MOFTEC) and the State Administration of Foreign Exchange (SAFE). This is done through 'inland foreign currency control' and 'political supervision'. The critical problem is that this method of collection ignores the firm-level data at the micro-view and misses some important investment deals at the macro-view, because some investors simply by-pass the foreign exchange by using their own saving.

Much previous research on the Chinese market relies on public data and due to the poor quality of this data, such research contains a basic lack of explanatory power. This also shows a major research gap for Chinese OFDI, using private data which is tailored to address the questions concerned. It is necessary to devote an entire chapter to discussing the quality of Chinese official data in order to fully explain the issues around the official data available and to state why this current research is unique. The Chinese data is reviewed and criticised in Chapter 4.

1.4 Structure of the Thesis

This thesis is structured in three parts as follows:

The first part of the thesis consists of Chapters 2, 3, 4 and 5 and will review the theory and outline the research.

This research is based on four schools of theories: Eclectic theory, Process Theory of Internationalisation (PTI), International Entrepreneurship (IE), and Network approach. Where eclectic theory states companies' asset exploiting

and augmenting, as well as the 'O' 'L' 'I' advantages (Dunning 1977; 1979; 1981; 1988; 1995; 2000); PTI discusses the knowledge acquiring process of internationalisation (Johanson and Vahlne 1977, 1990); IE focuses on international new ventures, it provides a possible explanation for an accelerated internationalisation process and 'born global' companies (McDougall and Oviatt 2005, Autio 2005); and the network approach analyses the value of companies' intra-firm linkages (Johanson and Mattsson 1988, Holm, Blankenburg *et al.* 1996). All these theories will be reviewed and evaluated in Chapter 2.

Chapter 3 focuses on reviewing the research on emerging market OFDI. It will firstly discuss the application of international business theories to emerging market OFDI, and then review the relevant research on Chinese OFDI in the last 10 years.

To discover the quality of official data, oversee the trend of Chinese OFDI, and state why a survey is necessary, Chapter 4 reviews the Chinese official data, and evaluates the data quality. The major OFDI reports from official sources (State Administration of Foreign Exchange and the Ministry of Commerce) will be shown.

Based on the literature review, Chapter 5 will introduce the theoretical framework and present the hypothesis and data collection method for the research. It will emphasise the effect of companies' motives and internationalisation capacities on their location choice.

The second part of the thesis consists of Chapters 6 and 7 and it will review the results of the survey.

Chapter 6 will provide an overview of the sample companies and analyse their internationalisation capabilities. Sample companies' basic features such

as size, ownership structure and sector will be reviewed. This chapter also discusses those features which enable a company to invest internationally, such as labour intensive production process advantages, technology advantages, relationship with the government and 'internalisation of internationalisation'(refer to Chapter 5 for more details).

Chapter 7 will analyse the motivation of the investment, the following motives will be reviewed: market seeking, natural resource seeking, capital seeking and created asset seeking.

The third part of the thesis consists of Chapters 8, 9 and 10 and it will explore the variables, perform a statistical analysis and interpret the results.

Chapter 8 introduces the statistical method used, defines the regression variables and explores the data. It shows why this research adopts logistic regression, introduces the variables, detects the outliers and performs univariate analysis and correlation tests.

This research performs the logistic regression and analyse the result in Chapter 9. Based on the hypotheses, five models will be introduced. This chapter also discusses the findings and compares them to other emerging market OFDI research.

Lastly, Chapter 10 will summarise and state the major contribution of the research. It states the effect of companies' motivation to their investment choice of location. It will also further discuss the interaction between motivation and internationalisation capabilities. The importance of government relationships and internalisation of internationalisation is emphasised.

CHAPTER 2 LITERATURE REVIEW

Judging from the difference in research questions, methodology and assumptions, international investment theory are classified in four schools, namely: foreign direct investment theory school, internationalisation process school, network approach school (Coviello and McAuley 1999); and international entrepreneurship school.

2.1 Foreign Direct Investment Theory (Eclectic theory & IDP)

2.1.1 Eclectic Theory Review

The eclectic theory was developed by Dunning (1977; 1979; 1981; 1988; 1995; 2000). As a result of noting the importance of host country characteristics in determining FDI and MNEs behaviours (Yang 2005), Dunning suggests certain conditions should be satisfied if an MNE is to engage in OFDI. These are ownership advantage, localisation advantage and internalisation advantage.

The OLI theory attempts to explain the following phenomena: 1, why the demand of a particular market was not met by a local firm or by importation; 2, why an MNE's expansion behaviour was not accomplished through other channels, e.g. licensing its technology or exportation.

Ownership advantage is the competitive advantage of enterprises seeking to engage in FDI. Dunning suggests that there are three sources of competitive advantage deriving from ownership (ownership specific advantages): (i) the benefit of privileged access to markets or raw materials not available to competitors; (ii) the benefit in size (which may both generate scale economies and inhibit effective competition); (iii) the benefits of exclusive possession of intangible assets, (such as patents, trademarks, management

skills, and so forth), which enable the firm to reach a higher level of technical or price efficiency or achieve more market power, or both (Dunning 1981). Compared with their competitors, particularly a host country's local firms, the greater the competitive advantages of the investors, the more likely they can engage in, or increase, their foreign production (Dunning 2000).

Dunning proposes three components of location specific advantage: (i) the availability and real cost of resources (including infrastructure resources) which can only be used by enterprises in locations in which they are sited, (ii) unavoidable or non-transferable costs and benefits such as taxes, subsidies, investment constraints, training grants, local labour requirements, etc, and (iii) the costs of shipping products from the country of production to the country of sale (Dunning 1981). The more the immobile, natural or created endowments, the more companies will choose to augment or exploit their specific advantages by engaging in OFDI.

Finally, internalisation specific advantages reflect the fact that MNEs gain advantage when they retain control over their network of assets (productive, commercial, financial, and so forth) (Cantwell 1991). The increasing net benefit of internalizing cross-border intermediate product markets will encourage a firm to engage in overseas production itself.

In response to the increasing number of international mergers and acquisitions (M&As) and emerging market OFDI, this framework has been further extended in various new directions during the 1990s. (Dunning 1995; Rugman and Verbeke 2004; Dunning 2006). Dunning (2000) re-examined the theory, and suggested that the earlier edition of OLI is not appropriate for explaining the relationship between particular OLI components and particular kinds of OFDI, '*...as the paradigm itself was not context specific*'. Moreover, even based on the contemporary version of the OLI paradigm, which considers alliance related and asset augmenting MNE activity, the hypotheses are hard to test without knowing a MNE's motivation for OFDI,

e.g. whether the MNE is exploiting a competitive strength or trying to overcome a competitive weakness. **The activities of seeking and acquiring competitive advantages should be seen as part of the dynamic and cumulative OFDI process of sustaining and advancing ownership advantages.** He concludes that '*... recent economic events, and the emergence of new explanations of MNE activity have added to, rather than subtracted from, the robustness of the paradigm*' (Page 184). Moreover, he also suggests that the eclectic paradigm might better be addressed as a framework for explaining the process of outward foreign direct investment (Dunning 2000; 2006).

Narula (2006) enhanced OLI by arguing the eclectic paradigm should not be seen as an '*inseparable*' set of O, L and I concepts for predicting MNE activity. A framework of three variables can individually or collectively provide an explanation of particular cases.

2.1.2 IDP Review

IDP theory was first introduced by John H. Dunning (1981), as a dynamic approach within the eclectic paradigm (Buckley and Castro 1998). This theory hypothesizes that with further development and industrialisation of a country (generally measured by the proxy GDP *per capita*), its corporations will be more likely to build up the firm-specific advantages, they will be more capable of competing effectively in the international market (UNCTAD 2006), and therefore more likely to invest abroad. WIR 2006 states that the increase in OFDI from developing and transition economies is partly explained by this theory.

Where: IFDI refers to inward foreign direct investment

OFDI refers to outward foreign direct investment

NOI refers to net outward investment

Source: Author's Summary

The theoretical framework is shown in *Table 2.1.2--1*. Basically, IDP suggests that countries tend to go through five stages to evolve from very under-developed international investors to very developed international investors. (Dunning 1981; 1986; Dunning and Narula 1996; Dunning, Hoesel *et al.* 1996a; Buckley and Castro 1998).

The pre-industrialization period is *Stage 1*: as domestic markets are very small, the infrastructure is inadequate, labour force is very poor and commercial and legal mechanisms are very under-developed, the IFDI and OFDI are very limited.

The development of basic infrastructure will lead the country to *IDP stage 2 and OFDI Wave 1*: the IFDI will increase, OFDI is low due to the poor ownership advantages. The OFDI in this stage will target neighbouring countries and other developing countries. OFDI motivation would be natural-asset incentive or small scale production in light industries. In this stage, IFDI stocks rise faster than GDP (Buckley and Castro 1998).

As local companies become more competitive, the IDP level will eventually rise to *IDP stage 3 and OFDI Wave 2*: the IFDI will slow down and OFDI speed up, the net FDI stock will start to increase. In this stage, OFDI will still be regional, but expanding to a global basis; motivation of OFDI will be in two parts, resource and market seeking in less developed countries (LDCs), and asset-seeking and market seeking in developed countries (DCs).

With the further development of the local economy, while major domestic firms are confident about competing with foreign firms overseas as well as in their own market, the country turns to being net outward investors (*stage 4*). In this stage, locational advantages become almost totally based on created assets. A company's core internal ownership advantages are far more important than its home country's specific characteristics advantages. In the final stage of IDP (*Stage 5*), with the permanently high stocks of both IFDI

and OFDI, the net outward investment (NOI) should revolve around zero. (UNCTAD 2006)

In IDP stages 4 & 5, MNEs will be more experienced at performing their OFDI, and the OFDI from the home country will be on a more global basis; the motivation of OFDI will be efficiency seeking and international investors will aim to optimise the host countries' comparative and competitive advantages. (Dunning, Hoesel *et al.* 1996a)

2.1.3 Understanding and Evaluation of Reading School Theory Family

Reading School theory is undoubtedly very important for OFDI research.

OLI has been the *dominant conceptual model* in international business studies for the last 20 years (Rugman and Verbeke 2004). A deeper understanding of this model should involve the following two principles: (i) evolution of the theory—the original OLI framework is somewhat out-of-date, it lacks explanation power for 'new' international investment, e.g. emerging market OFDI. However, researchers never seem to give up on upgrading the theory to fit the new situation. The understanding of OLI, therefore, should not still stay at the Dunning 1981 version. The OFDI is not only a process of advantage expansion, but also a process of advantage acquisition (overcoming weakness) (Dunning 2000). (ii) The level of interdependence of components: Dunning (2000) stated that the collective use of the three parts of the eclectic paradigm—OLI, should increase the value of the theory. However, Narula (2006) suggested that the three parts of the theory can also be used separately. In other words, the OLI does not always have to be demonstrated in one international investor.

The challenge to this framework is from two aspects. From the *internal view* of the eclectic paradigm, Dunning synthesized the industrial organisation

hypothesis, the internalisation hypothesis and the location hypothesis and was not too precise about how they interrelate (Dunning 1993; Moosa 2002). This led to a fundamental problem of miss-specification. It is very hard to tell which of the advantages weighed more in the OFDI process, and the framework lacks power for explaining the interaction of each concept.

More critically, for practical research the problem of 'survival bias' should be included in the process. The information generally available is from those MNEs who survived after investment. However, it should be noted that there are certain international investors who did not manage to survive or operate well, or were simply taken over by a host country's local company after a certain time of investment. In their case, the advantage which enabled them to invest would be hard to find out due to them fading out of sight in the market and research.

From the *external view* of the eclectic paradigm, this framework is indeed challenged by the 'emerging market' OFDI (Yin and Choi 2005; Li 2006; Mathews 2006; Rios-Morales and Brennan 2006; 2006a). 'Advantage position' itself, is a comparative term to some extent; by managing to survive in the market, all existing companies are in a position of advantage. It is not easy to tell what is the exact advantage (especially ownership advantage) held by the MNEs from LDCs. With the progress of globalisation, barriers of overseas investment are reducing and the OFDI newcomers, irrespective of whether they come from LDCs or DCs, do not seem to require such a high advantage over their competitors as before.

There is also criticism that OLI and other so-called foreign direct investment theories are used primarily to explain a pattern of investment (in terms of its extent, form and location of international production) rather than a long-term process of international expansion (Johanson and Mattsson 1987; Melin 1992).

IDP was introduced as a dynamic approach within the OLI paradigm (Buckley and Castro 1998). This analytical framework is used to interpret the relationship between economic development and the FDI level of a country. Based on this, research can predict the overall OFDI motivation at each stage.

Dunning, Hoesel *et al.* (1996a) used Taiwan and Korea as a case, and Twomey (2000) used Canada as a case to examine the IDP theory, with both proving that IDP theory could fit their cases.

However, other empirical research found IDP may not fit their cases (Buckley and Castro 1998; Bellak 2000) and the robustness of the theory should be reconsidered (Cantwell and Tolentino 1987; John Cantwell and Tolentino 1987; Ozawa 1990). Based on the case study of Portugal, Buckley (1998) argued that (i) IDP theory is clearly lacking power as a prediction mechanism, (ii) the straightforward IDP curve can be misleading; (iii) non-economic factors e.g. EFTA, EEC and WTO membership which could be critically important for internationalisation of the country, are mis-counted in this model.

As a macro-level framework suggested 25 years ago, IDP is lacking in explanation power, e.g. countries with similar values of GDP *per capita* display dissimilar patterns of net outward investment (NOI) value (UNCTAD 2006). The importance of investment climate, e.g. a country's business environment, labour force, education and health level, inflation rate, inefficient bureaucracies, and capital market, should be evaluated (ESO and World Bank Group 2002, 2002a; Hallward-Driemeier, Wallsten *et al.* 2002).

GDP is only one of the factors for FDI activities; the investment climate should take effect inter-dependently. Much research has already discovered that country factors can affect OFDI apart from GDP *per capita*, e.g. List and Co. (2000) found that environmental policies do matter for OFDI. Thompson

and Poon (2000) found a significant correlation between reform expectations and FDI flows.

Using GDP as an indicator of a country's development is surely discounting other factors which will more or less affect the OFDI situation and decision making. For instance, within research on the significant difference between India and China's FDI attraction, various factors other than GDP have influence on the case, i.e. tariff regime, business infrastructure, regulatory system and policy system (Henley 2004).

Therefore, the applications of IDP framework for the interaction between the level of a country's development and the characteristic of OFDI should be used carefully, taking into consideration the home and host country's characteristics.

2.2 Process Theory of Internationalisation (PTI)

While eclectic theory discusses investment activities based on the 'advantage' and 'advantage acquisition', the process theory of internationalisation (PTI), also referred to as the Uppsala Model (UM), which is based on behavioural theory (Cyert and March 1963; Johanson and Vahlne 1990) and Penrose's theory of the growth of firms (Penrose 1995), deals with knowledge acquisition (Forsgren 2002).

2.2.1 PTI Review

The very basic *assumption* of this model is that the lack of foreign market knowledge is the major problem for MNEs, especially those MNEs in the very early stages of internationalisation (Johanson and Vahlne 1977). Knowledge can be classified into two categories as follows (Penrose (1995), Johanson and Vahlne(1990)): the objective knowledge which can be taught, and the *experiential knowledge* which cannot be transferred or shared between

individuals but only learned from one's own experience. According to this, experiential knowledge is the main source of market knowledge. The business opportunities and operational problems in a market, therefore, could only be discovered by those who were working in the market (Forsgren 2002). Moreover, as the knowledge acquisition process for MNEs called 'learning by doing' (Quinn 1980; Johnson 1988), MNEs would not propose investing in a higher-level foreign market until they know enough about this market.

The assumption of PTI has two implications: (i) Internationalisation is a result of company growth, therefore, companies should reach a certain size before they can invest internationally; and (ii) experiential knowledge mainly refers to '*team work*' know-how, hence a more formal organisation structure is supposed to be efficient and necessary for MNEs' learning process.

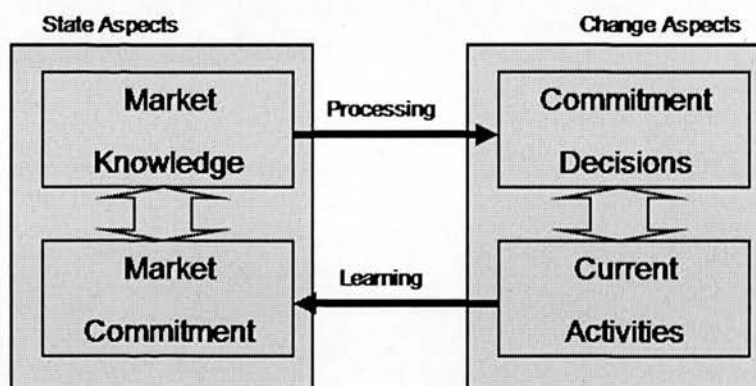
Two patterns can be explained by this PTI, namely, *establishment chain* and *psychic distances*. *Establishment chain* refers to the fact that MNEs commit to engaging in OFDI according to the establishment chain (Johanson and Vahlne 1977). e.g. Johanson and Wiedersheim-Paul (1975) introduce a 4-stage establishment chain model to explain four Swedish MNEs' internationalisation process. As they pointed out, this model was recently examined by other researchers who reported a similar situation (Bilkey and G. Tesar 1977; Bilkey 1978; Cavusgil 1980). The four stages are: *Stage 1*, no regular export activities; *Stage 2*, export via independent representatives (agent); *Stage 3*, sales subsidiary; *Stage 4*, production / manufacturing.

Psychic distance refers to the fact that the order of OFDI location choice will depend on the psychic distance, which includes factors such as similarity of language, culture, political system and existing business connections (Johanson and Vahlne 1990). Accordingly, MNEs will start up their international OFDI via investing in a market which they can easily understand.

Figure 2.2.1 shows the core concepts of PTI. Johanson and Vahlne (1977) introduce it as a basic mechanism which can be used to explain each step of the internationalisation process.

There are two components in state aspects, market knowledge and market commitment.

Figure 2.2.1—1 Core Concepts of PTI



(Johanson and Vahlne 1977)

Market commitment describes the resources located in a certain market. It is hypothesised with two combined factors, namely, the amount of resources committed and the degree of commitment. It refers to the level of difficulty of finding an alternative use for the resources and transferring them to it, e.g. for investors, the shortage of host market information limited their capability of re-investment decision making, which would potentially decrease their marginal revenue. For internationalisation process issues, the degree of market commitment increases with the increase in specialisation of the resources to the foreign market. In other words, investors would be more likely to be involved in larger deals until they could more comfortably understand and manage the host market business environment.

PTI states that experiential knowledge is more significant for the internationalisation process, as it cannot be obtained as easily as objective knowledge. In the OFDI operations, because there is no first-hand

experience about the host market, the experiential knowledge, e.g. knowledge about how a team should work in the host market, can only be gained successively during operations in the host country.

There is a close relationship between market knowledge and market commitment. Knowledge is a resource which shows how much the MNE understands the host market, moreover, how well it can optimise the other resources. Consequently, the more comprehensive knowledge the MNE has, the stronger the commitment to the market.

The two change aspects are assumed to be commitment decisions and current activities.

Current activities are the prime source of experience. The fewer activities that are production-oriented, or the more interaction required between the MNE and the host market, the more the experience from the MNE's own activities are needed. Moreover, there would be a delay between most current activities and their consequences. Theoretically, firms may not learn the consequences unless activities are repeated continuously. The longer the delay, the higher the commitment of the firm mounts.

Commitment decisions are decisions to commit resources to the host market. PTI assumes that the decisions are made in response to problems and opportunities in the market, and the detection of these problems and opportunities are believed to be reliant on the knowledge of the host market. The risk of the host market is composed market commitment and uncertainty. The market uncertainty and aim of profit maximisation will encourage the rise in market commitment until the MNEs' maximum tolerable risk is reached.

Therefore, the model implies three expectations, (i) as larger firms should be more confident about dealing with risk, larger steps of internationalisation can be expected from them. (ii) If the market conditions are stable and

homogeneous, market knowledge can be expected to be gained in ways other than experience. (iii) Firms can generalise experience from one market to another similar market.

2.2.2 Understanding and Evaluation of PTI

As one of the most exciting theories and one of the most cited journal articles, PTI offers a guide to behaviour in international business studies. PTI sees internationalisation as an 'overseas knowledge learning' and 'opportunity problem responding' process. It proposes to explain two patterns— establishment chain and psychic distances. The previous research, as pointed out by M. Forsgren (2002), mainly deals with the first pattern, i.e. the order of internationalisation process for different markets. Stage theory is proved by much research e.g. Caves (1982) and Batlett *et.al* (1991). However, as expected by J. Johanson himself, in some cases, differences between individual companies e.g. sectors, size, manager experience and host countries' characteristic, e.g. investment climate (ESO and World Bank 2002, 2002a; Henley 2004), did result in dissimilar outcomes from a stage-based conclusion.

The following, more detailed, critical views are:

Firstly, Stages Theory (establishment chain) is blamed for being too deterministic, the decision to engage in OFDI depends on various conditions such as the market and transaction cost (Ford 1987; Turnbull 1987).

Secondly, Forsgren (1989) argued that the explanatory power of PTI is valuable in the earlier stage of OFDI whilst market knowledge was lacking, but with increased knowledge and experiences (more investment in different markets), MNEs no longer need to base their OFDI actives on the knowledge of 'unknown' condition.

Thirdly, the model seems not to consider the inter-dependence between different markets. (Johanson and Mattsson 1986);

Fourthly, it seems PTI is not valid for service industries. Engwall and Wallenstal (1988) found that Swedish banks were not governed internationally by cultural distance. A study of Swedish technical consultants by Johanson and Sharma (1987) did not find satisfactory evidence to support PTI.

Fifthly, with the barrier of international investment reducing and deeper development of globalisation, Nordstrom (1990) argued that psychic distance has decreased.

Sixthly, Oviatt and McDougall (2005) challenged the model and stated that apart from considering MNEs to normally begin their OFDI by reacting to unsolicited export orders, the PTI did not give enough detail for the internationalisation process start-up.

Lastly, E. Autio (2005) further points out that many original assumptions of the PTI are invalid due to the significant changes since the 1990s': (i) internet and telecommunication technology help MNEs obtain host market information more easily, which reduces the psychic distance; (ii) the cost of travel and transportation is reduced, which enhances an MNE's ability to coordinate multinational activities; (iii) benefitting from more accessible and flexible education and information systems¹, international management knowledge is more widely available, which enables MNEs to acquire knowledge through recruitment and initial resource endowment; (iv) overall, MNEs are more confident and skilful in the employment of alternative governance mechanisms, which enhance their ability to access unique resources across national borders.

¹ e.g. PhD. programme of the University of Edinburgh

McDougall and Oviatt (2003) listed 29 publications which have successfully challenged the assumption of PTI. Johanson and Vahlne themselves concluded in their 2003 article that *'we have a situation where old models of internationalisation processes are still applied quite fruitfully at the same time as a number of studies have suggested that there is a need for new and network-based models of internationalisation. We think it might be worthwhile to reconcile and even integrate the two approaches'* (page 84)

'Establishment chain' is a pattern in a quandary. On one hand, the so called 'stage-theory' is too deterministic (Autio 2005). If we take the dynamic saturation of international investment into account, the current, or ongoing, story of internationalisation can almost always prove a set up stage framework to be wrong. Even from a static view, a stage-theory is not universal for all sectors. For example, it could be simple to explain some manufacturers' international process with a 'four-stage' framework, but it is hard to believe that the same framework would be assessable for all other sectors, such as financial and business service sectors.

Stage theory is also unstable while MNEs are driven by different overseas resources. From the view of transaction costs, export is seen as a safe way for starting internationalisation. However, generally speaking, MNEs' investment strategies are actually influenced by their motivation, i.e. resource seeking, market seeking, efficiency seeking and strategy seeking. The stage of internationalisation could be different according to the different motivation. Exporting activities are irrelevant (directly) with the overseas investment. For instance, a company may not need to have export activity before it obtains the licence of accessing a foreign oil field via M&A of an overseas company.

On the other hand, the 'establishment chain' does not seem to be specific enough in relation to an 'international' operation without considering the introduction of something like 'stages' or 'steps'. From a business

behavioural view, corporations grow from small to large, the network and business activities they are involved in are increasingly comprehensive, and this happens no matter whether cross-border or not. The 'establishment chain' pattern with the stage of internationalisation omitted, could be generalized to cover more areas than only the internationalisation process.

Nevertheless, even with the considerable challenges, **the core concept of PTI should be acceptable—the internationalisation process is a 'Learning and Reacting' process** (Johanson and Vahlne 2003). Compared with the domestic market, the overseas investors cannot use life-long experience as their first-hand information to manage the business; they will have to learn by operating the business and react to opportunities and challenges which might not be as expected. This concept is undoubtedly true, especially at the start-up stage of investments. Moreover, considering a relatively poor information pool and management skill in the emerging markets, it would be expected for the PTI of 'knowledge acquiring' and 'psychic distance' to be proven to be robust by the 'newly industrial overseas players'.

The true matter of PTI is that--'is learning from the foreign market the only way to acquire experiential knowledge'? As Oviatt and McDougall (2005) stated in their Decade Award article, competing with foreign investors in the home market could provide MNEs with knowledge in the internationalisation process. With the continued improvement of internationalisation and the oncoming of a 'global-village age', it should be expected that there are various ways to obtain experience and knowledge in international investment.

2.3 International Entrepreneurship (IE)

The term/idea of international entrepreneurship (IE) was first introduced by Morrow (1988). McDougall (1989) formalised this concept and used a definition of IE as : *'the development of international new ventures or start-*

ups that, from their inception, engage in international business.' The definition of IE was further developed in 2003 by McDougall and Oviatt, who stated that: *'International entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services.'*

2.3.1 IE Review

In response to the phenomenon of the increasing number of SMEs' internationalisation (Zahra 2005), and the phenomenon of so called 'born global' business (Oviatt and McDougall 2005a), International Entrepreneurship tries to explain how early and rapid internationalisation of new ventures is possible (Autio 2005).

Major research targets sell international ventures (INV), defined as *'a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resource and the sale of outputs in multiple countries (page 31)'* (Oviatt and McDougall 2005).

2.3.1.1 The Definition of INV

One of the major contributions to International Entrepreneurship is that INVs do not have to own as many resources as a mature corporation, therefore entrepreneurial firms are defined by their actions rather than their resources (ownership advantages), enabling them to control their actions (Zahra 2005).

Moreover, McDougall and Oviatt (2000) state that IE research should be behavioural research, therefore INV should be classified by their business activities rather than 'Size' or 'Age' as defining characteristics.

Empirically, Kalantaridis (2004) compared the internationalisation process and strategic behaviour of SME and large companies. They found evidence that small-scale enterprises tended to adopt more flexible approaches, but they emphasised that there is only a 'weak' relationship between strategy

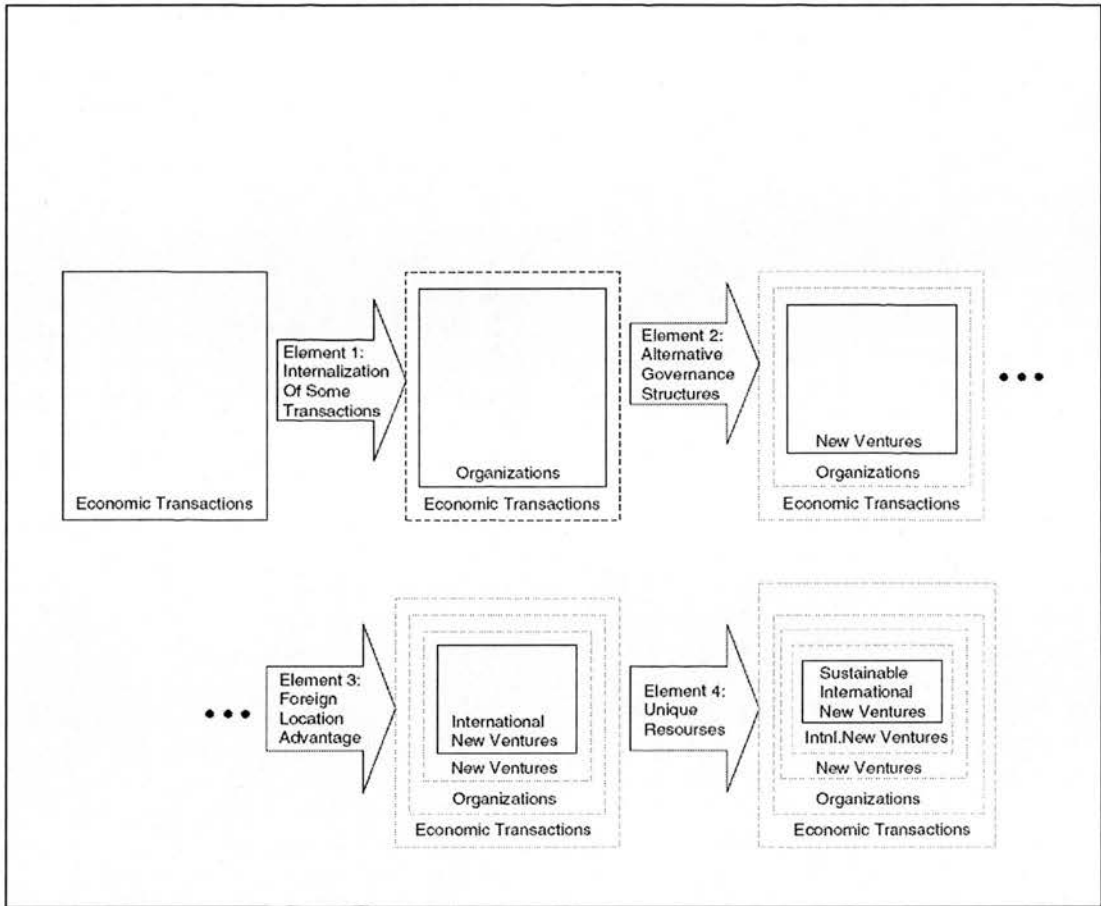
and the size of the MNEs; Pla-Barber and Escriba-Esteve(2006) researched an accelerated internationalisation process, and suggested that 'technological differentiation', 'global strategic vision', 'influence of institutions' and 'size' had no effect on the speed of the internationalisation process;

2.3.1.2 The Theoretical Framework

The theoretical framework is shown in *table 2.3.1--1*, the boxes show sets of economic transactions, and the arrows represent elements that distinguish a sub-set from a larger set of transactions.

In turn, from the top-left, 'Internationalisation of some transactions' distinguishes transactions which take place in organisations from those that are governed by markets. This element is the most basic and common element for OFDI activities and can simply be seen as borrowed from traditional MNE theory. This is based on the assumption of market imperfections. Some unexpected costs of transactions will encourage companies to internalise their resources, which will lead to OFDI.

'Alternative Governance Structures' is an element to distinguish new ventures in established firms. New ventures are not expected to have sufficient resources to control many assets through ownership. Consequently, they would have to internalise, or own, a relatively smaller percentage of the resources essential to their survival, than mature organisations. E.g. some SMEs rely on the leverage strategy, or the informal network control business structure for controlling the larger resource.



(Oviatt and McDougall 2005)

The distinction between domestic new ventures and INV (international new venture) are classified by 'Foreign Location Advantage'. Fundamentally, companies invest abroad because they can gain an advantage in the host country. INVs might lack certain advantages, e.g. scale, which would help them to overcome the drawback of location in the host country. They will have to rely on other resources, such as private knowledge (Buckley and Casson 1976).

The above three elements present 'necessary' conditions for the existence of INVs. According to B.M. Oviatt and P.P. McDougall, the condition for sustainable competitive advantage is 'Unique Resources'. It involves resources which INVs possess and which are hard or impossible to be

copied, such as knowledge and technology, imperfect imitability and which limit the appropriation of venture knowledge via licensing and network governance structures (Oviatt and McDougall 2003, 2005, 2005a).

Therefore, IE predicts that new ventures are able to internationalise themselves—companies (INVs) are able to manage to control more assets via less typical governance structures; and based on the assumption of market imperfection, they will tend to locate their subsidiaries in a foreign country if there is location advantage. Additionally, the sustainable competitive advantages are held if they possess unique resources, such as certain knowledge.

Moreover, distinguished by the number of value chain activities and the number of countries entered, B.M. Oviatt and P.P. McDougall suggest three types of INVs, i.e. new international market makers, geographically focused start-ups, and global start-ups. *New international market makers* may be either export or import start-ups—they operate in some familiar nations, or are multinational traders—they also operate in an array of countries and constantly seek trading opportunities where they are capable of managing the investment. *Geographically focused start-ups* differ from the multinational traders as they are geographically restricted to the location of the specialisation; thus, they operate in particular regions where they derive certain advantages. *Global start-ups* however, derive unlimited investment locations from their competitive advantages (e.g. extensive coordination among multiple organisational activities), and they respond to the market opportunities globally (Oviatt and McDougall 2005).

2.3.2 Understanding and Evaluation of IE

'...academic interest in international entrepreneurship is strong.' (Oviatt 2005b, page 538) International entrepreneurship is a relatively new theory in the international business area. This theory is used to explain the new phenomenon of INV, e.g. SMEs' OFDI activities and 'born global' issues. To

explain why INV is possible, and how INVs can by-pass the establishment chain stages, IE presents a four-element-assumption model. The basic logic is that INVs (i) adopt more flexible governance structures; (ii) possess certain unique resources; (iii) are able to control enough assets with a lower level of resources; therefore, (iv) 'new venture' internationalisation is possible.

It is interesting to see the interrelation of IE & OLI and IE & PTI.

Dunning (2000) suggests MNEs can acquire certain advantages (asset augmenting) in a host country and extend the advantage (asset exploiting), via multinational operating, which further develops the OLI to fit the INVs accelerated internationalisation phenomenon. However, the OLI theory cannot be applied to explain how INVs are able to start their internationalisation process, i.e. what enables INVs and newly industrial countries' MNEs to compete with those mature MNEs. However, IE explains why INVs that are not in the 'advantaged' position could possibly invest overseas, a shortcoming of OLI theory.

The relationship between IE and PTI is more interesting—they are both theories describing how internationalisation proceeds. The two theories are based on very different foundation theories. PTI is a behaviour study, it emphasises the learning and reacting activities in the internationalisation process. While IE is based on an entrepreneurship, resource-based view of the firm governance theory, it sees internationalisation as an opportunity-seeking process.

This leads to the different overviews of the enterprise internationalisation process. As stated by Autio (2005):

- (i) PTI assumes MNEs' objective of internationalisation is for survival or long-term profitability, IE assumes INVs are searching for value creation and growth. Therefore, PTI implies that it is the growth of companies that push them to be internationalised, whilst

International Entrepreneurship implies the intention of growth pulls firms to invest abroad.

- (ii) PTI suggests that MNEs select their entry modes in sequential progression from low control modes to high control modes. IE believes that INVs tend to choose alternative governing mechanisms, e.g. joint venture. This results in PTI emphasising the size of resources, but IE emphasising the quality of resources.
- (iii) PTI insists that experimental knowledge has to be obtained via 'learning by doing' and firm experience supersedes individual experience, but IE implies that it is both individual experience and entrepreneurial vision (e.g. team work knowledge) which drives international commitment decisions. Although PTI predicted that international commitment decisions are slow, IE argued they could be quick as long as mobile knowledge resources are rapidly combined with fixed assets in target markets. In fact, Autio Sapienza *et al* (2000) conclude that INV are more likely to grow rapidly than mature MNEs due to the so called 'Learning advantages of newness'.

Nevertheless, it should be kept in mind that IE is trying to explain PTI's outliers, i.e. INVs, and it proves another way of internationalisation, apart from the PTI framework, is possible. These two theories are complementary rather than contradictory (Autio 2005). While the phenomenon they are trying to explain has the same result, e.g. the operation and survival of MNEs, the outcome of the two theories 'reach the same goal by different routes'.

For example, PTI considers the internationalisation process to start at the relatively late stage of a company, consequently, it advises of a potentially negative outcome of early internationalisation on MNEs' (INVs) survival (Johanson and Vahlne 1977; Johanson and Vahlne 1990; Eriksson, Johanson *et al*. 1997). Sapienza *et al* (2006) view internationalisation simply as a strategy choice of young firms, and their research suggests that INVs

may enjoy the learning advantages at the beginning of internationalisation, but to some degree they will suffer from a lack of international operation experience and management know-how, which may threaten their survival.

2.4 Network Approach

The network approach suggests that companies are surviving in a network of relationships. All firms work interdependently, offering each other products and services. This relationship is demonstrated more commonly in business operation, whatever the size of the corporation. Each firm maintains certain lasting business relationships with others, upon which repeated transactions are based. A close business network relationship could be seen as a substitution of internalisation, which reduces the transaction costs via knowledge sharing and mutual understanding. (Tsai and Ghoshal 1998; Chen, Chen *et al.* 2004).

2.4.1 Review of Network Approach

Networks involve three sets of interrelated elements, i.e. actors, activities and resources. Hakansson and Johanson (1992) state that a business network is composed of three networks: *actors*, *activities* and *resources*.

Actors refer to those who perform activities and /or control resources. They decide their transformation or transfer of activities, interact with each other, directly or indirectly control resources, have **goal-oriented increasing control over the network**, and their knowledge and information are dissimilar. *Activities* are composed of two major kinds: (i) resource transformation activities; and (ii) resource transfer activities between actors. *Resources* are heterogeneous; the combined resources determine the value and usage of resources.

A network relationship is characterized as follows: (i) *division of work*: companies which specialise in certain work build an interdependence as part of each other's establishment chain (Johanson and Mattsson 1985; 1988; Easton 1992); (ii) *resource complementarity*: apart from competition, complementarity is more important for the functioning of a network (Hakansson and Snehota 1995). In a network, firms not only benefit from a necessary b2b (business to business), buyer-seller relationship, or the opportunities created by this relationship (Yang 2005), but also benefit from other indirect cash-related factors such as information sharing. (iii) *relative stability*: even though a perfect long-term stable relationship is rare for various reasons (Johanson and Mattsson 1988), an existing relationship which has been tested could, over time, help operations be performed smoothly and more or less reduce the cost. Firms would, therefore, prefer a stable business relationship. (iv) *cumulative process*: a stable relationship in a network is a cumulative process, which refers to a continuous resource input and output for searching and developing, and even breaking relationships with others (Yang 2005).

The cumulative process of relationships places the company in a certain network position in the business world. This position refers to three concepts: (i) the importance to other business units, (ii) role play (e.g. supplier or vendor) to others, (iii) closeness of the relationship. The business network position determines the power of controlling the relationship.

Accordingly, international investment is seen as an endeavour for strengthening and monitoring investors' (namely, international actors) international networks position (Johanson and Mattsson 1988; Hakansson and Johanson 1992; Sharma 1992). Internationalisation depends on an organisation's set of network relationships rather than a firm-specific advantage (Coviello and McAuley 1999).

2.4.2 Understanding and Evaluation of Network Approach

There is some internationalisation research which uses only network approaches, e.g. Holmlund and Kock (1998) suggested that the domestic network will impact on SMEs' internationalisation by offering them foreign market information and resources, and SME managers heavily rely on their social contacts for market information seeking. Coviello and Munro (1995) found that network influences the international process and growth pattern of small software firms. Most importantly in this research, they found that their target companies rely on network relationships for marketing activities in the host market. Yang (2005) also seeks to explain Chinese OFDI using network approaches, which will be discussed in the next chapter.

However, the network approach is more commonly used as a 'tool' for PTI and IE: (i) researchers refer to PTI as a foundation theory and network as an assistance tool, such as Lau (1992), Bodur and Madsen (1993), (Korhonen, Luostarinen *et al.* (1996), Bjorkman and Kock (1997); or (ii) researchers refer to IE as a foundation theory and network as an assistance tool, such as Dubini and Aldrich (1991), Bell (1995), McDougall, Shane *et al.* (1994).

Johanson and Mattsson (1988) introduce the network approach to international investment research. They see internationalisation as a process of establishing and enhancing investors' international network relationships. Therefore, according to this theory internationalisation will increase the size and strength of the relationship, which will increase network actors' (investors) control over the network.

OFDI activities can be seen as an effort to manage business relationships within a business network by introducing inter-firm as well as intra-firms linkages (Holm, Blankenburg *et al.* 1996). Multinational enterprises (MNEs) can be viewed as an inter-organisational network that is embedded in a web of external networks (Ghoshal and Bartlett 1990). Thus, the

internationalisation process is a pro-active effort to recombine resources and re-arrange activities through such linkages (Hakansson 1992a).

Also, compared with the home country, building a network relationship is harder and more costly in a foreign country; hence MNEs will not perform an OFDI unless the resource is unavailable at home. If there are multiple host countries offering a similar resource, MNEs tend to invest in a lower cost location (Chen, Chen *et al.* 2004). Moreover, it is harder to build up a network relationship in a tightly structured network (Kinch 1992) and benefiting from the size of the company, the larger MNEs are more likely to establish a position in primitives and non-institutionalised networks (Chen and Chen 1998).

Network approach is also adopted as a powerful framework by international entrepreneur research (Dubini and Aldrich 1991; Bell 1995; Oviatt and McDougall 2005; Oviatt and McDougall 2005b). Network relationships help INVs identify international business opportunities, and some argue that these network relationships are more effective than 'psychic distance' for influencing investors' choice of location (McDougall, Shane *et al.* 1994). A strong network relationship is one of the most important factors for a successful global start-up (Oviatt and McDougall 1995). Moreover, the understanding and robustness of the IE theory should be further enhanced if research sees INVs as 'actors' within networks, rather than analysing them individually (Coviello and Munro 1995; 1997).

2.5 Review of Knowledge Transfer

Knowledge, as complicated as it is, is defined in a variety of ways (Bresman, Birkinshaw, and Nobel 1999). This research uses the definition: "an accumulated practical skill or expertise that allows one to do something smoothly and efficiently" (Kogut and Zander, 1992, p. 386).

According to Osterloh and Frey (2000), knowledge is considered as a competitive advantage by a variety of research. The resource-based view (RBV) argues that firms possess resources, of which a subset enables them to achieve a competitive advantage and leads to superior long-term performance. Therefore they argue that knowledge is one resource that may lead to the creation of a competitive advantage. In general, empirical studies using the theory have strongly supported the resource-based view. (Barney, 1991; Lederer 1997; Jarvenpaa 1998; Hidding 2001). Although the resource-based view of the firm recognizes the important role of knowledge in firms that achieve a competitive advantage, some researchers argue that the resource-based perspective does not go far enough. Specifically, the RBV treats knowledge as a generic resource, rather than having special characteristics. It therefore does not distinguish between different types of knowledge-based capabilities.(Alavi and Leidner 2001). This is a very valuable view for this research, as we will carefully examine the transfer and special effect of companies' internationalisation knowledge on their OFDI activities.

Similar to Process Theory of Internationalisation (PTI), the knowledge-based view (KBV) of firms distinguishes between explicit and tacit knowledge (Mudambi et al. 2007; Osterloh and Frey, 2000; Teigland and Wasko, 2009). Where explicit knowledge can be readily codified and transferred through writing or symbols (Polanyi, 1996), and tacit knowledge is hard to codify and transfer without personal interactions (Hansen et al., 1999). Tacit knowledge is created, acquired and stored within individuals and cannot be transferred or traded as a separate entity. Explicit knowledge has the characteristic of a public commodity (Osterloh and Frey 2000).

Contrary to PTI, adherents of knowledge-based view argued that both types of knowledge can be transferred, taught and learned; even through business alliances and joint ventures (Westney 1988, Hamel 1991, and Inkpen 1992). Simonin (2004) studied technology knowledge transfer of 147 US MNCs

involved in international strategic alliances, and introduced an integrated model of knowledge transfer between these alliances companies, which accounts for the concurrent effects of learning intent, learning capacity, knowledge ambiguity and tacitness, and partner protectiveness. Dhanaraj et.al. (2004), studied 140 Hungarian joint ventures with foreign parents. The authors stated the relational embeddedness between the overseas parent and their international joined ventures. They reported that the relational embeddedness consists of three dimensions: strength of ties, trust and shared values, and systems, and that these can be seen as organisational mechanisms that can be applied by managers in order to facilitate the knowledge transfer, since they are all outcomes of managerial action. Furthermore, they suggested that relational embeddedness has a stronger impact on transfer of tacit knowledge than on explicit knowledge transfer.

Knowledge transfer has two impacts on this research:

Firstly, it has been noticed that some Chinese firms have already formed business alliances or joint ventures with overseas investors while domestic companies in China. We could certainly assume that there is a knowledge transfer process between these Chinese companies and their overseas partners. If companies' international investment knowledge is also transferable, shall we hypothesise that these Chinese investors have already acquired relevant knowledge prior to their OFDI?

Secondly, knowledge is a competitive advantage so how would the OFDI knowledge affect Chinese investors' behaviour?

2.5 Summary of Chapter

Table 2.5 summarizes the theory and relative practical research which is mentioned in the chapter.

Based on the foundation of transaction cost perspective, foreign direct investment theory assumes that firms engaging in overseas investment should possess certain internally transferable advantages (Buckley and Casson 1976). Therefore Dunning's OLI theory addresses a question of 'who'. It refers to who (what companies) should be able to, or want to, invest abroad. By demonstrating the three advantages of ownership, location, and internalisation, this theory presents a clear way to explain issues around foreign direct investment, e.g. motivation and location choice.

It could be argued that OLI can be used as a 'process' theory (Dunning 2000), but PTI and IE would undoubtedly be the preferred choice for research dealing with 'stage' or 'process'.

PTI is a typical theory for answering 'how'. No matter what the pattern of 'establishment chain' (stage theory), or psychic distance, it discusses the behaviour and process of internationalisation. Whereas IE has a different framework, referring to the questions of 'who' and 'how'. IE emphasises the goal of the research—INVs ('who'); as well as a process of investment—alternative governance structure and unique resource ('how').

PTI is based on the behavioural theory, assuming that the internationalisation process is a 'learning and reaction' process. It sees internationalisation as a result of 'growth'. Therefore, the internationalisation is supposed to be a relatively slow process. IE is based on an entrepreneurship, resource-based view of firm governance theory, assuming that it is the motivation of seeking business opportunities which encourages firms to be international. Therefore, the internationalisation process could be quick.

Some research that has tried to explain the internationalisation process only relied on the network approach. However, typically, this approach may be better considered as a 'tool' on top of the above theory, rather than being an independent framework for the research of international business.

The above theories were all developed based on the content of a developed market. They were each presented to explain certain issues during companies' OFDI. Their contributions and criticisms are reviewed in this chapter, however, for the purpose of this research, it is necessary to question whether these theories could be applied to the emerging market (Chinese) OFDI.

Matters of concern are:

- What would be advantages for Chinese overseas investors; are the same competitive advantages (ownership advantages) on which developed countries' investors rely, also applicable to the Chinese?
- What are the interactions between the asset augmenting and asset exploiting investments? I.e. if both of the motivations are discovered in Chinese OFDI, what would be the relationship between them, and how would the process of conversion of the two motivations' be performed.
- What is the learning process of Chinese investors, and how does their internationalizing knowledge enable them to overcome psychic distances? If the internationalisation process is a 'slow' and 'learning' process, how could the new international ventures exist (as suggested by IE), therefore, what would be the regional explanation of attuning the two theories?

The rest of the research will seek to address these questions.

Table 2.5 Summary of Theory

Theory	OLI	PTI	IE	Network	Knowledge Transfer
Theory background	Hypothesis of Transaction cost	Hypothesis of Transaction cost	Behavioural Theory	Business Opportunity	Recourse Based View
Answered questions	Who can invest abroad	How to invest abroad	who, and how	Network Relationship	The Role of Knowledge
OFDI motivation	OFDI is 'Asset-exploiting and Asset Augmenting'	OFDI is a result of 'Growth'	OFDI is a process of reacting to business Entrepreneurship and locational advantages	how	N/A
Internationalisation Capability	OLI advantages allow MNEs to invest	Learning and reacting to the host market	Alternative Governance Structure, and Unique Resource	Actors trying to expand their network size and power	Knowledge is competitive advantage
Theory limitation	Weak at explaining asset augmenting, lack of explanation how the international investment starts	Weak at explaining 'international new ventures'; Establishment chain is too deterministic.	Both the Alternative Governances Structure and Unique Resources are not specific enough;	Network information, opportunities, and resources sharing	limited at explain how possessed knowledge will make companies investment activities different
Application to the practical research					
Period	Time around which the investment takes place.	From the start of the company to the survival after the investment	From investment to survival	Depends on which framework it is being attached to	Pre-investment and During investment
Activities	Decision making, motivation	Growth, learning in the process of internationalisation	Decision making: reacting to Opportunity	Reacting to available network resources, and obtaining more network resources	Decision making and investment operating
Sample Companies	All international investors	More appropriate to the large size investors	SMEs, new ventures.	Depends on which framework it is attached to	All international investors

CHAPTER 3, TWOFDI LITERATURE REVIEW

--Research on emerging market and China OFDI

The rapid expansion of the economy of less-developed countries' has enabled some of them to surge as a source of OFDI (Rios-Morales and Brennan 2006). However, their OFDI are somewhat 'unconventional' compared to the developed countries' OFDI (Dunning 1998, 2000; Mathews 2006). These international investments combine both asset exploiting and asset augmenting, however the investors seem to place more emphasis on asset augmenting (Moon 2001; Makino 2002). This chapter will review the research on the emerging market, which also refers to newly industrialised countries (NIC) or Third World MNE's (TWMNEs), OFDI.

3.1 Literature on Emerging Market OFDI

3.1.1 Asset Exploiting

Very early research about emerging markets was introduced by Lecraw (1977), since then, international business researchers have carried out a considerable amount of research in this area (Dunning, Hoesel *et al.* 1996a). These early studies of LDCs' OFDI share a similar perspective of those from DCs (Makino, Lau *et al.* 2002). They tried to explain LDCs' OFDI from an assets exploitation aspect.

Wells (1977; 1981; 1983) suggested that TWMNEs are able to invest and compete internationally due to four 'new' types of advantages, they are: (i) the advantages of less expenditure on management, (ii) small-scale technology, (iii) the ability to purchase low cost raw materials locally, and (iv) their characteristic products.

Moreover, he concluded that LDCs' firms could possibly engage in international investment if the local market was uncertain due to an unsatisfactory local information and network system, or due to a lack in the host market of a formal legal system to protect foreign business units' know-how.

Lall (1983) further stated that TWMNEs are able to invest abroad as a benefit of the localisation of technical change at the micro level and irreversibility of technical change. For example: (1) LDC's investors rely on different technologies when compared to the DC's companies; (2) the similarity in economic and social factors and inter-dependent political relationship between LDCs might result in them being able to accept each other's investment more easily; (3) small-scale technology could be matched more accurately to the requirement of the host market; (4) LDCs' home market has a low input.

Cantwell and Tolentino (1987) suggested that technological accumulation and innovation are basic drivers of both developing and developed countries. NICs are in the learning process position, whereas DCs are in the leading position. TWOFDI's first motivation of investment therefore, should be resource seeking.

Lau (1992) found that the internationalisation process of smaller export-oriented firms and large MNEs are different, i.e. small, export oriented Hong Kong (HK) MNEs are production emphasised in their early stages of development. He suggested that HK was moving from production orientation to marketing orientation, e.g. the companies set up designer teams to upgrade production quality and further development. Consequently, even though HK's MNEs do invest in LDCs' production facilities (efficiency seeking), their final investment motivation is market seeking in the developed world. i.e. they either invest to move closer to a market and become more marketing oriented or invest in China for production activation.

3.1.2 Asset Augmenting

While observing the 'follower' position of emerging market investors, recent research has started to pay attention to the fact that LDCs' OFDI is not only to exploit their advantages, but also to augment assets, which refers to acquiring certain firm specific advantages and conducting operations in foreign locations (Makino 2002; Teece 1992; Dunning 1993a, 1995, 2000; 2006; Chang 1995; Almeida 1996; Shan and Song 1997; UNCTAD 2006).

Chen and Chen (1998), Kumar (1998) and van Hoesel (1999), all reported asset-augmenting as motivation for TWOFDI. Lecraw (1993) classified Indonesian international investors into export-enhancing and operation-extending firms in his research. He suggested that they both benefit from the home country's (Indonesia) low-cost labour and physical inputs, but export-enhancing firms are more likely to invest in higher income countries, due to the motivation of technology and management know-how seeking and market seeking.

Kumar (1998) and Chen & Chen (1998) discovered that NIE firms which invest in DCs saw OFDI as a chance to strengthen their non-price competitive advantages, i.e. brand names, novel product technology, and extensive networks of distributors; by contrast, NIEs which invest in LDCs do so in order to extend their price advantages, i.e. low cost labour and raw material.

Dunning, Hoesel *et al.* (1996a) and Dunning (2000) explained their arguments about TWOFDI using the IDP framework and 'newly update OLI framework', as discussed in the previous chapter.

WIR 2006 (UNCTAD 2006) adopted the concept of 'Asset Exploiting' and 'Asset Augmenting' as the foundation of their 'drivers and determinants' study

framework. The report presented the results of a survey about the emerging market OFDI with a sample of 250 companies i.e. *UNCTAD's global survey of developing countries TNCs 2006*, There are 3 other surveys also mentioned in the report--*Survey of Indian transnational corporations 2006 (about 160 companies)*, *EDGE Institute, Survey of OFDI from South Africa (188 companies)*, *FIAS/MIGA/IFC/CCER survey on China's OFDI.2005 (150 companies)*.

For the aspect of internationalisation capability, the result of the UNCTAD global survey ranked the importance of firm advantages for TWMNEs as follows (1) most important were labour advantages (35% of responses); (2) followed by network and relationships (28% of responses); (3) ownership advantages such as expertise and technology for TWMNEs were less important than to mature MNEs (24% of responses); and lastly (4) an effective organisational structure (13% of responses).

The survey also reported on the following motivations of TWOFDI based on responses, namely: Market-Seeking (51% of responses); Efficiency-Seeking (22% of responses); Resource-Seeking (13% of responses); Created Asset-Seeking (14% of responses) and a small proportion of 'Other' motivations.

Makino, Lau, and Yeh (2002) also accepted asset exploiting and asset augmenting as the foundation of their research framework. They researched on NIEs' choice of location based on their survey of 328 Taiwanese companies. They suggested that NIEs' host market location choice was significantly affected by the investment motivation. They found that: (i) NIEs invest to DCs for market and strategic assets seeking, but invest in LDCs for labour seeking; (ii) NIEs' competitive advantages and experiences of internationalisation will influence the choice of host market; and (iii) labour-seeking motivation will drive NIEs to invest in LDCs.

3.1.3 New Theory

A few researchers went further into the TWOFDI framework. They seemed keen to discover another way to explain or predict the phenomenon. Their research can be seen as to: either (i) try to present a framework which is fully based on OLI theory and to challenge or extend Dunning OLI theory, i.e. Moon's imbalance theory; or (ii) Challenge OLI theory by borrowing some arguments from another school of internationalisation theory, i.e. Mathew's LLL theory.

Although they tried to advocate the TWOFDI as an unconventional type of OFDI, new theories are needed to explain them, the fact which should be considered is that the ***TWOFDI is just another wave of OFDI, it is not completely new.*** These researchers' works seem to be either a work of 'chicanery' (Dunning 2006), or 'too enthusiastic' (Narula 2006).

By using the example of two South Korean companies, 'LG Group' and 'Samsung', Moon and Roehl (2001) argued that firms 'with a weaker set of firm-specific advantages', i.e. in the 'follower' position, may invest abroad to avoid domestic competition or to seek complementary assets. A critical part of the research is that they simply assume that NIEs do not generally invest abroad, based on their firm-specific ownership advantages, and then declare that both advantages (e.g. strength in technology) and disadvantages (e.g. the market follower position) can encourage OFDI.

Mathew (2006a) argued that international newcomers internationalise faster through organisational innovations rather than technological innovation, and they exploit the late comer and peripheral status to gain an advantage through strategic innovations. He suggested a new framework called 'LLL'—linkage, leverage, and learning. Where: *Linkage* refers to advantage seeking via partnership and joint venture forming; *Leverage* refers to the way that links can be established with partners so that resources can be leveraged.

Learning refers to the fact that repeated Linkage and Leverage is a learning process for new/late-comers.

3.1.4 Understanding and Evolution of TWOFDI Theory

The emerging market OFDI sees 'differently' as they invest from a weaker country to a stronger country. Moreover, compared with previous overseas investments, new international players seem to be smaller on average, to become internationalised at a faster pace, to prefer to access the foreign resource via various different methods, and most importantly, their motivation of internationalisation is not only asset exploiting but also asset augmenting.

However, their basic business motivations and activities remain in the category of economic and business theory, i.e. (i) from the aspect of 'international division of labour', it is business activities to optimize the resource, (ii) their investment processes are still 'learning and reacting' processes; (iii) their investments are a combination of both asset exploiting and asset augmenting. Hence, the standard for these investments should be 'special' rather than 'unconventional'.

The current TWOFDI studies mainly rely on Dunning's OLI theory. There are two kinds of arguments in this area of research. The first would be the 'development' and 'improvement' of the traditional theory. Various research has suggested that the OLI framework should be improved to fit the new industrial outward foreign direct investment, e.g. Wells (1977; 1981; 1983), Lall (1983), Cantwell and Tolentino (1987), Chen and Chen (1998), Kumar (1998) and van Hoesel (1999). However, it seems they all agreed that the **very foundation of OLI theory needs no major modification.**

The idea behind the first kind of argument, however, is that certain advantages, e.g. firm-specific ownership advantages, or unique resources, enable these new international players to invest overseas. This is a

fundamental similarity between the players and mutual MNEs (Dunning 2000).

The second argument also tries to prove that OLI theory lacks explanation power, but goes much further by challenging some of the foundational beliefs of OLI theory.

Moon *et.al.* (2001) stated that his work is '*a good extension of the conventional theory*' (sector 7.6). He presented his 'imbalance' theory by advocating that both 'advantages' and 'disadvantages' would encourage companies' OFDI. This argument did not actually move out from the circle of asset augmenting.

This research contains two problems:

(i) the misunderstanding of so called 'advantages': it should be noted that the possession of a firm specific ownership-advantage is not the only advantage enabling OFDI. The advantage also refers to some indirectly displayed contents, such as alternative governance structures, unique resource and policy push. Thus, even though some emerging market investors do not apparently thrive in the market in one sense, there might be other factors enabling them to invest abroad, e.g. network relationship.

(ii) The theory misunderstood the logic of investment decision making. The research simply assumes that traditional theory sees OFDI as a result of growth. The authors decided that traditional theory should place the 'stronger' companies on the higher priority list of OFDI i.e. South Korea's market leader 'LG group' should be more likely to invest abroad than market followers 'Samsung'. They deduced that these theories are no longer suitable for unconventional OFDI, because the fact is that LG group invested overseas before Samsung

This research, however, should notice that international investment is not only the outcome of a company's growth, but also a learning and reacting process for business opportunities. A market follower investing abroad earlier than the market leader does not mean anything specific. Whereas a typical asset augmenting OFDI would imply that the investor is in a weaker position.

Their misunderstanding of the other OFDI theories leads to them trying to challenge these theories on a wrong point and to explain the 'new' FDI which are not as new as they would wish.

Mathew (2006)'s LLL is a piece of work combining the other three schools of internationalisation theory apart from foreign direct investment school theory, without actually satisfying, evaluating or even mentioning them. Linkage refers to network approach; Leverage reflects international entrepreneurship theory without classifying how the investors are able to leverage and Learning refers to PTI theory without mentioning the establishment chain and psychic distance.

As discussed in the last chapter, the four schools of theory are not set up to answer the same questions—their theory foundation is also different. Mathew's combining work is trying to use parts of three schools' theories against or to extend the 4th school. His work did not seem to be either original or convincing.

Dunning (2006) commented on this article and agreed that OLI needs to be improved to fit the new IB issues. He further suggested Mathew adds the LLL framework to the richness of OLI framework, rather than replace it.

However, Narula's response (Narula 2006) is far more forceful. He stated that Mathew's view on opportunities for the Asian region's international players is overly enthusiastic and the LLL framework seems less than

'convincing'. He criticised that (i) LLL is only an 'add-on' to the existing theory; (ii) There are certain misunderstandings of OLI, where OLI are separate; and (iii) JM's LLL is neither all new, nor unique to LDCs' OFDI.

3.2 Research on Chinese OFDI

Like other newly industrial countries' international MNEs, Chinese overseas players do not take the same form as their developed countries' pioneers (Wu and Chen 2001; Cooke 2006). Rather than expanding an advantage already held, Chinese international investors are more likely to engage in advantage seeking (augmenting) (Hong and Sun 2006; Lituchy and Du 2006) behaviour.

Studies about Chinese OFDI could be separated into two groups. One group is based on macro level data which was largely provided by the Government. Their aim was only to classify an overall structure of the Chinese overseas investment, such as the history, geographical distribution, sectors, and investment trend. The other group relied on both macro level data and micro data. They were trying to investigate the firm-level issues around the investments, such as internationalisation capability, motivation and survival.

3.2.1 History, Distribution, and Investment Value

For the **history**, or starting point of Chinese OFDI, there are two kinds of arguments. Li Jun (2003) suggests P. R. China's OFDI began with state-owned enterprises and was started after the Mao-Zedong age in 1950. Although China adopted an inward-looking policy and the country emphasized self-reliance and economic independence at that age, P. R. China never stopped her foreign aid, and some of this foreign aid was operated by state-owned enterprises. Therefore, J. Li suggested that this Chinese foreign aid was OFDI, because Chinese SOEs have indeed done some business in foreign countries.

However, another view argued that China began OFDI after economic liberalisation in the early 1980's (Wu & Chen 2001; Yang 2005 *page 124*). Considering the motivation and strength of OFDI flow, Wu & Chen (2001) classified Chinese OFDI into four stages: (i) before 1983, (ii) 1983 to 1985, (iii) 1985 to 1993, and (iv) from 1993 to Year 2001, In these four stages, the proportion of agricultural OFDI has been decreasing since the 1980s, whilst investment from the mining sector, secondary and tertiary industries has been increasing.

Geographically, Chinese overseas investments were originally concentrated in Asia, separating to Europe and North America in later stages (Wu & Chen 2001).

Chinese overseas investment has a very significant feature in its 'focus'. Although the OFDI has already extended to 150 countries, it seems that it has still been mainly concentrated in certain DCs and LDCs (Wu and Chen 2001). The region with the largest number of Chinese overseas investment enterprises was Asia--particularly Hong Kong and Macau--in turn followed by North America, Australia and Europe (Gan 2006, Yang 2005). For investments in Europe, Chinese OFDI mainly focused on the UK, Germany and France (Xu, B. 2001). This implied the critical effect of network relationship (Yang 2005), and agglomeration (Li 2006).

From term of investment value The main differences between IFDI and OFDI cash flows were noted by several researchers, such as Pei He (2000), Karl P. Sauvart (2003), and Giroud (2005). Chinese OFDI is much smaller than her exports (Xu, B. 2001). Furthermore, compared with developed countries, Chinese OFDI is considered to be of a very low value (UNCTAD 2003; 2004; 2005; 2006).

Most of the above literature was only trying to present a rather 'narrow' or 'superficial' kind of a work for the overall picture of the Chinese OFDI. To

sum up, their insight should be that Chinese international investments are 'young', geographically focussed, and involving low values.

3.2.2 Internationalisation Capability, Location Choice, and Motivation

Giroud (2005) concluded, **interestingly**, in her work that Chinese OFDI are both 'normal' and 'unusual'. On one hand, other countries have manifested similar characteristics in their early OFDI; on the other hand, DCs' MNEs consider 'Sales improvement' at the early stage, but Chinese TNCs are motivated by brand technology from advanced countries or utilization of cheap labour in LDCs from the very beginning, this is unusual. She argued that it is because China had already opened her market at an early stage, thus giving Chinese MNEs considerable pressure, and driving this '*unusual*' issue.

Although phrased differently, her conclusion is still a typical note about an emerging market overseas FDI--'asset exploiting & asset augmenting'.

Overall, the micro level research on Chinese OFDI has not been unconventional or unorthodox. The major contributions are: (i) for Chinese MNEs, asset augmenting is far more important than their DC's pioneers. Seeking to create assets is one of the major motivations behind Chinese OFDI (UNCTAD 2006); (ii) for the issue of internationalisation capabilities, technology advantage is not as important as in traditional DC's OFDI. Instead, other advantages such as alternative governance structure, network relationship, and Government enhancement are considered to be more influential (Ye 1992, Yang 2005, and Cooke 2006).

The problem with these studies, however, is the overall poor quality of data and inadequacy of the research (Rios-Morales and Brennan 2006), plus some poor research methodology.

Ye (1992) investigated 37 Chinese MNEs, and reported that the advantages displayed by Chinese MNEs include good customer relations and creditability, production technology and qualification of technicians, productivity in a small scale and culture, as well as language advantages. His research, however, was limited due to the size of the survey which only covered 37 companies.

Lau, Yiu *et al.* (2006) sought to address the question of whether the direct effects of firm-specific ownership advantages of Chinese OFDI hold in an emerging economy context. They found that: (i) a positive effect of a firm's technological capabilities on an international venture is mediated by the firm's ties with institutional networks rather than business networks in the home country; (ii) business entrepreneurship has significant effects on the relationship between recognised technological competencies and international investment, whereas, R&D intensity and OFDI are only affected by innovation.

This research has made a very interesting contribution. The sample covers 458 firms, however, the statistical methodology is questionable. For example: (A) table 2 presents a test of correlations, but the 'mean test' implies a Pearson Chi-Square, the problem is that this test is inappropriate for non-parametric variables such as the dummy variable of industry which is applied in the research; (B) the research uses OLS regression for modeling and analysis. Considering the dependent variables are ordinal rather than continuous (e.g. one of the dependent variables is the 'Capability of Business Network advantages' which was marked from 'weak' to 'strong' and measured from '1' to '5'), the assumption of OLS regression was not applicable in this research. Thus, the result is unreliable.

Rios-Morales and Brennan (2006) researched Chinese OFDI in Latin American. They argued that classical theories offer an '*incomplete*

understanding of drivers of this new phenomenon' (page 25²) and that Chinese MNEs share certain similarities with DCs' MNEs from the aspect of growth. 'Chinese OFDI to Latin America has some common features with FDI from the developed world. Similar to the growth trajectory of those American, European and Japanese companies which evolved from relatively small national players to major global competitors (Barlett and Ghosal, 1999, pp. 257-258), Chinese FDI is targeted on locations that are not of highest priority for companies from the developed world.' However, the OFDI from China to Latin America is influenced by **political considerations** involving both sides of the equation.

Based on the acknowledgement of 'asset augmenting and exploiting', Yang (2005) reported the network-relationship, or *GuanXi*, as playing a significant role in Chinese OFDI.

Cooke (2006) suggested that the development path of Chinese OFDI overall is not the same as that of DCs; this is as a result of the level of Government intervention that is not common in DCs. She argued that Chinese OFDI is '*shifting from being policy driven toward more corporate and strategic approaches*'. This argument was also adopted by Zhang and VanDen Bulcke (1996). She also found that: (i) Chinese OFDI is driven by a broad range of political, financial, technological, environmental and business motives; (ii) leading Chinese MNEs do choose JV as the method to overcome the barrier of entry to the overseas market, but they seem to have a different motive from the strategy aspect, i.e. asset augmenting; (iii) Chinese companies prefer DCs' market rather than LDCs' market, or at least don't mind going to DCs to develop the global business network (page 35). It seems that her information about the Chinese OFDI is rather limited. What she has written about the Chinese OFDI location choice could be debated—indeed there are

² And he further argued his point on the next page: '*Overall, the internationalisation theories need to adjust to the new global context in which the attainment of economic goals are underpinned by cultural and political fundamentals.*' (page 26)

some impressive investments to DCs, but whether from the aspect of SMEs or large size MNEs, the investments to Asia, Africa, and South America are also significant.; (iv) she suggested that there was a lack of foreign market knowledge, experience, investment capital and international expertise.

Li Y.M. (2006) studied Chinese OFDI based on the theory of the agglomeration effect, and the theory of location advantage (Dunning, 1998, Dunning 1988). He found that: (i) traditional location factors still affect the location decision of Chinese OFDI, but the importance of location advantage depends on the level of development of the host country; (ii) the agglomeration economies significantly influence the location choice of Chinese OFDI especially for investments in developed host countries; (iii) to a large extent, agglomeration effects are the main determinants of location choice of Chinese OFDI; (iv) cultural distance is an important factor affecting the frequency and size of location decision of Chinese OFDI in DCs.

Lituchy and Du (2006) investigated Chinese OFDI in Canada. They found Chinese overseas investment is driven by the motivations of resource seeking, strategic asset seeking, efficiency seeking, market seeking and avoiding trade barriers. They suggest that Chinese MNEs do not possess absolute ownership advantages compared with Canadian large-scale enterprises. What Chinese MNEs possess are '*Comparative advantages*' (page 8). Furthermore, Chinese MNEs are at an advantage in traditional technology, mature technology, small scale technology, and internalisation incentive advantages. Meanwhile, Canada's favorable business climate is a pull factor for Chinese OFDI (Page, 10, 11).

Karl P. Sauvart (2003) reported that eight Chinese enterprises formed technological alliances with, or acquired, Danish firms in 2002 in order to access technology.

Much research has reported a 'push' factor from the Chinese domestic market. In certain overheated Chinese industrial sectors such as machinery, electrical appliances, and textiles, the large variations between sluggish domestic demand and excessive industrial production capacity are becoming critical. Apart from exports, OFDI has become another solution to the problem of market pressure (JiMin, Peng & YueYing Shi, 2001; XinJian, Cui, 2002; YeZhang 2002).

Additionally, in response to the complicated international relationship between countries, and to avoid the wave of anti 'made in China', 'quota farming' has also become an important motivation for Chinese OFDI, especially in the textile industry (Yan G. 2002).

However, unfortunately, all of the above research relied on official data, which is considered to be very limited (Giroud 2005, Lau 2006, and Yang 2005). The official data did not provide a clear and deep insight into the firm-level information on Chinese OFDI which will be further discussed in the next chapter. Therefore, it is hard to achieve a further understanding of Chinese OFDI from work dependent on official data, such as Yang (2005), Li, M.Y. (2006), Cooke (2006).

3.2.4 Government Issues: Reformation of the Government mechanism and SOEs

3.2.4.1 Significant influence

For an economy which is operated subject to a hidden hand, under the control of the ruling political party, the Government and business units (especially SOEs) are in a heavily relationship-based system (Raghuram and Zigales 1998; Li., Sun *et al.* 2006). On one hand, the ruling party may present a more favourable policy for those companies that have the same political



ideology and are engaged in business activities favoured by the Government. Developing a satisfying relationship with the Government is critically important for business managers and directors in this kind of system. On the other hand, through the pattern of Government ownership and Government appointed directors, the Government also has the power to control or supervise the operation of companies, especially SOEs (Yu and Main 2006).

SOEs are a leading player in the case of Chinese OFDI (Wang 2002), and the significant influence of the Chinese Government on Chinese OFDI (especially SOEs' OFDI) is reported in much of research, such as Pei He (2000), Li, G (2000), Fang Zhang (2001), JianQing Yang (2001), Wu and Chen (2001), YouShu Li (2002), GaoFei Wu (2002), MingHua Min (2003), Deng (2003), JianSun Shi (2003), Giroud (2005), Gan (2006).

At the same time, the Chinese Government plays a fundamental role in OFDI (Wu & Chen 2001; Giroud 2005; Yang 2005; and Cooke 2006). "China's overseas investment has been an element of a broader process of restructuring and political activities in which the Government, rather than simply entrepreneurship, plays an important role." (Mark Yaolin Wang 2002)

3.2.4.2 Benefit to the Country

The so-called 'go abroad' policy was first supported politically by the former Premier *Li Peng* in speeches in 1991 and then by *Deng Xiaoping* in his speech made in South China in the spring of 1992. China's policy of encouraging investment abroad was enshrined in the landmark Fourteenth National Congress of the Chinese Communist Party, held in Beijing in October 1993 (D.Wall 1997). The Chinese Government propounded the aim of OFDI as increasing the scale of overseas investment by 10 to 20 times in the following five years (Yan Guo 2002).

The benefits of OFDI for China's economy and policy conditions as a whole are classified into two categories: (1) to enhance China's international influence; (2) to benefit the domestic market. In more detail:

(1) To enhance China's international influence

One of the motivations of Chinese overseas investment is derived from her policy objectives. The Chinese Government wants to enhance their international economic and political influence through overseas investment and collaboration (Li Jun 2003, H. Wu & CH. Chen 2001, Pei, He 2000, Qi Shi 2002, Fang Zhang 2001).

China's international strategy emphasises a friendly relationship with other 'third world' countries. The economic co-operation with foreign countries constitutes an important part in China's diplomatic and foreign and economic exchanges (Li Jun 2003). The current Chinese international investment to other third world countries such as Latin America, Asia and Africa, is a benefit of the long history of 'friendship' and 'relationship' (Li 2006, Rios-Morales 2006).

(2) To benefit the domestic market

Judging from the Macro-economic view point, China could benefit from OFDI by promoting her industry adjustment and securing her foreign exchange. "The perception of the sort of overseas investment of which the central Government approves, there is a harmony of private and social benefits." (D.Wall 1997)

The OFDI benefits the Chinese market overall from the aspect of natural resource obtaining, export improvement, and domestic market pressure relaxation. (Liu ZL and Wang, L 2003, Zhao Y.J. 2003, Wong and Chang 2006).

3.2.4.3 Problem and Improvement for the Government

The problem for 'Government reforming' is drawn to attention by a lot of Chinese researchers. About half of Chinese international business journal papers discuss this topic. Their suggestions are mainly on the reformation of the law system, the Government machine, and the SOEs' property rights.

The first issue is 'to perfect the law system'. As the relevant law of overseas investment is still a 'work in progress', the regulation system of the Chinese Government does not seem powerful enough to control these overseas projects. Pei He (2000), JianQing Yang (2001) and Nie MingHua (2002) suggest a new law should be written to keep up-to-date and fit in with the dynamic situation. The aim of the new law should be 'to protect the profit of Chinese MNEs' and to supervise 'the operation of Chinese MNEs'.

The second issue is to have a more efficient Government. YouShu, Li (2002) and Nie MingHua (2003) argued that currently the overseas investment examination and approval processes are controlled by lots of related Government bureaus. Chinese enterprises have required a lot of time to gain a foreign investment permit (Yang 2005). Moreover, as stated by YouShu Li (2002), due to the lack of experience of the Government regulatory system, some of the capital was wasted on unsuitable projects. At least 30% of all Chinese OFDI lost money.

The third issue is to make SOEs 'independent'. The importance of enterprises being able to carry their own responsibility for profit maximisation is a widely recognised requirement for a successful business as well as their independence. However, as most researchers agree, the process of 'independence for these SOEs' will not be so easy. To realise this 'independence' aim, the national economy will be shaken from its very foundation and the whole management machine will be changed. The Government should strengthen the financial market and re-build the SOEs' property rights (Pei He 2000, JianQing Yang 2001, MingHua Min 2003,

YouShu Li 2002, Fang Zhang 2001, JianSun Shi 2003, and GaoFei Wu 2002).

3.3 Summary of the Chapter and Evolution of the Chinese OFDI Research

It is generally accepted that Chinese OFDIs are motivated by both asset exploitation and asset augmentation. Chinese MNEs invest to both developed and under-developed countries for these motivations. Chinese OFDIs were not only encouraged by typical ownership advantages, e.g. production process capabilities, but also some other factors, e.g. Government support. The Chinese Government is playing a very important role in Chinese OFDI--enough attention should be paid to the Government activities.

However, firm-level emerging market OFDI research suffers from the misleading and low-quality data (UNCTAD 2005c; Meyer 2006), as well as China's OFDI research (Giroud 2005). As stated by Yang (2005, Page 9), *'China's OFDI has a very short history and statistics have not kept pace. Comprehensive data on industrial composition and overseas subsidiaries' operations are not available.'* The Chinese official data is fairly limited and the firm-level information is insufficient. This directly led to the limited number and low quality of current Chinese OFDI research.

Much research about Chinese OFDI relied on having access to official data. They did provide some interesting contributions, and gave some guidelines for further research, such as motivation, internationalisation capability, policy factors and unconventional activities. Their work, however, is devalued by the quality of the data it was based on. The findings were somewhat limited due to a shortage of firm-level information, such as Yang (2005), Wu & Chen (2001) and Giroud (2005), which will be shown in the following chapter.

The amount of research done by survey was very limited. Although their work was more specific to Chinese MNEs' investment activity and motivation, the problems were: (i) the size of the sample was small, e.g. Li G.(2000) and Ye (1992); (ii) the research was not very well structured, e.g. Bo Xu (2001); (iii) some questionable research methods were applied, such as Lau (2006).

The imperfections of the above issues leave significant gaps in the research on Chinese OFDI. Questions such as (1) what are the advantages to enhance the Chinese investors and (2) what are the motivations of investments, remain to be answered. In order to address these questions, research using primary generated data is necessary.

CHAPTER 4: A REVIEW OF CHINESE OFFICIAL DATA

Following on from the argument in the previous chapter, this chapter will review the official government data of Chinese OFDI. It will describe: (1) how the data was collected; (2) the problem of general Chinese OFDI data collection; (3) the necessity of reviewing official data; (4) an examination of the data by listing it and briefly analysing it

4.1 How The Data Was Collected

Chinese OFDI is under the control of the Government (Wu, H. *et.al.* 2001; Grioud 2005; Chen *et.al* 2006). There are two official justifications for control. Firstly, control of OFDI is considered to be part of the plan of capital control (author's interview). Secondly, the Government is concerned about the security of the overseas part of state owned properties. In other words, the Government is not completely confident in the SOEs' ability to identify opportunity and challenge. It is also not confident in overseas control of OFDI, where 'other' activities may be involved, e.g. capital flight and round tripping.

Consequently, the Chinese Government operates a project examination and approval system in order to supervise Chinese OFDI, which is co-administrated by three Government bodies: the State Administration of Foreign Exchange (SAFE), the Ministry of Commerce (MOFTEC, of which the predecessor is the Ministry of Foreign Trade and Economic Co-operation) and the Chinese National Development and Reform Commission (CNDRC). Where SAFE is mainly in charge of foreign exchange and OFDI capital control, MOFTEC is responsible for supervision and regulation, ensuring that overseas investors invest in an appropriate project and CNDRC are in charge of the investment projects.

As SAFE, CNDRC and MOFTEC are the most involved departments they also provide information (data) for the public and other official data presenters, i.e. the Chinese National Statistics Bureau, and UNCTAD. Therefore, even though there are various kinds of official data available for research on Chinese OFDI, e.g. Chinese OFDI annual report, Chinese statistics year book, State Administration of Foreign Exchange's (SAFE) data, all the official data of Chinese OFDI comes from two major sources—SAFE and MOFTEC/CNDRC.

4.1.1 State Administration of Foreign Exchange

SAFE's data provides the national level 'flow of capital', which includes equity capital and value of re-investment. UNCTAD uses this set of data (Yang 2005). The information provided by this data set is very limited; one can hardly find any information about companies.

SAFE's data is collected when companies apply for currency exchange during OFDI. As Chinese capital was, and still is, under tight control (Wong 2006), applying to the foreign currency exchange is one necessary step for an OFDI company (especially SMEs). Technically, any company involved in foreign exchange has to deal with SAFE or the local foreign trade and economic co-operation department.

Moreover, SAFE is also partly in charge of the supervision of OFDI. Chinese MNEs are required to send back OFDI profits and other foreign exchange profits within six months of the end of the fiscal year, and to settle the foreign exchange balance (Author's interview, and Giroud 2005).

SAFE has a database for international investment, but as they are not focussed on this statistic, and their actual 'IT-based' application system only started at the beginning of 2003 (according to the author's interview), the database itself is not 'rich' enough for research.

Moreover, it should be noted that not all Chinese MNEs need to apply to exchange during the investment and re-investment, as some of them keep their own funding in the form of 'foreign currency' from their export and international business activities. This results in SAFE's data undervaluing the scale of Chinese OFDI. As will be discussed in the following sections, the FDI outflows presented by SAFE are smaller than those of MOFTEC.

4.1.2 MOFTEC/CNDRC

MOFTEC and CNDRC are the government departments which are responsible for the regulation and supervision of Chinese OFDI. They share their information with the Chinese Statistics Bureau. MOFTEC's set of data provides much more detail than SAFE's data (as MOFTEC is the department which actually provides the data, the remainder of this chapter will use the term 'MOFTEC's data' to refer to this set of data).

MOFTEC's data is collected from a project examination and approval programme which involves a number of documents and interviews. Thus, this set of data includes the flow of investment, number of investment projects, host country choice, and most importantly, information about the Chinese investor, such as the overall sector, ownership, and investor's location inside China.

However, MOFTEC's data shares a very similar problem to SAFE's data—a lack of information about OFDI of the SMEs and the private sector, as their investment is smaller and their relationship with the Government is not necessarily as close as that of SOEs. This set of data does not provide enough micro-level information, such as company motivation, and competitive advantages.

There is no specific law promulgated by the Chinese Government for OFDI (Giroud 2005). This directly leads to a problem in that a number of companies bypass the Government regulation system. Thus, the

fundamental information such as the total value and number of OFDIs is questionable.

4.2 The Necessity to Review Official Data

Although the quality is not entirely satisfactory, there are two reasons for this research to review official data.

First of all, it is necessary to present an overall structure of the OFDI, not only to show the 'position' of Chinese OFDI as an emerging market international investment, but also to roughly classify the 'stage' of Chinese OFDI to determine which relevant theories to use and how to use them.

Secondly, as discussed in the previous chapter, most of the research on Chinese OFDI relies on official data, which is collected from the Chinese Government's Statistical Report. A fundamental check on research quality would naturally refer to the data quality (Gujarati 1995). A review of major sources of Chinese data therefore, is not only criticising up-to-date research, but also presents a guideline for further research on Chinese OFDI.

4.3 Review of the Official Data

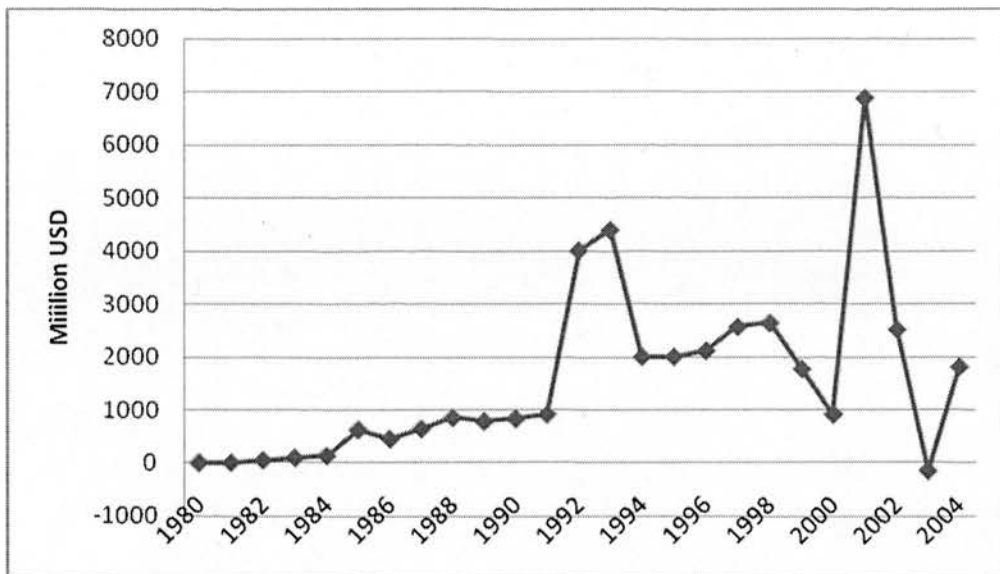
The review of the data will be in four sections: 1) the overall OFDI value and stock; 2) the geographical structure of investment, both inside China (parent companies' location) and outside China (investment location choice); 3) the ownership structure of investors; and 4) the sector of the investment.

4.3.1 Chinese OFDI Flows and Stocks

OFDI value and stock are shown in *Figure 4.3.1—1* and *Figure 4.3.1—2*. As seen from the graph, Chinese OFDI value is increasing and, most interestingly, it seems that Chinese OFDI has demonstrated some significant 'sharp jumps' during its evolution. There was almost no OFDI at the beginning of the 1980's and the value of investment steadily increased during

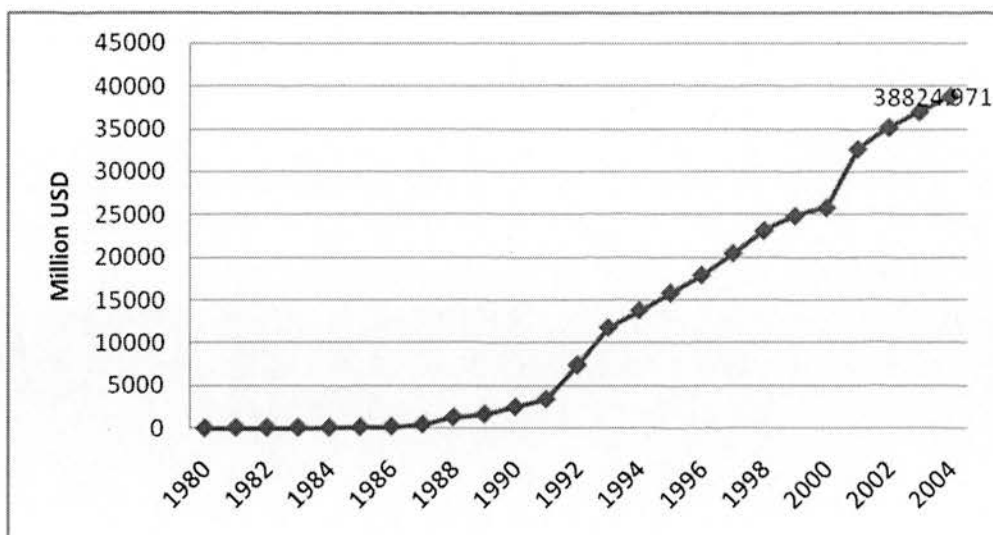
the 1980's. The first jump was in 1992 and 1993: the investment value increased from about 1,000 million USD to 4,500 million USD. As mention in the previous chapter, this is due to a clear and significant policy change at the beginning of the 1990s. This 'new' policy considered 'investing abroad' as one of the fundamental national strategies, and encouraged a series of Chinese mining sector companies, e.g. CNPC to invest overseas to obtain natural resources. (Information collected from author's interviews).

Figure 4.3.1—1 OFDI flow from 1980 to 2004



Source, UNCTAD

Figure 4.3.1—2 OFDI stock from 1980 to 2004

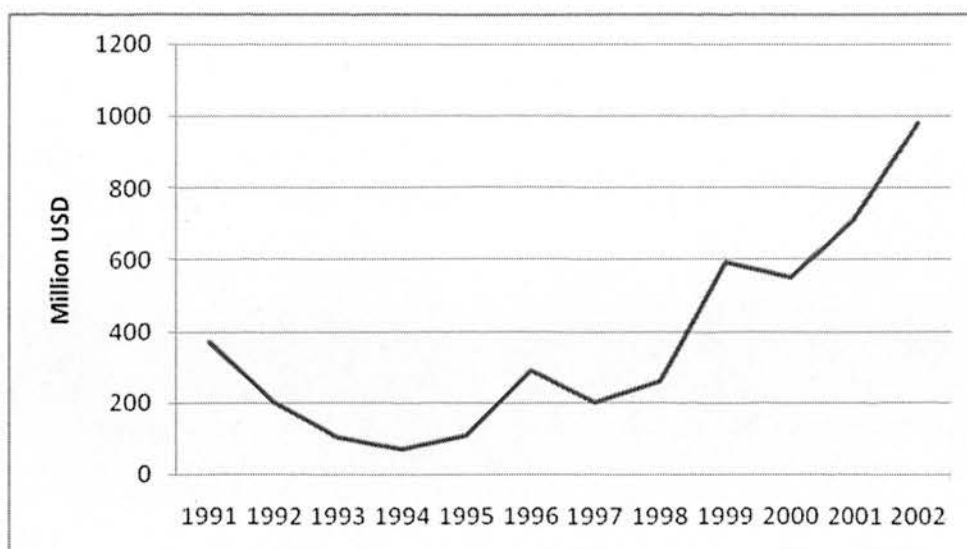


Source, UNCTAD

The other jump started in 2000 when the investment value rose from 1,000 million USD to 7,000 million USD. This was a consequence of (i) the resuscitation of the Asian economy, offering a favourable investment climate, e.g. policies, and business opportunities; (ii) considerable Chinese petroleum corporations' OFDI; and (iii) the Government further confirming that to 'go abroad' was one of the fundamental policies, and greatly advocating the benefits (information collected from interviews with officers of MOFTEC). Both waves of investment cooled down after one year, partly due to Government awareness of the possibility of the Chinese economy overheating, so all investment activities were slowed down.

There was no OFDI annual report from the Chinese Government until 2003 so, before this time, the only possible reliable source of Chinese data from the MOFTEC was the *Chinese foreign trade and economy statistics year book*, based directly on the information provided by MOFTEC. As shown in *Figure 4.3.1—3 and Table 4.3.1—1*, the data provided in this book was hugely different from UNCTAD, as the methods UNCTAD (which was SAFE's data) and MOFTEC used to collect data were different.

Figure 4.3.1—3 OFDI flow collected from Chinese foreign trade and economy statistic year book



Source: Chinese foreign trade and economy statistics year book (MOFTEC and Chinese Statistic bureau).

Table 4.3.1—1 data from Chinese foreign trade and economy statistics year book

	<i>Number Allocation</i>	<i>OFDI value (Million USD)</i>	<i>Accumulated Number of OFDI companies</i>	<i>OFDI Stock (Million USD)</i>
1980-1990	801	1030	801	1030
1991	207	370	1008	1400
1992	355	200	1363	1600
1993	294	100	1657	1700
1994	106	70	1763	1770
1995	119	110	1882	1880
1996	103	290	1985	2170
1997	158	200	2143	2370
1998	253	260	2396	2630
1999	220	590	2616	3220
2000	243	550	2859	3770
2001	232	710	3091	4480
2002	350	980	3441	5460

Source: Chinese foreign trade and economy statistics year book (SAFE, MOFTEC and Chinese Statistic bureau).

Moreover, Chinese MOFTEC official annual reports also present different numbers to those from the SAFE's data (UN reports). As shown in *Table 4.3.1—2*, the differences are considerable. For example, in 2003 and 2004, MOFTEC reported a total 6,777 million USD more OFDI than SAFE's report.

Table 4.3.1—2 Comparing the OFDI data of MOFTEC and UNCTAD

	Year 2003	Year 2004
<i>FDI outflows -- SAFE data* (billions of dollars)</i>	-0.152	1.805
<i>FDI outward stock – SAFE data*(billions of dollars)</i>	37.019	38.824
<i>FDI outflows – MOFTEC data**(billions of dollars)</i>	2.900	5.530
<i>FDI outward stock -- MOFTEC data** (billions of dollars)</i>	40.072	45.602

Source: * *World Investment Report (UNCTAD, 2005)*

** *Chinese OFDI Annual Report 2004 (Foreign Investment Administration of MOFTEC)*

Overall, looking at the data, it is true that Chinese companies provide a considerable amount of OFDI. However, the picture is rather confusing as different sources of official data do not match. As discussed in previous chapters, there are considerable problems with Chinese OFDI statistics (Giroud 2005). The different methods of data collection did present dissimilar outcomes.

4.3.2 The Geographical Structure of Chinese OFDI

4.3.2.1 Inside China

GuangDong Province, ShangHai City, and Beijing City are the major OFDI forces in China, as shown in *Table 4.3.2.1-1*. These three provinces account for 78.3% of the total Chinese OFDI stock according to the MOFTEC statistics. This implies an imbalanced development level of the country. For companies in these provinces, information and Government services are more available and business networks are more accessible. Therefore, their internationalisation process is quicker and easier (Author's summary of survey, and interview with ShangHai FID office.)

Moreover, *Table 4.3.2.1-2*, shows the non-national level SOEs' investment stock up to the year 2004, where 'non-national level SOEs' refers to those SOEs belonging to a province or city's Government. This is a confusing part of the Chinese ownership structure (which will be discussed in following chapters and sections). According to the author's interview with Chinese Government Officers, *Table 4.3.2.1-1* uses the 'pure' location of the parent company, which means it is where the head-office of the parent company is located, but *Table 4.3.2.1-2* calculates the administrative relationship of SOEs. This means, if an SOE is located in ShangHai, but belongs to the Central Government, the investment stock will not be included in this table.

However, according to the author's interviews with companies, since a company's administrative relationship is duplicated in both central and local Government, they report their investment value twice at the end of the fiscal

Table 4.3.2.1-1 Parent companies' Location

<i>Province, OR City</i>	<i>OFDI Stock up to 2004 (billion USD)</i>	<i>Percentage</i>
<i>GuangDong</i>	<i>14.530</i>	<i>32.4%</i>
<i>ShangHai</i>	<i>10.371</i>	<i>23.1%</i>
<i>Beijing</i>	<i>10.258</i>	<i>22.8%</i>
<i>Other Province</i>	<i>9.739</i>	<i>21.7%</i>
<i>Total</i>	<i>44.900</i>	<i>100.0%</i>

Source: Calculated from Chinese statistics year book 1998,1999,2000,2001,2002,2003,2004 and Author's survey

Table 4.3.2.1-2 Non-National SOEs' Location

	<i>OFDI total stock up to 2004 (Billion USD)</i>	<i>Take percentage against the total non-national Level SOEs Total Investment</i>
<i>SOEs of Beijing</i>	<i>0.700</i>	<i>10.80%</i>
<i>SOEs of GuangDong</i>	<i>2.248</i>	<i>34.70%</i>
<i>SOEs of ShangHai</i>	<i>1.450</i>	<i>22.30%</i>
<i>SOEs of Other Province</i>	<i>2.089</i>	<i>32.20%</i>
<i>Non-National level SOEs total</i>	<i>6.489</i>	<i>100%</i>

Source: Calculated from Chinese OFDI annual report 2004

year. However, nobody knows if this value was included once or twice, or even more in the Chinese statistics system.

4.3.2.2 Location Choice of OFDI

As shown in Table 4.3.2.2-1, Asia has become the most important Chinese OFDI host country over the last 20 years (for more information See Appendix 4.3.2-2 and 4.3.2-3). Overall, 74% of investment went to Asia. Hong Kong (HK) is seen as an independent economic region for China and investment to HK is generally considered as OFDI. Hong Kong attracted 67% of Chinese OFDI stock by 2004. Therefore, excluding HK, the OFDI stock to Asia was about 6.75% in total.

The significance of HK results from:

1. Historically, HK was the 'window' to the world for mainland China. Foreign companies still like to use HK as a 'stepping stone' to invest in China. A long history between Hong Kongese and Chinese companies has built up a very inter-dependent network relationship. As suggested by previous research, network relationships greatly encourage OFDI activities (Chen & Chen 1998; Johanson 1990; and Oviatt 2005).
2. HK has a similar culture, its people speak the same language, and it is very close in location to China; this greatly reduces the '*psychic distance*'.
3. HK has a favourable financial environment and advanced knowledge of technology. Therefore, for Chinese OFDI, especially information and capital seeking OFDI, HK has become the first choice of Chinese investors.

On the other hand, overall Chinese OFDI stock, excluding HK, was only 14.51 billion USD. If HK is considered (politically) as part of China, the OFDI of China is much smaller than people wanted; it can even be argued that researchers might be too enthusiastic about Chinese OFDI.

Chinese investment can also be seen to be concentrated in a limited number of regions. As shown in *Table 4.3.2.2-2*, 94.52% Chinese OFDI is concentrated in 20 host countries/regions; 91.4% is concentrated in the top 10 host countries/regions.

Table 4.3.2.2-1 OFDI stock by Region

OFDI Stock 2004 (Billion USD)		
Asia		33.42 74.43%
	Hong Kong	30.39 67.68%
	Asia Exclude HK	3.03 6.75%
Africa		0.9 2.00%
Europe		0.75 1.67%
North America		1.02 2.27%
Latin America		8.27 18.42%
Oceania		0.54 1.20%
Total		44.9
OFDI Stock without Hong Kong		14.51

Source: Calculated from Chinese OFDI Annual report 2004

Table 4.3.2.2 OFDI Stock by Country

Country/Region	OFDI Stock 2004 (Billion USD)	Percentage
OFDI Stock to the world Total	44.9	100.00%
1 Hong Kong	30.393	67.69%
2 Cayman Island	6.66	14.83%
3 British Virgin Island (BVI)	1.089	2.43%
Stock Cumulated Top 3 Regions	38.142	84.95%
4 U.S.A.	0.67	1.49%
5 Macao	0.625	1.39%
Stock Cumulated Top 5 Regions	39.437	87.83%
6 South Korea	0.562	1.25%
7 Australia	0.465	1.04%
8 Singapore	0.241	0.54%
9 Bermuda	0.185	0.41%
10 Thailand	0.182	0.41%
Stock Cumulated Top 10 Regions	41.072	91.47%
11 Sudan	0.172	0.38%
12 Vietnam	0.16	0.36%
13 Zambia	0.148	0.33%
14 Japan	0.139	0.31%
15 German	0.129	0.29%
16 Spain	0.123	0.27%
17 Peru	0.126	0.28%
18 Mexico	0.125	0.28%
19 Russia	0.123	0.27%
20 Malaysia	0.123	0.27%
Stock Cumulated Top 20 Regions	42.44	94.52%

Source: Calculated from Chinese OFDI Annual Report 2004.

The motivation for investing in HK may be complicated, but for investing in the British Virgin Islands (BVI), Cayman Island and Bermuda it is predictable—round tripping or tax-avoidance /evasion, as they are all famous 'tax havens'. Round tripping was one of the common 'reasons' for Chinese companies' international investment and this kind of activity would greatly increase the 'noise' of the data.

Moreover, it is interesting that the highest rank of investment stock in any LDC (Less Developed Country) is at the 10th region (Thailand). This is a typical example of the low quality of official Chinese data, and also applies to the UNCTAD data from SAFE.

The miscounting is very obvious. The value of Chinese OFDI to LDCs is much higher than shown by MOFTEC and UNCTAD. e.g. in Indonesia:

- ✓ Petro China is CNPC's³ stock holding subsidiary; CNPC owns 90% of its stock. IPO in New York and Hong Kong in April, 2000. The company M&A with Devon Energy to take a share of six oil fields in Indonesia at the value of 216 million USD in 2002. (CNPC Annual Report 2002)
- ✓ CNOOC took over Spanish Repsol-YPE's five oil fields in Indonesia at 585 Million USD in the same year. (CNOOC annual report 2002)

These two deals alone already total 0.801 Billion USD.

³ CNPC's overseas investment are very significant over all Chinese MNCs. It acquired Canada-based PetroKazakhstan Inc. (PK) through its wholly-owned subsidiary CNPCI at 27/Oct/2005. CNPC's bid for PK was 55 US dollars per share, totalling 4.18 billion US dollars. This is the largest overseas takeover transaction ever made by a Chinese company so far. (Embassy of P.R.China in USA, <http://www.china-embassy.org/eng/gyzg/t218598.htm>)

These large discrepancies result from the unsatisfactory Chinese OFDI statistical system. As already discussed, companies do not always have to apply for exchange and the absence of a related law reduced the power of the Government's supervision system, especially for those SMEs which invested via an alternative Government structure and for which the investment capital was not in the form of currency.

According to interviews, as a result of the lack of controlling power the Chinese OFDI statistical system is using very complicated definitions for terms about investors. The re-investment of a Chinese overseas subsidiary is not counted as OFDI. i.e. CNPC's foreign subsidiary-- Petro China's investment was not counted as Chinese OFDI. However, blaming a weak regulation system, the MOFTEC and SAFE simply do not know the cash flow between CNPC and Petro China before the investment.

4.3.3 The Sector

Table 4.3.3-1 presents the number of projects and the value of investment in year 2003, and 2004. The most considerable value of investment is from the mining and quarrying sector, (with 4% of the total number of companies in 2004, but 48% and 33% of investment value in 2003 and 2004, respectively). This represents the 'national motive' of OFDI as discussed in the last chapter--the shortage of natural resources pushes a Chinese mining and quarry company to invest abroad to access the overseas resource. Taking into account the size of the project and the power of the investors, e.g. CNPC and CNOOC, these investments naturally involve significant values.

Table 4.3.3-1 OFDI in Sector in 2003 and 2004

Year	Number of OFDI Company		OFDI value (Million USD)			
	2004		2003		2004	
	Number of Company	%	OFDI Value	%	OFDI Value	%
<i>Agriculture, seeking and forestry</i>	130	4.4%	87	3%	292	5%
<i>Mining and quarrying</i>	119	4.0%	1392	48%	1799	33%

Manufacturing	1749	58.8 %	609	21 %	759	14 %
Construction	178	6.0 %	29	1%	220	4%
Transport, storage and communications	89	3.0 %	87	3%	831	15 %
Wholesale and retail trade	326	11.0 %	377	13 %	798	15 %
Business Service	148	5.0 %	290	10 %	748	14 %
Other	237	8.0 %	29	1%	55	1%
Total	2976	100 %	2900	100 %	5500	100 %

Source: Calculated from Chinese OFDI Annual Report 2003 and 2004

There were 1,749 manufacturers investing overseas in 2004, which took 58.8% of the total number of companies (2,976 companies). However, the investment value is not very high: only 759 million USD, which is about 14% of the total investment. This implies 'sales improvement' and 'information seeking' as two of the major motivations of Chinese OFDI (Ye 1992; Gan 2006). A number of manufacturers 'invest' abroad by setting up 'overseas offices'. The aim is to directly access a foreign market by operating an office which the market. The investment value therefore, would be small.

4.3.4 The Ownership Structure of Chinese MNEs

Suffering from a long period of Chinese 'planned economy', a reform and liberalisation of the Chinese economic system has led to a very complicated company ownership structure. For example, by definition, a *collective enterprise* belongs to the local community, but in most cases the local community is part of the Government, thus the collective enterprise is an SOE. Following this argument, Hai'Er Group is an SOE rather than a private company (People's_Daily 2001).

Figures 4.3.4-1 and 4.3.4-2 show Chinese MNEs' ownership structure for 2003 and 2004. There are nine types of ownership structure used in the Chinese OFDI Annual Reports. Among them, 43% in 2003 and 35% in 2004 were SOEs.

To simplify the story, this research re-classifies (1) SOE as State owned Enterprise or collective enterprise, (2) a private company as co-operative stock enterprise or a private enterprise, and (3) unsure as affiliated enterprise, limited liability enterprise, enterprise invested in by Hong Kong, Taiwan, Macau and other foreign countries, as these firms may be public companies, private companies, or even SOEs (as shown in Figure 4.3.4-3).

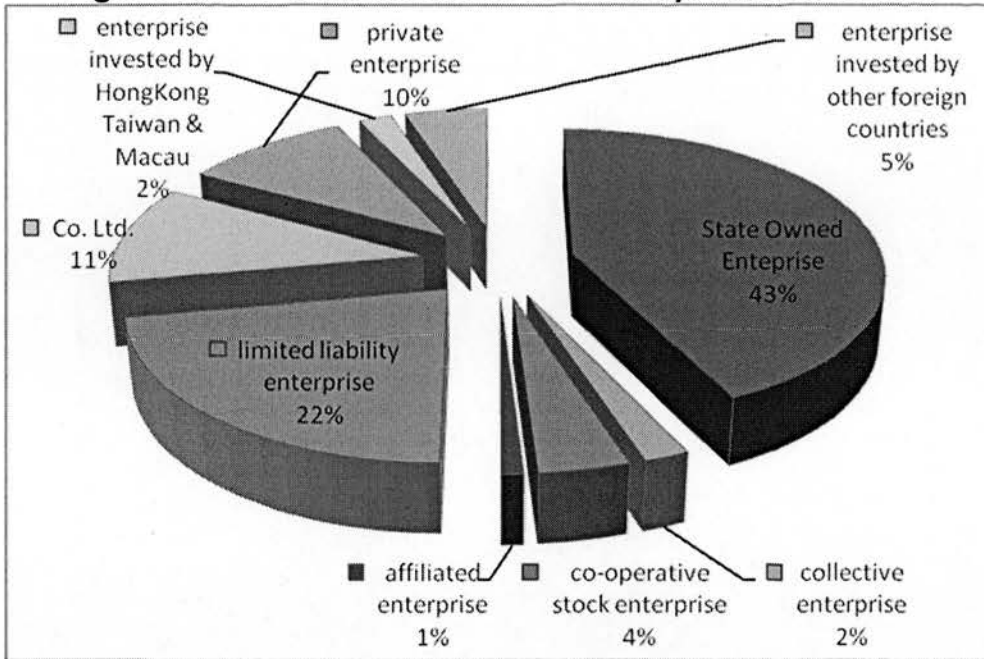
Most Chinese international investors are SOEs. As a result of the strength of the companies and considerable Government enhancement, SOEs are more likely to be able to invest internationally. Although there are private companies (14%, 15%) and public companies (11%, 10%) investing abroad, the leading '*actors*' are SOEs.

Moreover, there are some problems with the Chinese ownership definition. In the case of China, as part of national policy the Government is trying to privatize certain parts of state owned property through IPO. The Government, therefore, owns stocks of several Chinese public companies.

There are other arguments about whether some Chinese public companies are SOE or not, i.e. on 18th May 2006 the US State Department said that the 16,000 computers it bought from Chinese firm 'Lenovo', which it links to the Beijing Government, will not be used for classified as they were worried a Chinese 'SOE' product could be a danger to national security. However, Jeff Carlisle, the firm's vice-president of Government relations declared that "We're not a state-owned enterprise" in the recent talks.

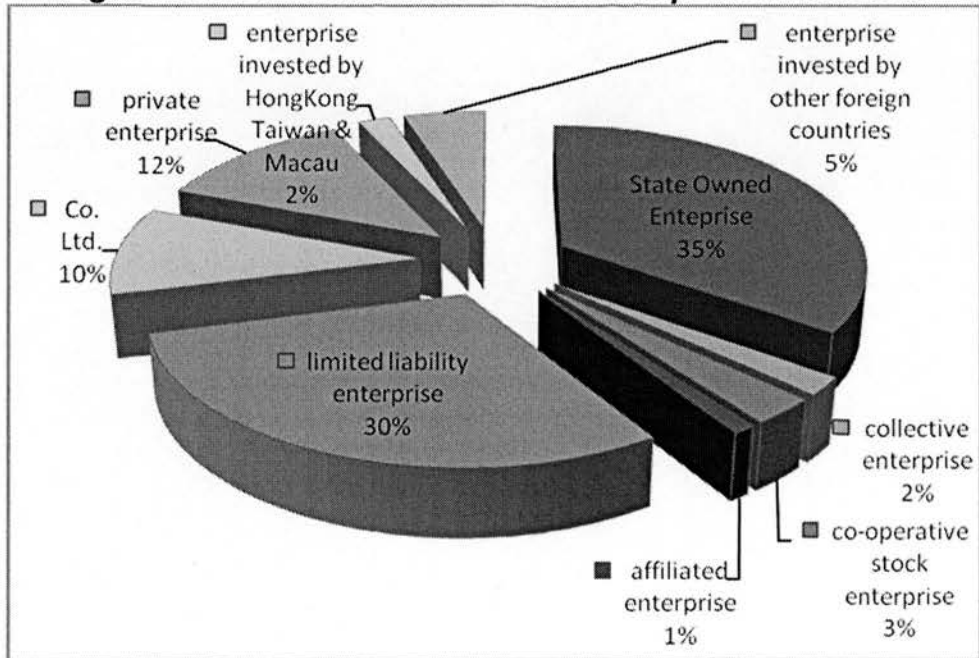
As SOEs have a long history of different management structures and background, for research practice, the important thing is to determine which companies are SOE. However, official data does not seem helpful. Again, an enterprise based survey is necessary.

Figure 4.3.4-1 Chinese MNEs' Ownership Structure 2003



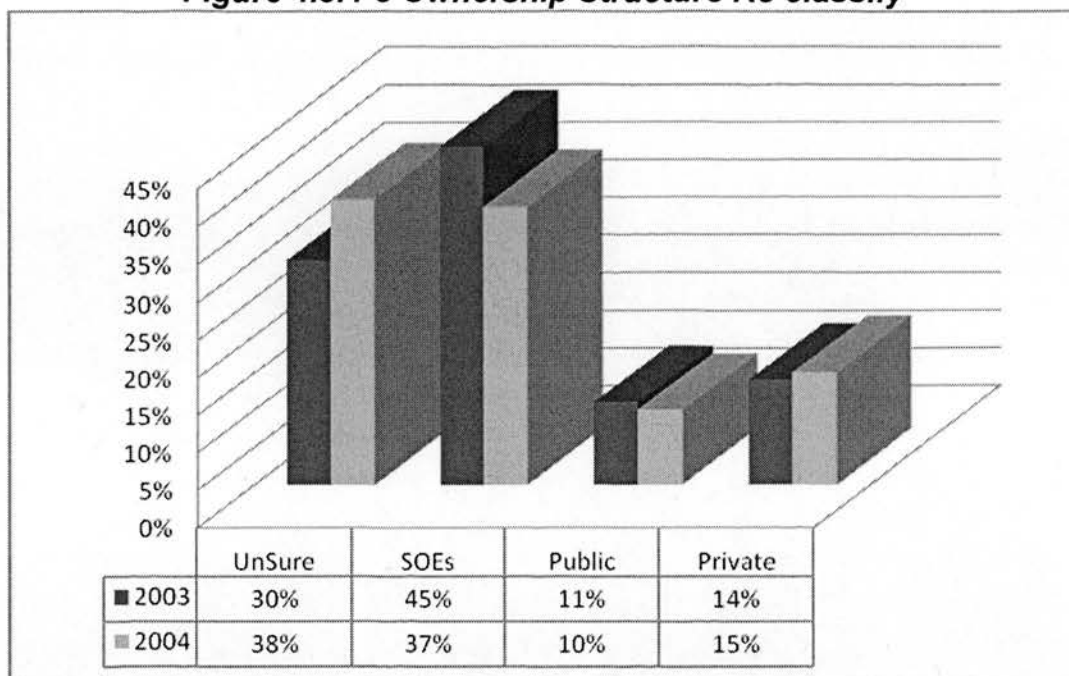
Source: Chinese OFDI Annual Report 2003

Figure 4.3.4-2 Chinese MNEs' Ownership Structure 2004



Source: Chinese OFDI Annual Report 2004

Figure 4.3.4-3 Ownership Structure Re-classify



Source: Calculated from Chinese OFDI Annual Report 2004

4.4 Unconventional OFDI Activities and Noise in the Data

From the micro view, the data problem is also a result of issues with the Chinese OFDI. While studying Chinese OFDI activities, researchers discovered various problems with OFDI and survival. Chinese overseas investment suffers from the problem of capital flight, round tripping, loyalty and quality of human resources, and misleading motivation, which can also cause problems—whether for official data or private survey.

This issue is very interesting, but can confuse research. Chinese OFDI might not really be as 'normal' as other emerging market OFDI. The following research includes the very fact that the data could be very 'noisy', due to unexpected behaviours, motivations, and even naivety⁴. Critically, some of the noise is generally deliberately hidden by target companies. Therefore, the research and data collection are even harder.

OFDI is one of the major methods for 'Chinese capital flight' (Shi J.X. 2003, H. Wu & CH. Chen 2001, Gunter 1996, and Song 1999). Shi J.X. (2003) found that a number of managers have embezzled state-owned capital by transferring the state-owned capital to a foreign country under the name of OFDI.

D.Wall (1997) stated so called 'non-economic reasons' for Chinese OFDI. For some developed countries such as Canada and Australia, foreigners can be granted residency rights, or even citizenship, via investment. A Chinese firm (especially SME) may invest in a certain country just because the manager wants to gain access to the benefits of those rights or to apply for citizenship.

⁴ TCL's CEO Mr. Li Dong Sheng gave a report on motivation of entering the European market. He used three out of four pages to discuss 'national pride' and to be the 'world No.1 TV producer', and only one page for brand acquisition and market entry strategies.

Additionally, round tripping as a special issue of Chinese OFDI has also attracted the attention of research. Previous Government policy treated 'foreign' and 'local' capital very differently. This encourages some Chinese MNEs to set up pseudo-Sino-foreign partnerships in order to enjoy policy benefits. They take over overseas companies, and then disguise the relationship between the parent company and foreign subsidiaries. The subsidiary would invest in China to 'start' a partnership or takeover the Chinese parent company. This new joint venture would then enjoy the foreign policy benefit as it is a more or less Sino-foreign J.V. partnership. (Wong 2006; Gan 2006). However, by the joining of the WTO, this kind of investment should be reduced and will soon vanish.

According to Lin (1998) and Cai (1999), in China there are some blind spots affecting the development of overseas enterprises. Some Chinese enterprises invest in foreign markets without a clear idea about the condition of the targeted market. They also criticise the blindness of some enterprises. The 'true' motivation of some Chinese enterprises is only to 'follow a fashion'.

GaoFei Wu (2002) criticises the quality of staff in the subsidiaries. He argues that staff simply extend their working behaviour from China to a foreign country, and thus usually lack positivity. Qi Shi (2001) argued that for most Chinese staff members who work in foreign subsidiaries, especially in DCs' subsidiaries, seeking another job in the host country is more attractive. Once these staff members gain some work experience, they will begin to look for jobs in the host countries.

4.5 Summary of the Chapter

In order to review the overall picture of Chinese OFDI, examine the quality of Chinese OFDI research which is based on official data, and basically to

challenge this research, this chapter has briefly reviewed official Chinese OFDI data provided by two government departments, SAFE and MOFTEC.

The official data is not reliable, as the two major sources for the data do not match. MOFTEC's Chinese OFDI annual report should be the most authoritative and up-to date, as it is published by the responsible Government body.

It is nonetheless possible to outline a rough picture of Chinese OFDI using this data i.e.:

- (i) The flow of the investment value presented a few special 'waves' coordinated to the Government intention. However, the MOFTEC's statistics do not match with SAFE's, especially in recent years.
- (ii) Chinese international investors generally came from the more 'developed' areas of China, i.e. Beijing, Shanghai and Guangdong.
- (iii) Their location choices are very concentrated: most of the investment went to Hong Kong and Asia, followed by tax heavens such as the Cayman Island and British Virgin Islands, then followed by USA and other developed countries. In total, the ten most popular regions attracted 91.47% of Chinese OFDI.
- (iv) The Chinese mining sector accounts for the most significant investment stock, due to Government support and the size of the projects; whereas the manufacturers' investments appear small, resulting from the motivation of 'information seeking' and 'sales improvement' (Ye 1992, Gan 2006).
- (v) Chinese SOEs are the leading force of OFDI, but there are a considerable number of other types of ownership shown in the case of OFDI, i.e. private companies and public companies. Ownership structure is the most confusing part of overall Chinese economic research and it apparently affects data of Chinese OFDI. Clear classification of Chinese firms' ownership does not seem possible in some cases.

In summary, no matter whether from MOFTEC or SAFE, official data miscounts some investments. As noted in this chapter, there are good reasons for caution in using official data. Moreover, it does not provide information at the micro-level, such as a company's strength, motivation or process of internationalisation.

Consequently, for sound research on Chinese OFDI's motivation and location choice, it is still necessary to generate primary data.

Lastly, this chapter reviewed the data collection problem from a micro-level view. Capital flight, round tripping and non-economic reasons all tend to generate "noise" in data collection. This requires great caution when applying Chinese data to the proposed research, regardless of how the data was collected and where it came from.

CHAPTER 5 FRAMEWORK OF THE RESEARCH

Previous research has covered the broad area of outward foreign direct investment (OFDI). However, as reviewed in Chapters 2 and 3, this research was either developed with the focus being on OFDI from DCs' markets, or was not developed in a way which satisfied the characteristics of emerging market OFDI. Another research stream has investigated Chinese overseas investment. However, the poor quality of the data, as discussed in Chapter 4, resulted in questions on the reliability of the discussed outcomes. Therefore, this current research is necessary to apply the established theories to the concept of Chinese OFDI, using a reliable dataset.

This chapter will introduce the question for this research. It will firstly address the research questions, which are in short how the motivation and internationalisation capabilities would affect Chinese OFDI location choice. It will define the variables so that this research can approach the research question. Secondly, it will detail the hypothesis and outline the possible outcomes indicated. Thirdly, this chapter will discuss the survey design, issues related to data handling and the research methodology.

5.1 Development of the Research Questions

As has already been introduced, this research focuses on Chinese OFDI. It pays particular attention to two aspects of OFDI: the motives and core competence. In order to carefully address these aspects, a review of previous relevant research is performed before an in-depth discussion of the two chosen aspects. Finally, the variables for the research are stated, allowing the analysis to be performed.

5.1.1 Previous Research

Wells (1977; 1981; 1983) raised the two fundamental questions of the emerging market OFDI research: (1) what is the motivation of the OFDI; and

(2) what enables these emerging markets' OFDI. These questions were developed and evaluated by a variety of research, such as Lall 1983, 1992; Cantwell and Tolentino 1987; Dunning 1993a, 1995, 2000, 2006; Chen & Chen 1998; Makino, Lau, and Yeh 2002. This section will now briefly summarise the conclusions from recent research in relation to the questions of motivation and internationalisation capability.

5.1.1.1 In the Case of Motivation

Companies' strategies for international expansion were classified into two groups: asset exploiting (which includes market seeking, efficiency seeking, and natural resource seeking) and asset augmenting (which includes technology seeking and capital seeking) (Makino, Lau *et.al.* 2002; and UNCTAD 2006).

Asset exploiting refers to the activities in which investors utilize their competitive advantages to internationalise themselves. These advantages could be assets possessed by a firm (patents, a recognised brand or ownership advantages) or they could involve more efficient organisation of these assets across a geographical space (Makino, Lau, and Yeh 2002; Dunning 2000; UNCTAD 2006).

Meanwhile, companies involved in '**asset augmenting**' may not necessarily possess certain competitive advantages (e.g. firm-specific advantages). Responding to this situation, and motivated by the desire for further growth, these companies might invest internationally to acquire the required resources such as technology, brand name, distribution networks, R&D facilities and managerial competences (UNCTAD 2006), where there are some restrictions on the location of the resources, or indeed location advantages for the resources (Dunning 2000, Oviatt and McDougall 2005).

5.1.1.2 In the Case of Internationalisation Capability:

In explaining how relatively 'weaker' companies can perform an international investment, previous research suggested that possible internationalisation capabilities include the following concerns: (1) alternative technology, such as small-scale technology (Cantwell and Tolentino 1987), (2) emerging market's competitive advantages, such as lower input cost of the home market (Lall 1983; Lau 1992), and (3) the closeness of the psychic distance between south-south countries, such as similarity of cultural background or of the political-economic situation (Well 1980, Lall 1983).

By contrast, more recent research has paid more attention to other internationalisation capabilities. Such as Oviatt (2005a), Oviatt & McDougall (2005), and Autio (2005) who suggested that companies with an alternative governance structure, or unique resources, would be more likely to engage in international investment and become the so-called international new ventures (INVs)

Meanwhile, some research sought to address the ***interdependence between the motivation, internationalisation capability and investment activities***, e.g. location choice and entry mode. Makino, Lau *et.al* (2002) investigated Taiwanese overseas investors, and reported a significant correlation between investors' motivation and their location choice. Companies seem more likely to invest in DCs for market and strategic asset seeking, but to invest in LDCs for efficiency seeking.

5.1.2 The Research Questions

Research on Chinese OFDI is limited (Wu and Chen 2001; UNCTAD 2006; Yang 2006). Therefore, the motivations behind and competitive advantages of Chinese investment still remain to be discovered.

The question is: (1) which features would enhance their investment in the host country? (2) why would a Chinese MNE prefer to engage with a particular **overseas location**; moreover, (3) if two companies share a similar motive, would their different internationalisation capabilities lead them to choosing different locations?

For this research, the above questions concern three issues:

- The first issue refers to the sample companies' core competence and identity. That is: who are the Chinese international investors? What would be the advantages for Chinese overseas investors; are the same competitive advantages (ownership advantages) on which developed countries' investors rely, also applicable to the Chinese? And how would these advantages facilitate the companies' investment activities?
- The second issue refers to investment motivation. What are the Chinese companies' motivations for OFDI? And is there an interaction between motivations and internationalisation competence.
- The third issue considers how Chinese companies have acquired the expertise to facilitate their internationalisation. Why do similar motivations not drive Chinese investors to adopt the same investment routes? Which theoretical framework better explains the features of Chinese OFDI, is it the Process Theory of Internationalisation (PTI), describing a 'slow' and 'learning' process, or IE, through international ventures?

5.1.3 The Variable: Investment Location Choice

For a systematic research, it is insensitive to generalise all the Chinese investors, and simply analyse them as one group. This thesis has

differentiated sample companies in a number of ways, for example by ownership structure, sector, and even size.

However, the most important and directly relevant issue is the location choice of the investment. China has placed herself in an interesting position in the world economy. China is one of the most 'advanced' less developed countries. The Chinese OFDI goes to both developed countries such as USA and UK, and less developed countries such as Kazakhstan and Indonesia. From the firm-level-view, the variety in Chinese companies' market positions makes the 'location choice' an even more valuable factor to study.

To gain in-depth understanding of the motivation and competence of Chinese OFDI, it is essential to compare which of the companies' features eventually lead to the difference between companies' location choice.

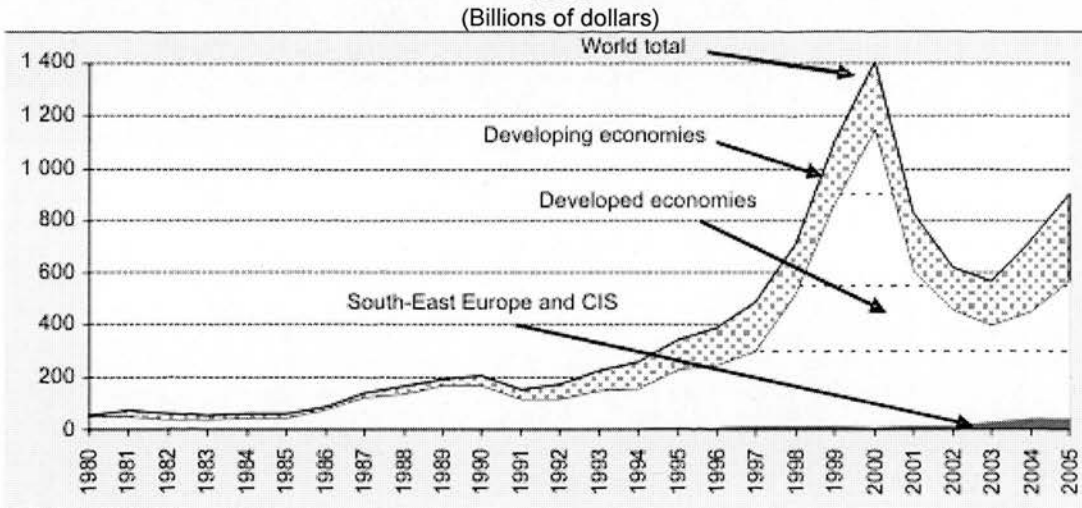
Furthermore, by comparing the investments, research on 'investment location choice' can possibly outline how the lack of experience and investment barriers would be overcome by the different companies. Which motivation will be more likely to 'push' a Chinese company to commit to the further step of internationalisation; and which internationalisation capabilities will enhance the investors' ability to make this further commitment.

This research adopts the World Bank's definition of high income countries as 'Developed Countries', that is : '... countries with a Gross National Income per capita of \$11,116 or more, ("World Bank. (2007). Data & Statistics: Country Groups". Retrieved on 20th-June-2007). The remaining countries are classified as less developed countries.

Developed countries enjoy the richness of their market size and level of economic development. They can offer a higher quality strategic asset, market and investment climate to their investors (Makino, Lau and Yeh 2002, UNCTAD 2004, World Bank 2004, and World Bank 2008). Therefore, the

inward investments to DCs vary greatly from investments to LDCs. For example, *Figure 5.2.1-1* shows the FDI inflow globally and to different groups of economies. In 2005, developed economies attracted about 62% of the total FDI.

Figure 5.2.1-1. FDI inflows, global and by group of economies, 1980–2005



Source: WIR 2006

Source: UNCTAD.

Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdi_statistics).

Furthermore, Hong Kong (HK) is listed individually in this research. HK is a city in China. However, it enjoys a different political system and is famous for its powerful stock market. To Chinese investors, HK offers an opportunity free of control of capital and an accessible distribution network. Most importantly, Chinese and HK people can easily understand each other due to the similarity of culture and language.

Chinese investments to HK are also different, or rather 'unconventional', compared with the investments to other countries. The most well known issue is the so-called 'round-tripping': Chinese companies set up a subsidiary in HK, and invest from the HK subsidiary back to mainland China to M&A with the parent company. The 'new' alliance built between the subsidiary and parent company will then be classified as a Sino-foreign partnership, and enjoy the policy which provides a number of benefits. Other interesting

investment features also include reverse takeover (RTO), and personal benefit which will be discussed in later chapters.

Nonetheless, for Chinese firms, investing to HK is different from investing to other countries or regions. This has attracted the attention of this research, and as a result I introduce three types of location choice in this research, namely, DCs, LDCs, and HK.

5.2 The Theoretical Framework

This research is based on four fundamental theories. They are Eclectic Theory, Process Theory of Internationalisation, International Entrepreneurship and Network Approach. This research is attempting to build up a framework connecting these four theories and will firstly explain why it is possible to connect the theories.

The very fundamental question of the research is: what makes companies with similar motivations invest in different types of locations.

Hence, this research firstly relies on the OLI framework from Eclectic Theory to identify the motives.

Secondly, this research uses Process Theory of Internationalisation (PTI) and International Entrepreneurship (IE) to build up a framework of companies' internationalisation core competence. These are the factors which this research assumes will affect the choice of OFDI location for companies with similar motives.

Thirdly, Network Approach and knowledge transfer are the theoretical foundations of the most important factor introduced by this research—internalisation of internationalisation (i2). This research will discuss i2 in more detail and argue why and how i2 is possible later in this chapter, using these two theories as a basis.

More details of the theoretical framework are presented in *Figure 5.2-1*. The principle of this research is: **international investment is considered to be a part of the process of a company's growth rather than the result of company's growth**. (Autio 2005; Zahra 2005). The framework applied is build based on the companies' investment process.

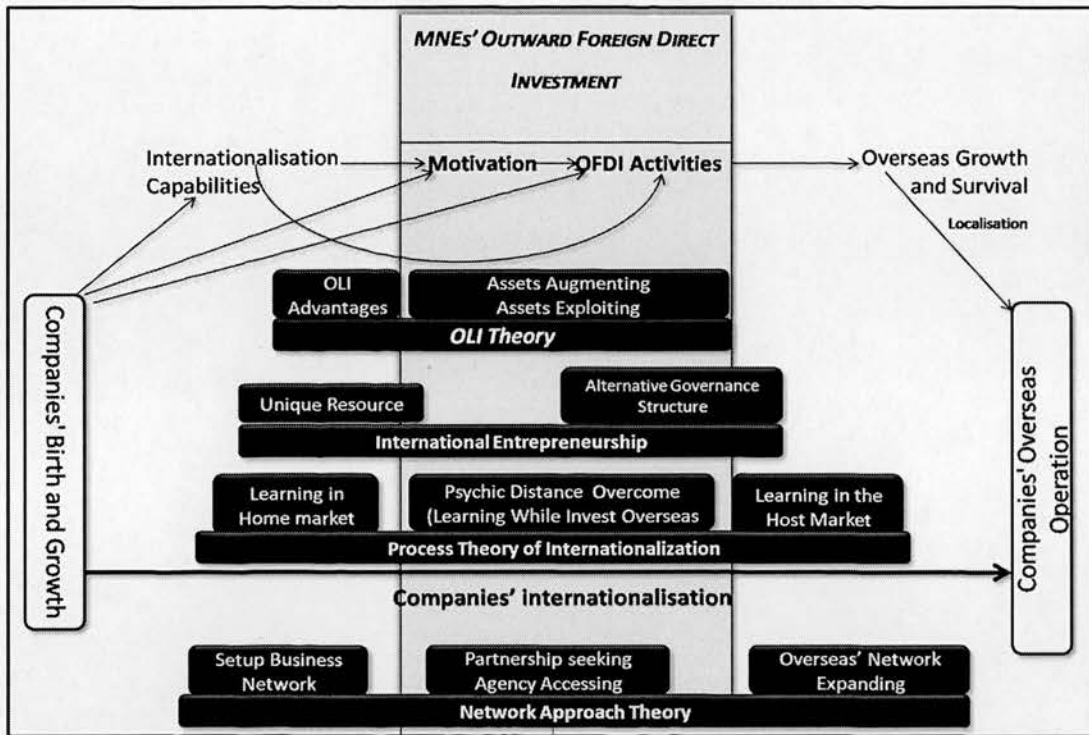
Following the arrows from left to right in the diagram, companies first grow from their birth. The benefit of maximising profit may motivate them to invest internationally, especially if there are benefits of asset exploiting or asset augmenting (Dunning 2000). With the motivation to engage in OFDI, some companies might actually be able to internationalise, if their particular technology (Wells 1980; Lall1983), organisation structure (Lau 1992), ownership structure, or network positions (Chen & Chen 1998, Yang 2006) endows them with certain internationalisation capabilities.

These internationalisation capabilities and the further requirement of the companies' continued growth will drive them to 'want to' (Oviatt and McDougall 2005a, Autio 2005) or 'need to' (Johanson and Vahlne 1977, 1990) invest overseas. The reason behind companies' 'intention' to invest is defined as '*motivation*' in this research. The motivation involves both asset augmenting and asset exploiting (Dunning 2000; Makino *et.al* 2002; UNCTAD 2006).

OFDI activities vary, companies' investment strategy, location choice and entry mode are all included. It should be expected that OFDI motivation will directly affect their OFDI activities, particularly the location choice of the companies (Makino 2002). However, other companies' core competences will also affect activities, such as (1) the network relationship will help companies to share the resources of information and business opportunities (Hakansson and Snehota 1995; Johanson and Mattsson 1988; Hakansson and Johanson 1992; Sharma 1992; Yang 2005; Holm, Blankenburg *et al.*

1996); and (2) the level of understanding and similarity to the host market—referred to as ‘Psychic Distance’—will lead companies to decide their level of involvement in the host market (Johanson and Vahlne 1990).

Table 5-2.1 Theoretical framework



Lastly, after the investment, companies will try to survive and/or grow in the host market. The post-investment stage of companies could be seen as an extension of the investment. The 'stronger' companies may enjoy this foreign market, and grow well (Johanson and Vahlne 1977, 1990; Ersson, Johanson *et.al.* 1997). However, some of the 'weaker' investors may enjoy learning or advantages at the beginning of internationalisation, but to some degree, they will suffer from a lack of international operation experience and management know-how, which may threaten their survival (Sapienza *et.al.* 2006).

The representation of the three positions of the internationalisation makes this framework look like a stage model. However, this framework is not exactly a stage model to the extent of predicting or directing companies' internationalisation process as PTI models do. It should be very clearly stated that **this is a framework which simply focuses on the 'investment' part**

of the internationalisation process, as the research question purely focuses on the 'investment' part.

For the aspect of theory, this research will mainly rely on Dunning's Eclectic Theory (Dunning 1977; 1979; 1981; 1988; 1995; 2000) to explain the above OFDI issues. It seeks to address: firstly, why the demand of a particular market was not met by a local firm or by importing; and secondly, why a MNE's expansion behaviour was not accomplished through other channels (Moosa 2002). The OLI framework is focussed on investment motivation and internationalisation capabilities. Considering the upgraded version of the theory emphasising the importance of the 'asset augmenting', and the process of the 'exploiting' and 'seeking' advantages, it should also be accepted that the theory is valuable in explaining OFDI activities.

Additionally, the other three schools of internationalisation theory will also be applied in this research. It is interesting to notice that Chinese MNEs' internationalisation pace is rather faster than those MNEs' from other developed countries (Cooke 2006, Lituchy and Du 2006). In fact, considering IE predicts the significant effect of the alternative governance structure and unique resources to accelerate international investment (Oviatt and McDougall 2005), it will be very important to examine whether there are any signs of the two factors existing in Chinese OFDI.

PTI has been challenged enormously by previous research (McDougall and Oviatt 2003), but as discussed in Chapter 2 (Section 2.2.2), the contribution of the 'Learning and Reacting' aspect of PTI should not be ignored (Johanson and Vahlne 2003). In the case of China, it is important to find out how Chinese companies—which grow very quickly due to foreign inward investment and Government policy protection—learn to invest.

The Network Approach is also applied in this research. As reviewed in Chapter 2 (Section 2.4.2), the understanding and robustness of research on

international investment would be greatly enhanced if the sample companies are seen as interdependent units living on a 'web'. Specific to the case of China, as 'GuanXi' is one of the most distinguished features of the Chinese business environment and culture, it would be necessary to check how the Network Approach performs in Chinese OFDI.

5.3 Hypotheses

The hypotheses of Chinese companies' international investment location choice are grouped into two sections. The first section will outline the influence of firm's motivation on their location choice—it is expected to see that companies invest in DCs for technology seeking, and invest in LDCs for their market share or natural resources. The second section focuses on discussing how companies' internationalisation capabilities will interact with the motivations and so influence the location choice.

5.3.1 Hypotheses: The influence of MNE's Motivations on Location Choice

Following the OLI framework and IDP, this research classifies companies' international investment strategies into two categories, namely 'asset exploiting' and 'asset augmenting' (Dunning 2000).

Asset exploiting refers to companies '*in a position to respond directly to these pressures or opportunities to internationalize by utilizing their competitive advantages*' (WIR 2006 Chapter 4, Section A, Page 142). The choice of the investment location is generally determined by the following three types of motives: market seeking, efficiency seeking, or natural resource seeking.

Asset augmenting refers to the situation where companies '*may not possess competitive advantages, especially firm-specific ones, which allow them to respond to, or exploit effectively, the drivers mentioned above. In order to*

address this shortcoming, such firms may therefore be motivated to venture into international markets and exploit their limited competitive advantages in order to acquire "strategic" created assets' (WIR 2006, Chapter 4, Section A, Page 142). This type of companies will generally invest to an overseas location for technology seeking or capital seeking.

However, this does not imply companies will only choose one way over another. In fact, the two strategies are often combined.

Considering the development level of a country, it is assumed that DCs are rich in current-technology, high-purchasing power, or available capital. This research expects that Chinese MNEs intend to invest in DCs rather than in LDCs if their primary FDI motivation is asset acquiring for technology and capital.

By contrast, assuming that MNEs would have access to a low cost labour force, LDCs would provide a more abundant market for low value-added production and more easily accessible or more reliable supplied natural resources. It is therefore expected that Chinese MNEs invest in LDCs for natural resource seeking and low value-added production market seeking. However, as China itself is rich in low cost labour, it is not expected to see any significant labour-cost seeking motivation present in this research.

For the case of China, 'natural resource seeking' is limited only to some Asian countries, Canada, Australia and African countries.

Lastly, HK offers a capital market which is relatively free of control, and of which the regulation system is more trusted by the western world. Apart from round-tripping, Chinese firms also find a quick way to raise capital in the stock market, namely through reverse takeover (RTO). That is, a Chinese company will take over a shell company in the stock market, then use the shell company to M&A the Chinese part. Because the shell company is

already a public company, the Chinese investor thus bypasses the initial public offering process and can raise capital efficiently. This has encouraged Chinese companies to invest in Hong Kong.

It will be expected to confirm the assumption that internationalisation knowledge will facilitate international investment. In this regard, firms which do not have enough knowledge of multinational operations may be more confident in investing in Hong Kong rather than other regions.

Hypothesis 1-1: it is expected that Chinese companies intend to invest in DCs for technology seeking

Hypothesis 1-2: it is expected that Chinese companies intend to invest in HK for capital seeking.

Hypothesis 2: it is expected that Chinese companies are more likely to invest in LDCs for market or natural resource seeking.

5.3.2 Hypotheses: The Influence of MNE's Internationalisation Capability on Location Choice

This section reviews how companies' internationalisation capabilities will affect their investment location choice.

5.3.2.1 Internalisation of Internationalisation

Process Theories of Internationalization (PTI) suggest the importance of 'experiential knowledge', where 'psychic distance' is one of the major barriers to internationalisation. The network approach suggests--in contrast--that network relationships could improve companies' performance to overcome the unfamiliarity of the foreign market; and International Entrepreneurship (IE) suggests that companies' international investment is a

process of 'catching business opportunities'. This raises the questions of the 'degree of importance of the experiential knowledge' and the 'alternative process of achieving the overseas market knowledge'.

This research introduces the term of measurement for the above issues. From a number of interviews and surveys, the author found that some Chinese companies which had formed a strategic alliance with one or more overseas companies seemed more comfortable investing abroad. Apparently, Chinese companies had already started to learn while they were operating inside China.

Therefore, this research introduces the term of '***Internalisation of internationalisation (i2)***', as a proxy for the expertise that may be acquired by a Chinese firm that has a deep and extensive partnership with overseas investors. Considering the significant amount of inward FDI into China during the past two decades, it is believed that Chinese MNEs could eventually learn to deal with 'foreign' co-operation via Sino-foreign partnerships or business alliances. Some Chinese business units are familiar with working in international business situations through their personal working experience or educational background, and more importantly, through internal systematic internationalisation evolution. *i2* is measured in terms of two factors in this research: (1) whether there are (were) Sino-foreign relationships in the companies' history; and (2) whether the sample companies have formed a strategic equity or non-equity alliance with one or more overseas companies. It is expected to see that *i2* plays an important part in Chinese OFDI.

In fact, Oviatt and McDougall (2005) suggested that domestic competition with foreign investors teaches local companies about the future operation in the host markets. This implies that domestic competition with foreign MNEs could be seen as another possible aspect of the internalisation of internationalisation process. This research will measure from inside the companies; *i2* in this research refers to the acquisition of experience from

Sino-foreign partnerships, and company's systematic knowledge and experience of foreign countries.

The measurement of i2 is a measure of both network relationships and internationalisation capability. When looking into the outcome of i2, it is interesting to see that the majority of Sino-foreign partnerships and companies' business alliances are with companies from DCs. It is therefore expected to see that companies with i2 will be more likely to invest in DCs.

Meanwhile, a Sino-foreign relationship has not only brought Chinese companies a network connection, but also intangible assets such as operational know-how, technology, expertise, and tangible assets such as capital, equipment and human resources. Thus, it is expected that i2 as an internationalisation capability will help companies to seek market share and created assets in DCs.

By contrast, it is assumed that companies without i2 are relatively less prepared than companies with i2. As HK is more like a 'stepping stone', it is a relatively 'easier' area for Chinese OFDI. Companies without i2 may be more likely to invest in HK.

Therefore:

Hypothesis 3-1: firms with i2 would be more likely to invest in DCs for market seeking rather than HK or LDCs;

Hypothesis 3-2: firms with i2 would be more likely to invest in DCs for created asset seeking rather than HK.

The variables of 'i2' and 'market seeking' or 'created asset seeking' are not simply additive, the presence of i2 would enhance the effect of market seeking or created asset seeking on the investment location choice. Hence,

to test the hypothesis this research will introduce interaction terms representing this connection.

5.3.2.2 Government Relationship

Research on emerging markets has suggested that third world governments are highly involved with companies' OFDI (Wu & Chen 2001; Giroud 2005; Yang 2005; and Cooke 2006). In the case of China, it is expected to see that a close and intimate relationship with the Government will be helpful for Chinese MNEs' overseas investment. As reviewed in previous chapters, compared with DCs' MNEs, Chinese international players are relatively young and weak. The 'help' from the Government is not only the provision of information and service, but is also deeper and more comprehensive, e.g. special permission for foreign exchange and potential policy protection. This research expects to see that companies with closer Government relationships will be more comfortable in international investment, especially when they invest in DCs.

Hypothesis 4: firms with a closer Government relationship would be more likely to invest in DCs for created asset seeking rather than HK.

Again, the variables 'government relationship' and 'created asset' are not simply additive and so this research introduces them into the model as an interaction term.

Ownership advantages (Dunning 2000) and unique resources (Oviatt and McDougall 2005), should act as a major resource to facilitate companies' international investment. Hence, it is expected to see technology advantages and Chinese labour intensive production process capability (labcap) as other major internationalisation capabilities for Chinese OFDI. Considering the features of the host market, this research expects that both of these advantages will facilitate companies' investment. However, strong production

process capability is a very common factor of almost all Chinese companies, therefore it is hard to differentiate how this capability will influence companies' location choice.

5.4 The Questionnaire Design and Data Collection

To apply the expected outcome and hypothesis, this research will rely on quantitative research methods.

Quantitative research methods provide the numbers (Fielding and Nigel 2000). It is commonly applied by research as the method to provide a logical structure in which theory determines the problems to which researchers address themselves in the form of hypotheses derived from general theory. These hypotheses are invariably assumed to take the form of expectations about likely causal connections between the concepts that are the constituent elements of the hypotheses (Bryman 1990). Moreover, quantitative research tends to comprise the examination of concepts which are difficult to derive from some prior theory (Warshay 1975).

Surveys are the most commonly used type of quantitative methods-- they are defined as a procedure for collecting large amounts of data from a relatively large group of people using question and answer formats (Oppenheim 1992; McDaniel and Gates 1993; Robson 1993; Remenyi, Williams *et al.* 1998).

There are three major issues around the data survey, namely, choosing a sampling method, the questionnaire design, and choosing an administration method:

Sampling method: Considering the size and distribution of companies; ideally, a stratified sampling method should be applied for surveying Chinese OFDI. i.e. sample companies from each city to gain an understanding of the situation across China. However, the very low response rate which normally

occurs in social research, plus a very secretive Chinese business culture, might lead to this sampling method failing.

Consequently, a non-probability method with a convenience strategy was necessary to proceed in data collection. i.e. relying on the practitioner's (or his family and friends) personal network when selecting the first wave of interviewees and persuading them to introduce more of their friends to be the next wave of interviewees, and so on. This sampling method is called 'snowballing'. The benefit of this method is that it leads to a relatively higher response rate, and deeper insight into the case. The drawback of this method is that it is limited to a single person's social network power which may negatively affect the size and skew of the sample selection. This might result in a bias problem for the research.

A sample selection is based on three principles. Firstly, the sample firms should cover the different kinds of ownership. Secondly, firms should be geographically located around China. Thirdly, in order to ensure the research is practical, sample firms should have made overseas investments in recent years.

Following the proposed sampling method, the administration method was chosen to be personal face-to-face interview, telephone interview, and mail & email. More than half of the sample companies were interviewed twice to assure the quality of the data.

As shown in *Appendix 5.4-1 and 5.4-2*, the longer questionnaire combines both open-ended questions and closed-ended questions and contains 7 sections: 1) background information, 2) Selecting a Foreign Country and Entry Mode, 3) Motivation, 4) Government Services, 5) Competitive Advantages of Your Firm, 6) Human Resources, 7) Improve the Chinese OFDI. By contrast, there are no open-ended questions in the shorter questionnaire. In fact, it can be completed in around 20-30 minutes.

There are two issues which should be borne in mind: (1) the questionnaire in the survey was actually designed and used in Chinese language. Therefore, some cultural and language misunderstanding may result from trying to understand the survey from only the English edition of the questionnaire. (2) This is a survey to find out more about the decision making process of OFDI and on the effect of key factors in this decision, not to provide an alternative measure of Chinese OFDI.

5.5 Data Handling

The survey was conducted from September 2004 to January, 2005, and from May, 2005 to September, 2005 in Beijing, Shanghai, Guangzhou, Shenzhen, Daqing and Dalian.

Table 5.5-1 shows the basic statistics of the data collection. All the interviewees were company senior managers or their OFDI project managers. There were a total of 33 interviews. In addition, 1199 questionnaires were sent out and 159 responses were received, giving a response rate of 10.4%. Among the 159 responses, 95 questionnaires provided necessary and useable information. This makes a total of 128 useful responses.

All the 128 responses were used in statistical analysis (refer to Chapter 8 and Chapter 9 for more information). The information collected from interviews was also used in the case studies (refer to Chapter 7 for more information).

The interviews took an average of two hours. However, as a number of questions were open-ended, the interview times varied. When questionnaire responses were unclear, the individuals who filled in the questionnaires were contacted to confirm the information, which took an average of 15 minutes.

As shown in *Table 5.5-2*, the majority of the sample companies are large companies: 44% have over ten thousand employees, 49% have between one

and ten thousand employees, and 7% have fewer than one thousand employees.

The sample companies' headquarters are mainly located in three provinces, with 34.1% in Beijing, 23.3% in Shanghai, 21.7% in Guangdong, and the remaining 20.9% in other provinces. This is because most Chinese FDIs were performed by companies from these cities (Chinese OFDI annual report 2004). Location of the headquarters is an important factor, which will be reviewed in more details in Chapter 6, in Section 6.2.2.

Ownership is another very important factor. In this survey, companies' ownership structures are as follows: 56.6% are State Owned Companies; 25.6% are Private companies; and 17.8% are Non-SOE Public companies. More details will be described in Chapter 6, Section 6.2.3.

The distribution of the companies' sectors is as follows: 52.3% in manufacturing; 12.5% in mining; and 35.2% in other sectors. This will be detailed in Chapter 6, Section 6.2.5.

Due to the importance of data collection, data quality and data analysis to this research, the following four chapters will describe and analyse the data. Chapter 6 will fully review the descriptive data of sample companies' details, such as companies' location, ownership structure, age, and sector. Chapter 6 will also review companies' internationalisation capabilities, such as their labour advantages, technology advantages, government relationship, and i2.

Meanwhile, Chapter 7 will review the motivation of investment. Namely market seeking, natural resource seeking, capital seeking, and created asset seeking.

Chapters 8 and 9 will put all the above data together and analyse the inter-correlation between all the factors to answer the hypotheses outlined in

Chapter 5. Descriptive statistical analysis will be performed in Chapter 8 and the logistic regression analysis will be discussed in Chapter 9.

5.5-1 Basic Statistics of Data Collection

The Interviewee	Company Senior Managers or The Investment Project Managers
Number of Interview	33
Number of Questionnaire Sent Out	1199
Number of Questionnaire Collected	159 (where 95 of them are useful)
Length of Time Averagely	Per Interview 2 hours per Questionnaire 30mins
Size of the target company	Over 10Thousand employees 44% Between 1000 to 10000 Employees 49% Under 1000 Employees 7%
Location	Beijing 34.1% Shang Hai 23.3% Guang Dong 21.7% Other Province 20.9%
Ownership	State Own Companies 56.6% Private 25.6% Non-SOE Public 17.8%
Sector	Manufactory 52.3% Mining 12.5% Other 35.2%

5.5-2 Size of the Simple Company and the Amount of Investment

	Number of response	Minimum	Maximum	Sum	Mean	Std. Deviation
Outward Investment Stock Up to 2004	124	100000	414710000	3607701466	29094366.66	62736941.510
OFDI company's Total Assets at Year 2004	127	90000	195978000000	861087718379	6780218254.95	27571278297.279
OFDI company's Net Sale at Year 2004	125	-7590000	38286500000	209248661060	1673989288.48	5241582046.556
OFDI company's Liability at Year 2004	127	-810000	71829700000	236835452576	1864846083.28	7240321478.577
OFDI company's Number of Employee at Year 2004	128	80	400000	1278935	13462.47	52169.463
Foreign Subsidiary's Total Assets at Year 2004	49	158000	12832000000	20677286000	421985428.57	1823473946.554
Foreign Subsidiary's Net Sale at Year 2004	50	-596928000	288293000000	303644407199	6072888143.98	40736251908.171
Foreign Subsidiary's Liability at Year 2004	39	27000	8003000000	22641868000	580560717.95	1427219985.124
Foreign Subsidiary's Number of Employee at Year 2004	12	20	7000	24250	2020.83	2727.231
Valid N (listwise)	9					

5.6 Why this research Apply Logistic Regression

Regression analysis is a technique that examines the relationship between a dependent variable (response variable) and specified independent variables (explanatory variables). There are basically two uses of regression analysis—to simply apply as a 'Descriptive' method for representing the relationship or to perform a 'prediction' of causal relationships. According to the research questions, this thesis applies it as a 'descriptive' method.

Liner regression was one of the earliest developed regression models, and the most often used. The most basic regression—simple linear regression model is shown as:

$$y_i = \alpha + \beta x_i + \varepsilon_i$$

where α is the intercept, β is the slope, and ε is the error term, which picks up the unpredictable part of the response variable y_i . The error term is usually posited to be normally distributed. The x 's and y 's are the data quantities from the sample or population in question, and α and β are the unknown parameters ("constants") to be estimated from the data. Estimates for the values of α and β can be derived by the method of *ordinary least squares* (OLS).

However, one of the assumptions of linear regression is that the dependent variable is continuous data. As the dependent variable of this research—location choice—is a set of categorical data, logistic regression should be used rather than liner regression. Logistic regression has many analogies to liner regression, for example: both show an equation of a similar form, with the coefficient in logistic regression being logits while OLS are simply beta values, and the standardised logit coefficients correspond to beta weights. But logistic regression does not require the dependent variable to be continuous data. Therefore, it is used extensively in the medical and social sciences as well as marketing applications such as analysing a customer's propensity to purchase a product or cease a subscription.

Hence, for a set of data where the dependant variable is categorical, instead of continuous, e.g. Y could only be (Yes/No) or (High/Medium/Low), the relationship between Y and X are not likely to be liner. The 'normal distribution' assumption is not applied, and the logistic distribution should be considered (W.Hosmer and Lemeshow 2000; Yu and Main 2006).

Logistic regression could be expressed as:

$$l(x) = \frac{1}{1 + e^{-(\beta_0 + \beta_1 x_i)}} = \frac{e^{\beta_0 + \beta_1 x_i}}{1 + e^{\beta_0 + \beta_1 x_i}} = \frac{e^{z_i}}{1 + e^{z_i}}$$

$$1 - l(x) = 1 - \frac{e^{\beta_0 + \beta_1 x_i}}{1 + e^{\beta_0 + \beta_1 x_i}} = \frac{1}{1 + e^{\beta_0 + \beta_1 x_i}} = \frac{1}{1 + e^{z_i}}$$

In this function, 'z' could take any value from negative infinity to positive infinity, whereas 'l(z)' is confined to values between 0 and 1. Therefore, in statistical analysis, 'z' could be used to describe any factors, e.g. the motives of companies' investment or the annual turnover. The function 'l(z)' will represent the probability of a particular outcome, e.g. the probability of 'Yes' or 'No.'

The variable 'z' in above function is normally defined as

$$z = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \dots + \beta_k x_k,$$

where β_0 is called the "intercept" and $\beta_1, \beta_2, \beta_3, \dots$, are called the "regression coefficients" of x_1, x_2, x_3, \dots respectively. The intercept is the value of 'z' when the value of all the other factors is zero. Each of the regression coefficients describes the size of the contribution of that risk factor. i.e. positive and large coefficient means the risk factor has a strongly positive relationship with the outcome. There is also a test in logistic regression which is equivalent to the

R² statistic in liner regression in summarizing the strength of the relationship between variables.

Unlike liner regression, logistic regression does not assume a linear relationship between independent and dependant variables, it does not require variables to be normally distributed and it does not assume homoscedasticity (variance of the residual term is equal across each observation). It does, however, require that observations are independent and that the logit of independent variables is linearly related to the dependent (Garson 2006).

5.7 The Choice of Independent and Dependent Variables

As discussed in previous chapters, this research follows Dunning's OLI framework, UNCTAD (2006) and Morck, Yeung and Zhao (2008), to choose the motivation variables 'market seeking', 'resource seeking', 'created asset seeking' and 'capital seeking'. These variables are measured using dichotomous variables, assigning '1' if the sample companies consider themselves to be investing mainly with the motivation; and '2' if they do not consider the motivation as their major concern.

Meanwhile, internationalisation capability variables are chosen as 'technology advantages', 'labour intensive production capabilities (labourCap)' (Makino, Lau 2006, Lau, Yiu *et.al* 2006), and 'government relationship' (Rios-Morales and Brennan 2006, Morck, Yeung and Zhao 2008). The above variables are also measured as '1' if sample companies consider the advantage as the major resource to facilitate their investment, or '0' otherwise.

This research introduces 'internalisation of internationalisation' as another internationalisation capability measurement, which represents the business alliance Chinese firms formed with overseas firms before their OFDI. This

research records the dependent variable as '0' if there was (is) an equity alliance, '1' if there was (is) a non-equity alliance, and '2' if there was (is) never an alliance formed.

Three control variables are introduced: (1) firms' ownership structure is measured by the dummy variable 'SOE', where '1' means it is a state owned enterprise (SOE), or '2' otherwise. (2) A Company's entry mode was also introduced as the dummy variable, 'Entry Mode', where '1' represents 'wholly owned foreign subsidiary' and '2' otherwise, and (3) companies' age is measured by 'AGE' where '1' represent the companies is established before 1992, and '2' otherwise.

The company's total asset is also introduced, marked as 'total_asset'.

Finally, this research uses companies' investment location as the dependent variable, where '2' represents investment in a developed country, '1' represents investment to Hong Kong, and '2' represents investment in less developed countries (please refer to Chapter 8 for more details).

Table 5.7-1 shows each variable's name, explains what it is (label), possible answers which could have been received for that variable (category) and thus the type of data. Apart from the dependent variable, location choice, there are four groups of variables for research purposes, namely, motivation, internationalisation capability, company identity, and OFDI activities. The details of these variables will be discussed in Chapters 6, 7, and 8. Most of these variables fall into the category of ordinal data, and only the transformation of companies' assets is scale data.

Target country regions are shown in *Table 5.7.-2*. Hong Kong is the most invested single region. This is not surprising considering the long historical relationship between mainland China and Hong Kong, as discussed previously. The next most invested region is Asia, excluding Hong Kong,

Japan, Singapore and South Korea. Actually, Chinese OFDI in the Asian area (including Hong Kong, Japan *etc.*) takes more than half the cases in the whole sample. This phenomena suggests that theory about 'Psychic Distance' is applicable for Chinese OFDI, and it could also be questioned whether China has entered a 'Globalisation' age or only a 'Regionalisation' age.(Yin and Choi 2005)

North American countries, European countries, Oceania Countries and developed Asian countries in this study, i.e. Singapore, Japan and South Korea, are considered as DCs; Hong Kong is considered as an individual specialised region; Africa, South America, and the rest of Asia are considered as LDCs. Accordingly, 48.8% of the sample of OFDI is aimed at DCs.

Table 5.7-1 Variable Name, Label and Type

Name of the variable	Label	Category	Type
Location_Choice	Dependent variable: Target country by developed level	DC/LDC/HK	Nominal
Market_Seeking	Motivation: Market Seeking	Yes/No	Ordinal
Resource_Seeking	Motivation: Natural Resource Seeking	Yes/No	Ordinal
Created_Asset_Seeking	Motivation: Created Asset-Seeking	Yes/No	Ordinal
Capital_Seeking	Motivation: Capital Seeking	Yes/No	Ordinal
labourCAP	Internationalisation capability : labour advantage	Yes/No	Ordinal
Technology_Adv	Internationalisation capability : technology advantage	Yes/No	Ordinal
Government_Supporting	Internationalisation capability : Relationship with the Government	Yes/No	Ordinal
i2	Internationalisation capability : Internalisation of Internationalisation	Full/Semi/None	Ordinal
Total_Assets	Identity: Natural log transform of total assets		Scale
SOE	Identity: Whether the MNE is a SOE	Yes/No	Ordinal
AGE	Identity: Regroup of Age	Yes/No	Ordinal
Entry_Mode	Joint Venture OR Wholly Owned Foreign Enterprise(WOFE)	Yes/No	Ordinal

Table 5.7-2 Target Country Region

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid				
HK	28	21.7	21.7	21.7
Asia exclude HK, Japan, Singapore and South Korea	25	19.4	19.4	41.1
North American	22	17.1	17.1	58.1
Singapore, South Korea, and Japan	18	14.0	14.0	72.1
Europe	13	10.1	10.1	82.2
Oceania	10	7.8	7.8	89.9
African	8	6.2	6.2	96.1
South American	5	3.9	3.9	100.0
Total	129	100.0	100.0	

5.8 Forwards Stepwise Variable Entry Method

Considering that observations are all nominal data, it is appropriate to apply logistic regression rather than OLS. The goal of an analysis applying logistic regression is the same as OLS, i.e. to find the relationship between dependent variables (outcome of an event, usually recorded as Y), and the independent variables (factors explaining why the outcome is happening, usually recorded as 1, x_1, \dots, x_3) (Fielding and Nigel 2000). In fact, it can also be used to find out the best fitting and most parsimonious, yet biologically reasonable model to describe the relationship between an outcome and a set of reasons (W.Hosmer and Lemeshow 2000).

To apply the regressions, practitioners should be very aware of assumptions and limitations. In practice, the problem of over-fitting, i.e. using too many variables for the number of observations, should also be considered.

For this research, considering the size of the sample it is not possible to throw every variable into the same regression. A stepwise variable-entry strategy should be applied. *'Employing a stepwise selection procedure can*

provide a fast and effective means to screen a large number of variables, and to fit a number of logistic regression equations simultaneously.' (W.Hosmer and Lemeshow 2000).

There are two kinds of stepwise selection methods: forwards stepwise approach and backwards stepwise approach. Forwards stepwise is more appropriate for important variable selection, via the addition of the most statistically significant variable into the model at each step. Whereas backwards stepwise focuses on unimportant variable elimination, via deletion of the most statistically insignificant variable from the model at each step. As the backward stepwise method tends to over fit the model in the context of limited data (Hu 2006), this research will adapt forward stepwise entry strategy.

5.9 Summary of the Chapter

This chapter presented the hypotheses, survey method and data handling for the thesis.

This research focuses on studying the inter-correlation between Chinese overseas investors' motivations, international capabilities, and their location choice. It is expected to see that the sample companies will be more willing to **augment** their resources in the DCs due to the richness of technologies, capital and market. Meanwhile, it is expected to see that they will be more likely to **exploit** their advantages in the LDCs, due to the host countries' low cost labour force, market for low-value-added production and richer/cheaper natural resources. *Table 5.6-1* summaries the 4 hypotheses discussed in this chapter.

Table 5.6-1 Hypotheses

	Hypothesis 1	Hypothesis 2	Hypothesis 3 *		Hypothesis 4*
Internationalisation capability			i2	i2	Government
Motivation	Asset Seeking	Asset Exploiting	Market Seeking	Created Asset Seeking	Created Asset Seeking
DC	+	-	+	+	+
HK	+	-	-	-	-
LDC	-	+	-		

* Interaction

+ Prefer to invest to this type of location

- Prefer to not invest to this type of location

This research is also directed by investigating the effect of internationalisation capabilities on investment location choice.

The hypotheses were tested on 129 useable survey responses.

Considering the type of data, this research will apply logistic regression with a forward stepwise variable entry method.

CHAPTER 6 REVIEW OF SURVEY: COMPANY IDENTITY AND INTERNATIONALISATION CAPABILITIES

6.1 Introduction to the Chapter and the Survey Data Structure

The structure of the quantitative data follows the planned questionnaire. For each sample company, there are four major sections of measurement:

1. **Company's Identity:** this section records basic information about the sample company such as age, size, ownership structure, and balance sheet information. This section presents a rough picture of who the company is, what kind of Chinese firm is willing to invest overseas or, in other words, what are the universal features of Chinese OFDI companies (if there are any).
2. **Companies' Internationalisation Capability :** as assumed, an international venture should possess certain excellent resources which enable them to be dissimilar to the non-international venture overall (Makino, Lau *et al.* 2002; Autio 2005; Oviatt and McDougall 2005). This section shows a sample company's special features linked to their OFDI capabilities, namely, network relationship, labour advantage, Government relationship, internalisation of internationalisation and technology advantages (such as technology, expertise).
3. **Companies' OFDI motivations:** although the Chinese OFDI is undoubtedly 'here to stay', there are still a number of issues to be discovered or to be confirmed. The most fundamental one would be the motivation of the OFDI; the quantitative combination of the 'asset exploiting' and 'asset augmenting' motivations and also how important these motivations are for the OFDI decision making of the Chinese company. Following the hypotheses, the survey about motivation was designed in four parts: market seeking, created asset seeking (i.e.

brand name or technology), capital seeking and natural resource seeking (motivation analysis will be discussed in Chapter 8).

4. **Companies' OFDI behaviour activities:** It is accepted that emerging market and Chinese OFDI is more or less different to 'traditional' OFDI (Wu and Chen 2001; Chen, Chen *et al.* 2004; Giroud 2005; UNCTAD 2006). The interesting question is, to what extent it is different. This section of the survey attempts to classify Chinese companies' unique OFDI activities such as entry mode, investment value and location choice. Moreover, this survey also examines some in-depth information such as the final destination of overseas subsidiaries' production or services (the so called 'aim market' in this research).

Accordingly, the next four chapters will review and analyse the above measurements.

Chapter 6 will, firstly, represent an overview of the survey's output, which includes the size of the survey and response rate. It will then examine in more detail the sample company's identity. The internationalisation capability will be discussed in the final section of the chapter.

6.2 Company Identity

6.2.1 Overview of the Sample Companies

The interviews took an average of around 2 hours to complete with each company. The interviewees were the companies' chairmen, CEOs, or the international investment project managers. Approximately one thousand companies were contacted during the survey, with 152 of them responding. Among the responses from the 152 companies, 129 of the interviews and questionnaires were actually of use.

Table 6.2.1-1 Size of the survey

	Survey data provided	Chinese Official (CN)	UN's data (UN)	Cover rate	
				Survey/CN	Survey/UN
Total OFDI value up to 2004 (Billion \$)	10.7	44.9	38.8	23.8%	27.58%
Total assets (Billion\$)	1739.5	N/A	N/A		N/A
Number of Companies	129	5163	N/A	2.5%	N/A
Number of Subsidiaries	166	N/A	N/A		N/A
Number of Target nations *	35	149	N/A	23.5%	N/A
% of green field and overseas office	36%	96.60%	N/A		N/A
% of JV	64%	3.40%	N/A		N/A
% Investment in HK	26.6%	17%	N/A		N/A

Table 6.2.1-1 represents the overall size of the survey and the number of companies. As shown in the above table, official data indicated that the total overseas investment value (OIV) to 2004 was 44.9 billion USD (according to MOFCOM) or 38.8 billion USD (according to the UN). The total OIV in the surveyed data is 10.7 billion USD, which is 23.8% and 27.58%, respectively, of China and the UN's official announcement.

MOFCOM also reported a total of 5,163 Chinese companies doing, or having carried out, overseas investment. There are 129 companies in the survey sample, which accounts for 2.5% of the total amount. A few very significant OFDI firms such as CNPC, CNOOC, BOE and Lenovo, were included in the survey. As the majority of Chinese OFDI transactions are of a low value, these few 'significant' investors accounted for a very large percentage of the total investment. This could be one explanation for why the 2.5% of the total number of companies included in this survey could represent 23.8% of the total OIV.

26.6% of the survey sample companies invested in Hong Kong, which is higher than the official data of statistic of 17%.

The descriptive analysis is shown in *Appendix 6.1*. Excluding the petroleum sector, the Yanjing Bear group has the largest total assets (about 195 billion USD), whereas Mr. Song's Garden Art Company (a family business) only possesses about 1 million USD. The most considerable single investment deal in this survey was Lenovo's takeover of IBM costing 1.25 billion USD; and the smallest deal was Wenjian Group's setting up of the WOFE in USA, which was only 0.1 million USD. When considering the petroleum sector, Petro China (90% owned by CNPC) is the largest overseas investor with 829 Billion USD in total assets, as well as the largest OFDI stock--5.11 Billion USD.

It should be noticed that Chinese official data shows 96.60% of OFDI is green field investment, whereas this research shows only 36%. This is because this research does not consider overseas offices as OFDI.

6.2.2 Location

Location of the sample company refers to the parent company's headquarters' location (province). Considering the relatively small number of cases, this indicator is classified as: 1—Beijing, 2—Shanghai, 3—Guangdong, and 4—Other Provinces which include Hubei, Sichian, Liaoning, Zhejiang, Xianjiang, Heilongjiang, Fujian, and Jiangsu.

As shown on *Table 6.2.2-1*, Beijing, Shanghai and the Guangdong Province account for 34.1%, 23.3% and 27.1% of the total sample companies. This implies a similar trend to that of official Chinese data (Foreign Investment Administration of MOFCOM). The Government Report states that most Chinese OFDI comes from certain major cities and provinces. Among them, Beijing, Shanghai and Guangdong account for a total 67.04% of Chinese OFDI during 2003 and 2004.

Table 6.2.2-1 Location of the Sample Company

	Frequency	Percentage
Beijing	44	34.1
ShangHai	30	23.3
GuangDong	28	21.7
Other Provinces ⁵	27	20.9
Total	129	100

6.2.3 Ownership

Chinese companies are famous for their confusing ownership structures as a result of approximately 30 years of forceful and black-box operated 'reform and liberalisation' processes.

The same issues also affected my data collection and Chinese company ownership is indeed complicated. Even interviewees themselves sometimes cannot make this issue very clear. However, companies tend to declare that they are SOEs when they deal with Government protection policies, and announce they are public companies when trying to sell stock on the stock market, especially on the foreign stock market.

To standardise the classification of Chinese SOEs for the purposes of this research, the basic idea is firstly, to accept the fact that most of the Chinese SOEs (at least all the SOEs in my samples) are public companies as long as it is accepted that a public company is '*a company that is listed on the Stock Exchange where the company's shares are available for the public to invest in*'. This research argues that the 'public or listed' SOE is a unique form of

⁵ Including Hubei province, Liaoning province, Zhejiang province, Xinjiang province, Heilongjiang province, Hainan province, Jiangsu province, Fujian province, Menggu province, Guangxi province, and Hebei province—please refer to appendix 6.2.2 for details

public company because part of its stock is 'non-circulating stock'⁶ held by the Government.

Secondly, the idea is to examine the level of their non-circulating share (state owned share). Accordingly, there are four groups of companies from the aspect of ownership structure, as shown in *Table 6.2.3--1*, namely: (1) public company with 51% plus state owned non-circulating share; (2) public company with 1% to 50% state owned non-circulating share; (3) public company with no state owned non-circulating share; (4) private company. Using this definition, in turn they account for 38%, 18.6%, 17.8% and 23.6% of the total data.

Table 6.2.3-1 State Share Holding

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	51% State Owned Public	49	38.0	38.0	38.0
	1% to 50% State Owned Public	24	18.6	18.6	56.6
	No State Owned Public	23	17.8	17.8	74.4
	No State Owned Private	33	25.6	25.6	100.0
	Total	129	100.0	100.0	

Source: Author's Interview

As shown, overseas investors with state owned non-circulating share account for 56.6% of the total data. However, as shown in *Table 6.2.3-2*, no

⁶ There are two kinds of non-circulating stock, one is state owned stock, which represents the equity interest of state owned finance holding companies or Chinese government attributable to state equity investment, or a lawful transfer of stock owned by government departments or state owned finance holding companies. The other type is "Legal person shares", it represents equity attributable to investment of discretionary funds by, or a lawful transfer to, entities that are formal "legal persons", such as companies and certain institutions, and social groups. Legal persons could be in turn state-owned or state-controlled. When they are, the share capital they hold (i.e., indirectly state-owned share capital) is known as "state-owned legal person shares".

matter whether judging from the aspect of size of the company (total assets) or investment stock, the non-SOE companies are greatly overtaken by SOE companies.

Table 6.2.3-2 Ownership V.S. OFDI stock & Total Asset

	OFDI Stock Sum (Billion USD)	Total Asset Sum (Billion USD)	OFDI Stock Mean (Million USD)	Total Asset Mean (Billion USD)
High State Own Public (Hi-SOE, More than 51%)	9.04	1291.96	55.26	26.37
Low State Own Public (Low-SOE, Less than 50%)	2.54	204.26	97.09	8.51
No State Own Public	0.34	165.93	16.17	7.21
No State Own Private	0.50	55.50	15.23	1.68

Source: Author's Interview

SOEs with more than 51% of non-circulating share (high SOEs) held by the Government are generally the largest size investors, followed by the less-than-51% non-circulating share SOEs (low SOEs). Whereas, for those companies that are not owned by the State, the 'purely' public companies are larger in size than the private firms. Moreover, on average it is the low SOEs that provide the largest OFDI stock, followed by high SOEs, public and private firms.

6.2.4 Age

In this research 'age of the company' was designed to indicate the year of establishment. However, due to the complicated, lengthy reforming process, this indicator is more likely to refer to the year of re-establishment whilst referring to SOEs, i.e. commonly the target SOE is reformed from old existing SOEs. This is a common source of 'data noise' for most Chinese SOEs' related research, as the past existence of the company may suggest previously obtained 'market experience, management knowledge--and most

importantly—an existing network relationship'⁷. Therefore, a company's age involves not only when it was established, but also the progress of reform and regulation strength from the Chinese Government.

On the other hand, however, considering the extent of the SOE reform, the indicator of 'Age' is still very valuable. Although it is hard to simply look on the 'SOE's re-establishment' as the 'establishment', the reform process itself did shake the very foundation of the old company, changing a series of the firms' core features such as ownership structure, major production, or even key-leaders⁸.

The main consideration during the usage of 'age' is that it may not literally refer to how old the firm is. Meanwhile it could present one of the sample company's most important 're-birth' times.

This research applies the year 1992 as a benchmark for grouping sample companies into two groups for the following reasons: (i) Mr. Deng XiaoPing gave a very famous speech at the beginning of 1992 which greatly encouraged Chinese reform and liberalisation; and (ii) Chinese OFDI was also encouraged by the speech and the first peak of OFDI value occurred in this year (as discussed in Chapter 4).

Figure 6.2.4-1 shows sample companies' establishment time (for more information, please refer to *Appendix 7.2.4*). From the survey, 84 companies

⁷ e.g. CNPC reported that it was 'established' in 1998, however, this company had already existed for more than 40 years. The reformation separated the old company into CNPC and Sinopec, but the majority of their subsidiary business was still roughly the same, as their business strategies had already been adjusted to the 'free market' style during business operation before late 1990s'.

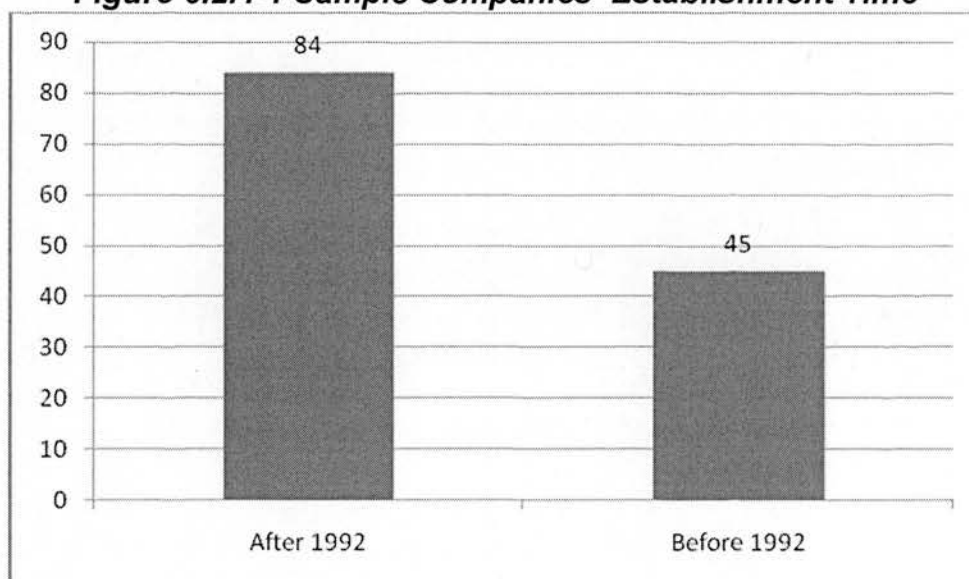
⁸ Fuxing Co. Ltd. was 'established' in 1989. Before then, this company had existed as 'Fuxing Machine tools' for 12 years. The reforming gave the company an 'opportunity' to survive. The fundamental motivation of the firm adapted to the 'free market'. Considerable change occurred in every aspect of the company such as ownership structure, business strategies, and network position.

were reported as being established (or reformed) after 1992, while 45 firms were established (reformed) before 1992. This implies correlation between Chinese OFDI and 'economy opening and reform'.

Another issue is that 30% of the sample companies were reported as having been established in 1992, 1993 and 1994. More than 40% of the sample companies were established or reformed between 1992 and 1996. This implies:

- Companies investing overseas are those who have a certain history, market experience and are more likely to be in an advanced position, at least compared with other similar Chinese companies.
- It could be argued that 'Middle' aged Chinese companies may prefer to release their market pressure by going abroad, due to the relatively sluggish domestic demand led by superfluous industrial production capabilities.

Figure 6.2.4-1 Sample Companies' Establishment Time



6.2.5 Sector

According to UNCTAD, industry standard is classified as 'International Standard Industrial Classification' ISIC Rev4. Sample companies were grouped into the following sectors: agriculture, mining & quarrying,

manufacturing, transport & storage, wholesale & retail trade, finance & business service, and computer software. Manufacturing was further divided into high technology (HT) manufacturing - computer hardware and electrical equipment manufactures - and normal manufacture - manufacturing excluding computer hardware and electrical equipment.

Table 6.2.5-1 Sector of sample companies

<i>Representative OFDI</i>				
Sector	SUM Value of OFDI (Million \$)	% of SUM	Mean Value of OFDI (Million \$)	Number of Sample
Agriculture	50.1	0.87%	25.0	2
Mining & Quarrying	1331.4	23.02%	83.2	16
Manufacturing	3462.3	59.87%	51.7	67
<i>Manufacturing Excluding Computer Hardware, Electrical equipment</i>	1223.4	21.15%	29.8	41
<i>HT Manufacturing-- Computer Hardware & Electrical equipment</i>	2238.9	38.71%	86.1	26
Transport & Storage	254.0	4.39%	63.5	4
Wholesale & Retail trade	38.2	0.66%	7.6	7
Finance & Business Service	434.3	7.51%	21.7	20
Computer Software	212.9	3.68%	17.7	12
Total	5783.2	100.00%	45.9	128

(Source: author's interview)

Table 6.2.5-1 shows the total value and mean-value of OFDI, as well as the percentage of total OFDI and the number of sample companies. There are 67 manufacturers in the sample, totalling 59.8% of OFDI. Moreover, the 26 high technology manufacturers have both a higher total OFDI and higher average OFDI per company. 16 mining firms account for 23% of OFDI. This is different to the official data. The reason is that this table only includes the representative OFDI, rather than companies' total FDI. High technology manufacturers have the highest average FDI value (86 Million USD), closely followed by mining companies (84 Million USD). The lowest average FDI value is held by the wholesale and retail sector.

6.3 Companies' Internationalisation Capabilities

The summary of Chinese overseas investors' competitive advantages is shown in *Table 6.3-1*.

Table 6.3-1 Chinese Firms' Internationalisation Capabilities

<i>Internationalisation Capabilities</i>	
Labour advantage	65.61%
Technology advantage	28.03%
Government relationship	46.21%
Full i2 (equity alliance)	29.50%
Semi i2 (non-equity alliance)	41.73%

6.3.1 Labour Advantage

According to the survey, the labour intensive production process capabilities are considered by most of the sample companies while they invest abroad. In other words, this outcome can also be explained as: those Chinese firms which are very confident in their labour advantage are more likely to engage in international investment.

The interesting argument at this point is: whether the strong labour advantage can actually benefit Chinese overseas investment. While looking into the sample companies, long term highly efficient production processes do strengthen the target companies' market position inside China, becoming one of the initial conditions of their international investment. By contrast, one may like to argue that only relying on superb labour advantages is not enough, by far, for Chinese firms' international operations, especially for those subsidiaries located in DCs. However, as discussed earlier, this thesis investigates the issue of investing, rather than surviving, thus too much involvement in the sample companies' post investment performance is outside the topic.

6.3.2 Government Relationship

The next advantage most often chosen by Chinese investors is their relationship with the Government. Even though a number of interviewees would rather not discuss the company's relationship with the Government, few responses showed a general concern over the Government's power over their decision making, investment direction, and investment process enhancement. However, the author's interviews with Government officers also showed strong evidence of the Government's intention towards the Chinese OFDI program.

There are two types of Government relationship with corporations:

(1) Owner and worker: SOEs belong to the Government. Although the Chinese official announcement emphasises the independence of those SOEs, the fact is that very close interactions remain. E.g. the Government has the right to promote or demote the SOE leader, the Government can decide whether the bank (which also belongs to the Government) should provide a loan to the firm. Therefore, as part of the national strategy, some overseas investments, such as petrol seeking, were actually decided by the Government and practised by SOEs. Some other SOEs were given the 'suggestion' to invest in Africa or East Asia by the Government. This generally resulted from the political situation rather than from economic reasons. The Chinese Government sees these investments as an 'international aid' for the exchange of certain political benefits.

To ensure the investment could successfully achieve the aim, and state property is not lost via a deal, the Government generally offers help to certain 'national' or 'provincial' offshore investment projects. Meanwhile, as one of the 'socialism with Chinese characteristics', competition between the towns, cities, and provinces is very considerable. For SOEs, the competition over certain overseas investment projects is tough. Therefore, those who maintain a closer relationship with the Government (central Government, local Government, or both) will be more likely to win investment permits and aids.

(2) Director and followers: a more relaxed relationship than for that 'commanded by the Government', the Government set up a particular mechanism to provide information and service for aid investments to certain countries. This is a Chinese economic tradition—the Government never seems happy to totally relinquish its power over companies' activities and they try to be involved in more business activities. Apart from the regulation system such as the Ministry of Commerce of the People's Republic of China and State Administration of Foreign Exchange, there are certain Government bodies which also have strong influence over the decision making, information provision and gathering of Chinese OFDI, such as the Foreign Investment Development Board (FID).

Due to the overall weakness of information gathering and lack of knowledge of a foreign country, some of the Chinese overseas investors actually consider the Government service as 'useful'. For them, to have a close Government-company relationship is an advantage for overseas investment.

6.3.3 Internalisation of Internationalisation

As discussed in Chapter 5, internalisation of internationalisation (i2) is a term introduced by this thesis. It refers to a unique accumulation process at a company's pre-internationalisation stage. The concept of i2 is predicting an internally, systemic internationalisation evolution, based on the emerging market business feature of a high amount of inward FDI and joint ventures. In other words: i2 assumes companies have already started their international process even before overseas investment. Therefore, the international processes of Chinese companies (which could be major emerging market companies) are started internally. The massive FDI from other countries into China for the past 30 years offers Chinese firms a great opportunity to form strategic alliances with foreign investors, absorb western world's management knowledge and acquire technology and know-how. This

process enables some Chinese companies to be prepared for investment outside China at a later time.

This research chose two conditions to present the i2 process: (i) it will be marked as 'full i2', if the sample company has (had) formed an equity alliance with foreign companies; or (ii) 'semi i2' if there is a Sino-Foreign non-equity alliance.

The i2 indicator would be recorded as semi-i2 if only the first condition was satisfied as equity strategically alliances are more likely to transfer management knowledge, i.e. the Chinese firms have to learn how to satisfy a certain level of quality control while forming an OEM alliance. Semi-i2 therefore refers to a knowledge-based capability.

According to International Entrepreneurship theory, knowledge of internationalisation is transferable (please refer to Chapters 2 and 3 for details), therefore the accelerated internationalisation process is possible.

The IE theoretical framework itself did not identify how exactly knowledge is obtained by the internationalisation newcomers. However, i2 presents a way to measure it for the research as, while the 'knowledge' itself is not measureable, the consequence of holding knowledge is measurable. This research expects to see that companies with different levels of i2 will behave differently.

The operation of business partnerships and alliances are seen as interactive processes, therefore both sides of the company obtain information and knowledge from each other. How to internationalise should be part of the knowledge Chinese companies can learn from their foreign partners.

Apart from knowledge and information, a Sino-Foreign relationship also refers to management know-how, technology, and network relationship which

are more likely to be similar to developed world corporations. Companies with i2, therefore, are assumed to be more likely to be accepted by developed countries.

As one of the aspects of internationalisation in this research, sample Chinese MNEs with i2 (both semi-i2 and i2) take a major percentage of the total sample of companies—29.5% of firms reported the full-i2, and 41.1% reported the semi-i2. It should be accepted that the last three decades of Chinese opening and reform did not only attract foreigners to invest in the country, but also offered local companies an opportunity to learn how to deal with foreigners.

6.4.4 Technology Advantages

Compared with other aspects, technology advantages did not seem strong enough for Chinese OFDI companies. Only 28% of the sample companies classified themselves with technology advantages. However, the technology advantages were always considered as one of the important resources for asset exploiting, e.g. Wells (1981; 1983), Lall (1983), Chen and Chen (1998), Kumar (1998), van Hoesel (1999). This implies the argument of 'asset exploiting' vs. 'asset augmenting'. Chinese investors do not seem to consider themselves as powerful competitors from the sense of technology. Their aim of investment was sometimes only to obtain certain resources or to enter a market (for details of motivation, please refer to the next chapter).

However, an interesting fact is that Chinese OFDI is often performed as a reaction to business opportunities. Even though companies acknowledge themselves as a 'lower technology' or 'unknown brand name' in the target market, they seem very confident in obtaining technology or brand name via their other advantages such as network relationship or Government funding.

6.4 Summary of the Chapter

This chapter reviews the company identity and internationalisation aspects of the questionnaire and interviews.

There are 152 responses, among them 129 of the interviews and questionnaires are actually of use. The sample companies are mainly located in Beijing, Shanghai, and Guangdong province, with a few located in other provinces. State owned enterprises account for a major part of the sample population; however, there are also some public and private companies.

The time taken to establish sample companies ranged from the 1950s' to 2001, but more than 30% of them were established around the early 1990s. However, as a result of Chinese economy beginning and reforming, a number of sample SOEs were not literally established at the time announced. These SOEs have existed in the market for a long time before re-establishment (or re-forming). Therefore, the indicator 'age' in this research sometimes refers not purely to establishment time, but also re-establishment time. Additionally, a major proportion of the sample is manufacturers.

In the case of internationalisation capability, the majority of sample companies are enthusiastic about their labour advantage. The network relationship also influenced companies' international investment considerably. Other capabilities include relationship with the Government and internalisation of internationalisation. However, sample companies do not seem to significantly rely on their technology advantages. This resulted for two obviously reasons: (i) comparably, Chinese companies do not possess excellent technology advantages; (ii) rather than asset exploiting, these companies invest overseas for asset augmenting. The motivation of investment therefore, will be discussed in the next chapter.

CHAPTER 7 REVIEW OF SURVEY: MOTIVATION

This chapter will continue the review of the survey. It will focus on the issue of investment motivation, i.e. what drives the companies to become an international company, and why these investments were not applied in the domestic market.

It will deepen the argument of asset exploiting and asset augmenting by further examination of the motivations. The first part will be to overview and code the motivations. Then, the characteristics of market seeking, natural resource seeking, capital seeking and created asset seeking will be discussed. Finally, the chapter will be summarised.

7.1 Motivation

Following the literature review and research framework, motivation questions are designed in two schools: asset exploiting and asset augmenting. Asset exploiting refers to the process that firms in an advantageous position respond directly to domestic market pressures or the international market opportunities to internationalise by utilising their competitive advantages. This type of investment will generally either exploit their existing competitive advantages or safeguard, increase or add to these advantages (WIR 2006). It includes market seeking, efficiency seeking (cost reduction), and raw materials seeking.

The other school of motivation is asset augmenting. Some companies may not possess a completely advantageous position in the international market but, benefitting from the reduction of international investment barriers and from the uniting effect of globalisation, they may also be able to address their short-comings via international venturing. This type of motivation includes

created asset seeking (e.g. technology, brands, distribution networks, R&D facilities and managerial competence seeking), and capital seeking.

More details on the questions are shown in *Table 7.1.1-1*. There are five sections of questions split into the two schools, namely, market seeking, resource seeking, labour seeking, created asset seeking and capital seeking. To be more specific and illuminative there are actually 10 questions used in the interviews to cover the subject.

Sample companies were asked to give each of the motivations a mark from 1 (not important/ not relevant) to 5 (critically important / highly relevant).

An overall rank was shown by calculating mean⁹. Seeking for 'target company's brand & reputation' seems to be the most popular motivation, followed by 'to improve export activities to host market', and the third most important motivation is 'capital market related information obtaining'.

For the purpose of later regression analysis, this survey asked target companies to summarise their investment motives, the result is shown in *Table 7.1.1-2* where companies only chose yes/no for the motivations. This research also applied a factor analysis based on *Table 7.1.1-1* to complement the information.

⁹ As target data are ordinal, the 'mean' value should be used with caution. In fact, the debate about the merit of the classification of nominal and ordinal never stopped (Michell 1986) Mathematically the mean is not a meaningful measurement for ordinal, however, some behavioural research still use it as ordinal scales in behavioural science are really somewhere between true ordinal and interval scales—Even though, the interval difference between two ordinal ranks is not constant, it is often the same order of magnitude. *Thus, some argue that as long as the unknown interval difference between ordinal scale ranks is not too variable, interval scale statistics such means they can meaningfully be used on ordinal scale variables.* (From Wikipedia)

Table 7.1.1-1 Motivation

Motivations	Questions	N	Mean	Median	Mode	Sum
Market Seeking	Proximity of host country to large, third markets for exports	126	1.86	1	1	234
	To improve export activities to host market	126	2.72	2	1	343
	Localisation of production	129	2.31	1	1	298
Natural Resources Seeking		129	2.28	2	1	294
Low cost labour seeking		129	1.17	1	1	151
Information and Capital seeking	Capital market relative Information Obtain	129	2.69	3	3	347
	Foreign financial market accessing / Availability of finance capital	129	1.92	2	1	248
	Absence of foreign exchange controls	129	2.09	2	1	269
Created Asset seeking	Technology or R&D	129	2.26	2	1	291
	Target company's Brand & Reputation	104	2.96	3	4	308

Source: Author's interview

Table 7.1.1-2 Recoding of motivations

	N	Mean	Median	Mode	Sum	%
Motivation: Market Seeking	137	0.708	1	1	97	75.78%
Motivation: Natural resource seeking	131	0.259	0	0	34	26.56%
Motivation: Created Asset-Seeking	136	0.404	0	0	55	42.97%
Motivation: Capital seeking	129	0.286	0	0	37	28.91%
Motivation: Low Cost labour Seeking	129	0	0	0	0	0.00%

Source: Author's interview

7.2 Market Seeking

The most common motivation is 'market seeking' as shown in *Table 7.1.1-2*.

There are two main reasons for the eagerness for market seeking:

- As members of a naturally export-oriented economy, improving the exports is a basic strategy of maximising profit for a number of Chinese companies. OFDI is considered to be one of the methods to make the company nearer to their exporting target markets, or perhaps have more direct contact to their foreign business partners.
- As discussed in previous chapters, there is a considerable conflict between overwhelming domestic production processing capability and comparably low purchase power of the Chinese market for certain over prescribed sectors such as the manufacturing sector.

The survey shows that Chinese firms chose three ways of market seeking via OFDI: export improvement by establishing overseas offices (24 companies chose 'very important', and 25 companies chose 'critically important), quota farming (11 companies chose 'very important', and 12 companies chose 'critically important), and localising production (11 companies choose 'very important', and 19 companies chose 'critically important).

Among them, setting up a small scale subsidiary or simply an overseas office (which is not included in the research sample companies) seems to be the easiest way of market seeking. Although power and efficiency of those overseas offices might be questionable, the survey however, did find some evidence of the advantage and benefit. The following section presents a case study using HuaWei's market seeking strategy.

7.2-1 Case Study: HuaWei's Internationalisation Strategy

HuaWei Technologies Co. Ltd's OFDI is a typical market seeking investment. As shown in Table 7.1.1-3, by the end of 2006, the firm owned 152 overseas branches. Apart from 11 R&D centres and training centres, there is only one overseas 'semi-assembly' subsidiary which has certain production process capabilities—FutureWei in North America. The remaining 140 branches are all focussed on local market seeking and information obtaining. According to the interview, it seems the overseas strategy of the firm is that:

- 1. The manufacturing centre is located in China for three major benefits. Firstly, the low cost of Chinese labour resource; secondly, the potential of the enormous Chinese market and richness of work force offers a great opportunity for reaching a high level of economy of scale; and thirdly, the Chinese physical infrastructure of being a world manufacturing centre greatly benefits the company from the aspect of supply chain, e.g. transportation and material supply.*
- 2. R&D centres are located in certain countries for two reasons. Firstly, due to their strong technology workforce in the informatics area, e.g. the R&D centre in Bangalore. Or secondly, for the aim of localised market focus. Apparently, as a result of the culture difference, HuaWei found the same products that do well in China were not accepted by the European market. Consequently, the company established a local R&D centre to fit the local market taste.*
- 3. Training centres should be located near to the target market area: HuaWei's main production is telecom and network devices and the customers require certain training before they can skilfully access them. Therefore, the localisation of training centres is considered as a necessary customer service.*

While performing customer service localisation and design localisation, HuaWei does not show a great interest in production localisation. Their overseas branches are more likely to be the 'salesmen'.

HuaWei is by far one of the most successful Chinese international investors. Around 35% of their profit was made from the foreign market. Their overseas market seeking method is very interestingly 'Chinese style'. The interviewee describes the international competitors as a lion or elephant, and defines HuaWei itself as a 'local Wolf'¹. There are two distinctive features of this strategy:

- The company started its international market seeking by setting up overseas branches in other developing countries. As they believed that there were certain similarities between China and other developing countries, this enabled HuaWei to build up a local business network more easily; HuaWei also considered its major advantages to be relatively lower prices and very 'passionate staff'—therefore its products are more easily accepted by the price sensitive market.*
- Described as 'Wolf v.s Lion', HuaWei has tried to avoid directly competing with firms from the developed world as much as possible. Investing into some developing countries seemed to be the only way. Meanwhile, another benefit of being a 'wolf' (not setting up a localised production system) is that HuaWei can withdraw from the foreign market with relatively lower costs, once the firm decides the target market is not suitable for further investment or they sense strong competition from a developed world company.*

¹ The term used in the company was 'TuLang', there are three ways to translate it: 'Proteles cristatus', 'muddy wolf', or 'Local wolf'

Table A 7.1.1-3 HuaWei Technologies Co. Ltd. Overseas Branches

	First entered	Branch Offices	R&D centres	Training centres	Fully-functional, industry-leading, Technical assistance centre	Productio Centre
Europe	2000	26	Sweden, Netherlands	UK, Paris	UK	
Russia	1996	14				
North America	2001	7				FutureWe
Middle East & North Africa	2001	22				
Latin America	1997	11		Brazil		
Sub-Sahara Africa	1998	30				
Asia Pacific	2001	13	Pakistan/Thailand/India	Malaysia		
East Pacific		30 ^A				
Total		153 ^B				

Source: Author's interview

A: The headquarters are in Shenzhen, China; and one subsidiary is in Hong Kong.

B: Accordingly, there are 152 overseas branches

HuaWei Technologies Co. Ltd. established large number of overseas offices (about 140 by the end of year 2006). These offices significantly boosted the companies' overseas sales. Under the circumstances, HuaWei's internationalisation route is typical. It maximised the production process advantage of the Chinese company; meanwhile playing a little with Chinese people's cunning.

However, it should also be noted that HuaWei Technologies Co. Ltd. is a private company. Based on different ownership structures and market positions, other Chinese overseas investors were demonstrating more or less different internationalisation strategies. There are two other ways: localised production and quota farming.

All in all, it seems HuaWei's cross-national expansion route is a typical method of internationalisation as explained by PTI--the company started its

internationalisation process via setting up the overseas sales office. Similar examples could be found in some other early stage OFDI, such as Japanese Sogo Shosha (Corporation 1978) .

Source: Author's interview, Liang (2004), HuaWei Co.Ltd COE annual report 2003, 2004, 2005

7.2-2 Summary of the Case Study

Chinese localised production is slightly different from typical western world localised production. As a benefit of the considerable domestic labour resource, most Chinese manufacturers prefer to have their production based inside China. Only the following issue will motive them to set up a localised production subsidiary in a foreign country.

- I. The necessary material is located in a foreign country, and the transportation cost is high.
- II. The agreement with Local Government or local business partners to produce locally as a condition of exchange of another resource.
- III. To save the transportation cost from shipping 'expensive air', the Chinese investors will ship the semi-production and assemble it at the target market.
- IV. To overcome certain export barriers or to enjoy certain benefits between two countries, the Chinese firm will set up a semi-assembling centre or production base in the target country, then export from this country to a third party country. This is so called quota farming.

This could be seen as only one stage of internationalisation. However, the survey found an intention that Chinese firms are trying to avoid the overseas localised production—a very limited number of the sample companies even considers overseas localised production as a strategy in the foreseeable future.

This might lead to two interesting issues: (1) the Chinese overseas 'sales office' stage will last much longer than those earlier international investors, such as South Korea or Japan; (2) the process of the Chinese internationalisation might present a different story which is unconventional compared to current internationalisation theory. The phenomena will be further discussed in Chapter 10.

7.3 Natural Resource Seeking

Natural resource seeking OFDI is almost the most significant and considerable OFDI (27% of sample companies have this motivation). The characteristics of the Chinese economy combine 'low-price', 'high speed' and also '*high consumption of resources*'. The pressure of material shortages forces the nation to turn to a foreign location for resource seeking. The majority of natural resource seeking was performed by large Chinese SOEs, this research takes CNPC as an example.

7.3-1 Case Study Nature of CNPC's Internationalisation

CNPC (China National Petroleum Corporation) is one of the largest Chinese petrol companies. At the end of 2005, 77% of its stock was non-circulation stock (where about 55% was held by the company as a legal person stock, and about 22% was owned by the state property bureau). The company first started OFDI in the middle of 1992, and by the end of 2005, CNPC already owned oil fields in 14 countries with 33 overseas projects. The total overseas oil and gas reserves are almost equal to the domestic reserves.

The characteristics of CNPC's internationalisation are as follows:

- 1. Only one subsidiary is allowed for OFDI: CNPC owns about 40 subsidiaries in China, however, only one of them is allowed to carry out OFDI. This subsidiary was established in 1993, namely 'China National Oil & Gas Exploration and Development Corporation'*

(CNODC). The internal name of this subsidiary is 'Bureau of International Operation'.

2. *Elite international operational group: CNODC has a very high educational level of its working force. By 2005, there were about 14 thousand people in the company, with 59% holding a graduate degree, 21% holding a masters degree and 7% with a Ph.D.*
3. *Comprehensive: The company admitted there were some problems with their internationalisation knowledge and experience. However, it seems they are trying to minimise the problem by optimising the internal supply chain. CNPC is a very large SOE. Its business covers almost all the areas around the petroleum industry, i.e. R&D, exploration, production, retail, engineering, construction, petro-chemical and petroleum equipment. By optimising the internal supply chain, the company can become very self-dependent, therefore it will reduce the risk from being an operating company: the petroleum industry generally involves large projects. These projects sometimes require more than one investor to diversify the risk. Generally, there is one company in charge of the actual operation of the project, and other investors only act as the 'co-ordinator' or source of cash. This company is considered as the operating company.*

While dealing with those on a joint project, CNPC is happy to be the practitioner for as long as possible. There are three reasons for this: (1) CNPC owns a very strong internal supply chain, which reduces the risk and increases the efficiency of operation; (2) for some projects, practitioners can offer alternative payments, such as faster accomplishment, cheaper labour cost, or some patented technologies; (3) project practitioners generally enjoy most profit.

4. *Very close relationship with the Government: CNPC has a very close relationship with the Chinese Government. This relationship is the most powerful tool for its OFDI. CNPC won the majority of its overseas*

projects with the co-ordination of the Chinese Government, i.e. the projects in Malaysia, Sudan, Venezuela, and Kazakhstan.

5. *Relationship with local government: as part of political exchange conditions, CNPC also greatly participates in the construction of the local physical infrastructure. E.g. the contract with Sudan was to share 50% of the production with the Government, so that Sudan changed from an international petrol importer to exporter in two years, and changed from petrochemical importer to exporter in three years; meanwhile CNPC helped the local people to dig 26 wells, build five hospitals and six schools; additionally, CNPC trained massive numbers of Sudan's.*

Source: Author's survey, CNPC Annual report 2000, 2001, 2002, 2003, 2004, 2005.

7.3-2 Summary of the Case Study

There are four features of Chinese natural resource seeking:

1. High amount of Government involvement: a high amount of Government involvement is one of the most distinctive features of Chinese natural resource seeking. There is not even a single resource seeking case in this research which did not involve the Government (although there may be some cases in China). The survey data shows a significant correlation between natural resource seeking motivation and internationalisation capability of 'closer Government relationship' (please refer to *Appendix 7.2-1* for more details).

There are three reasons: (1) the Chinese Government believes that for stable long term economic growth, relying only on Chinese domestic resources would be disastrous—not only in the case of raw materials, but also for the environment; (2) Chinese SOEs, regardless of how strong they are in China, are in a comparably disadvantaged position in the international market. The Chinese Government's enhancement

is apparently the most efficient method to enable the SOEs to achieve the projects; (3) the Government is very sensitive to the loss of state owned property. Considering the size of the investments, a high amount of Government involvement is also seen as a 'property protection method'.

The high amount of Government involvement presents two interesting features: (1) Chinese resource seekers are more likely to win the project if the target country has a more friendly relationship with China, (2) as a condition in exchange for the investment permission, Chinese investors normally 'help' local construction, voluntarily.

2. Normally performed by large SOEs: Considering the size of the projects, domestic market position and relationship with the Government, the natural resource seeking activities are generally performed by the large Chinese state owned enterprises.
3. Elite Focus Group: Chinese investors will generally establish a subsidiary as an independent unit in charge of the OFDI. This subsidiary requires highly educated staff with good English language skills. The company offers them a relatively high salary and a very satisfying welfare system. The management system is normally separate from other domestic subsidiaries.

Three reasons why this kind of group is essential: (1) it is in response to tough international competition; (2) for capital control purposes, having only one subsidiary involved with the OFDI will be the easiest and best for the Government, (3) for human resource management, a relatively higher salary as well as an independent welfare system will greatly enhance the stability of the workforce.

4. Alternative payments: as a result of the close 'south-south' relationship, Chinese resource seekers can generally bargain the cash payment into some other form, offering low-cost-input/highly-skilled-labourers, target country construction projects, or training programs.

7.4 Capital Seeking

43% of the sample companies invest with capital seeking motivation. A consequence of the Chinese capital control policy and the relatively isolated stock market is a unique Chinese OFDI motivation of capital seeking. The benefit of listing in an overseas stock market is considerable, as the price and the route of international listing are unconventional.

1. The benefit of accessing a foreign capital market is obvious:

First of all, for some very large Chinese state owned companies (SOEs), to list in a foreign stock market is just an alternative way of attracting foreign investment. The stock sold in the foreign market is equivalent to foreign buyers investing in China. Additionally, as these SOEs have more than 50% of non-circulation stocks firmly held by the Chinese Government, as long as certain regulations are applied, there is no need to worry about state owned property loss. e.g. CNPC has listings in Hong Kong, New York, and London stock markets but the foreign share holder actually has very limited voting rights as 77% of the company's stock is non-circulation stock. Additionally, CNPC's business activities are under strict regulation by the Chinese Government--there are a number of decisions which are 'not allowed', such as any deals over 50 million USD should be permitted by the Government.

Additionally, this research also finds a significant correlation between the capital seeking motivation and the target market (please refer to *Appendix 7.3-1* for details). Apparently, companies with strong intentions of capital seeking also have their final strategic target market as China. This confirms the assumption that these Chinese companies will actually utilize the capital they raise from overseas markets to benefit growth in China.

Secondly, for medium to large firms, a market without capital control means, not only 'freedom' but also opportunity. As discussed in previous chapters, the Chinese Government applies a capital control policy to avoid state owned property loss and capital flight. This might be good for the country, however, it is questionable whether there is any benefit for companies.

Thirdly, the Chinese capital market system is relatively independent from the rest of the world. It, therefore, seems that listings in both Chinese and foreign capital markets are a reasonable way for risk diversification.

Lastly, the richness of foreign capital resources should always be kept in mind. No matter whether New York, London, or even Hong Kong stock markets, they are all larger than Shanghai. On top of this, they provide a more standard regulation system.

2. The nature of the capital seeking method is unconventional:

Firstly, most of the information seeking or capital seeking investments began by targeting Hong Kong. This is because Hong Kong combined three advantages— closer psychic distance due to the similar language, culture and close location; lively but reliable business environment; long term business network with Chinese firms which were built up since the beginning of the Chinese economic opening and reform. These advantages make the Chinese OFDI to Hong Kong relatively easy, especially for new Chinese investors. Therefore, Hong Kong became the 'beginners level' target market.

Secondly, as part of capital control activities, the Chinese Government has very strict regulations about which kind of company is allowed to IPO directly in an overseas market. For most of the medium to large

sized Chinese companies, these standards are impossible to reach (Wong 2006). Additionally, even for some of the strong companies, the complicated Chinese bureaucracy permitting program would greatly increase the cost and time for their foreign market IPO.

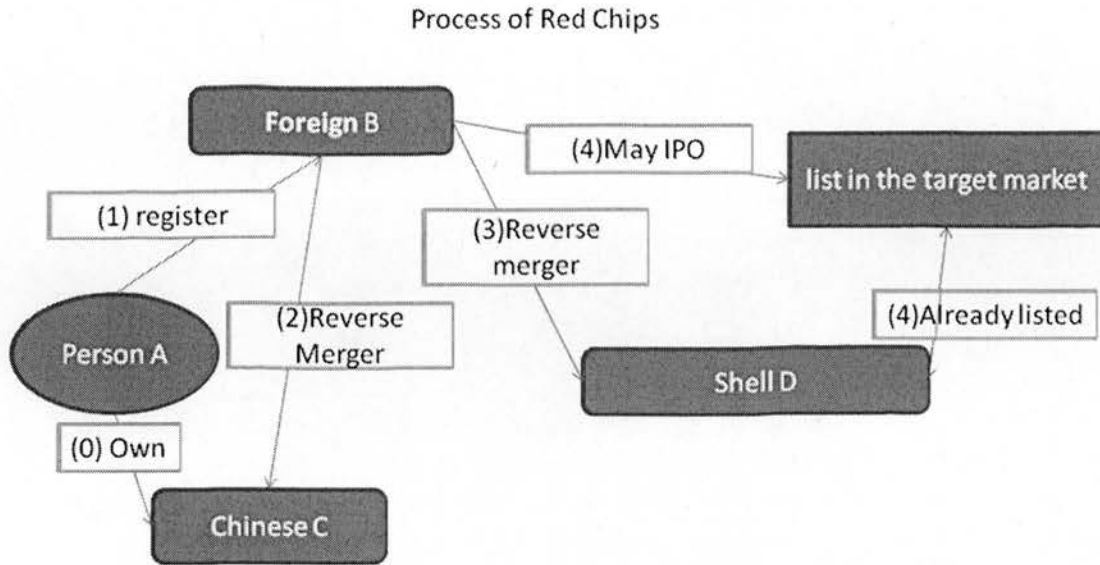
Therefore, most Chinese capital seekers choose to enlist in a foreign market indirectly—their strategy mainly involves reverse merger. To bypass the Government regulation system, the company owner establishes an offshore company and performs a number of reverse mergers. The outcome is considerable, but the whole process requires the owner to be very familiar with Government rules, and to target market information. A case study example of this process is described in Section 7.4-1

3. Methods of Reverse Takeover

The common method of Chinese indirect foreign market listing is shown in *Figure 7.4-1*: i.e. (1) a legal person A will set up an overseas company and 'foreign B' in a tax haven, such as British Virgin Islands, Cayman Islands or Monaco; (2) 'foreign B' will then takeover a Chinese company 'Chinese C' which is actually owned by person 'A'; (3) meanwhile, firm 'foreign B' may prepare to IPO, or more commonly, simply takeover a 'shell' company ('Shell D') in the target market and inject capital into it; (4) after the mergers, firm 'foreign B' will then IPO (or be listed as Shell D) in an overseas stock market, which is equivalent to listing firm 'Chinese C' in the market. Therefore, although, technically, firm B is not a Chinese firm, the majority of the business is within China. As the Chinese national flag is red, this kind of business activity is called 'Red Chips'.

Due to the relatively easy, quick and low cost process, the majority of Chinese firms listed overseas have chosen this way, such as Sina Co Ltd, Sohu Co. Ltd, 163.com, ShengDa Co. Ltd.

Figure 7.4-1 Process of red chips



4. The relationship between information seeking and capital seeking

As the whole process is about bypassing the Chinese regulation system, information on how to register a 'correct' foreign company and how to reverse merger the 'correct' shell company is crucial for the Chinese companies concerned. The two stages of gathering information and then reverse mergering are both typical and clear.

The Chinese Government also noticed the 'bypass' activities of these Chinese firms. New rules were set up at the beginning of 2005, just before the end of the second wave of the data survey of this research finished. These forced Chinese firms to obtain certain permission before they could register an overseas company. However, the government also notice the benefit of 'red chips' and the negative side of too many regulations for other Chinese firms which did not intend to reverse merger; new rules were announced between the end of 2005 and the middle of 2006. Therefore, indirect listings in the foreign

markets are still possible, as long as the company knows what their reasons are.

To further understand the nature of the capital seeking process, this research provides a case study: Gome's Overseas Financial Market listing route.

7.4-1 Case Study: Gome's Overseas Financial Market listing Route

The Gome Group is one of the leading Chinese electrical appliances retailers. The company magically turned its 200 million Chinese Yuan, total assets, into about 10 billion Chinese Yuan through its overseas listing.

- 1. In November 2000, the CEO of Gome, Mr. Huang, registered an internet technology company in Beijing named 'YiFu Network Technologies', in which Mr. Huang owned 100% of the stock. Later, he injected 65% of Chinese Gome's stock into YiFu. Therefore, YiFu owned the majority share of Gome's stock, and the remaining 35% was directly under the name of Mr Huang himself.*
- 2. The Gome group's Hong Kong subsidiary was established in 2001 for sales improvement and information gathering.*
- 3. Mr Huang took over a Hong Kong 'shell' company, Capital Auto (Code 0493), on 23rd July 2002 and changed the shell company's name to 'Peng Run China'.*
- 4. Mr. Huang registered a foreign company in the British Virgin Islands, named OceanTown, in around 2002.*
- 5. The Beijing internet company 'YiFu' transferred all its stock to OceanTown for 227 million Hong Kong Dollars on 20th April 2004. Therefore, the BVI OceanTown owned 65% of China Gome group's stock, and the China Gome became a Sino-foreign company.*
- 6. The Hong Kong company--'PengRun China', merged with OceanTown. Therefore, this Hong Kong company owned 65% of Chinese Gome's stock.*

7. On 9th October 2004, Hong Kong PengRun changed its name to Gome Holding Limited. By this time, the book value had already reached around 8 billion Chinese Yuan.

Source: Author's Survey; and Wong & Chang (2006)

7.5 Created Asset Seeking

Chinese companies are famous for their reputation of having weak brand names and of low value. 29% of the sample companies reported created asset seeking motivation during the survey.

7.5-1 Case Study: BOE's Technology Seeking

BOE was known as the Beijing Electron Tube Factory during the 1980s. It founded a joint venture (JV) with Matsushita (Panasonic) Electric Industrial Co., Ltd. and, together, these JV companies started to produce CRT in 1989. Four years later, Beijing Orient Electronics (BOE) Group Co., Ltd. was reformed and founded by Beijing Electron Tube Factory (BETF) together with Beijing HuaYin Industrial Development Company, Beijing Trust and the Investment Corporation of Industrial & Commercial Bank of China.

BOE was IPO on the Shenzhen B Share Stock Exchange in June 1997. In 2003, the main income for the business was RMB 11.18 Billion which is nearly 100 times that of the initial period after the company had been founded. BOE focuses its business in the electrical display field. The majority of products include: TFT-LCD display devices, small display devices, CRT, monitors & flat panel TV, precision electronic components & materials and digital products & services.

CRT production was the main part of BOE's business during the 1990s and the company remained one of the top CRT providing companies in China. With an increasing demand for LCD, CRT was losing its leading production position by the end of the 1990s. The profit of BOE began to show a

reduction. Therefore, the company decided to change their main production line from CRT to TFT-LCD.

In order to enter the leading edge of flat panel display fields—TFT-LCD display fields, BOE set up a Korean subsidiary in September 2002. The main task of this subsidiary was to seek financial support to takeover HYDIS. HYDIS was part of HYNIX Semi-conductor Inc. and mainly focused on TFT-LCD production and R&D. This M&A was finally successful in January 2003 when BOE took over HYDIS and set up BOE HYDIS Technology Co. Ltd., at a cost of \$380 Million.

This deal gave BOE the 2nd, 3rd, and 3.5th generation TFT-LCD technology, the production line, workshop and 1700 workforce. BOE also achieved the sales network of HUNIX which includes famous MNEs such as IBM and Sharp. By 2004, BOE became the world's ninth largest screen TFT-LCD producer. It also became one of the five major TFT-LCD patented owners, which includes Sharp, Hitachi, Samsung and LG.

Additionally, to set up its own sales network, BOE spent 1.05 billion Hong Kong Yuan to purchase a 26.36% share of Top Victory Electronic Company Limited (TPV) in August, 2003. This M&A seems to have resolved the gap between the sharp, increasing production capability and the limited market share.

In 2002 the net assets value of BOE was only 2,183 million Chinese Yuan (about 256 million USD). It took over HYDIS with 380 Million USD and TVP with 1,050million Hong Kong Dollar (120 million USD). Moreover, it is currently setting up the fifth generation TFT-LCD production line, which will cost 1,250 million USD.

Consequently, BOE's asset-liability ratio was 67.81% in 2002 and 74.28% in 2003. This ratio was slightly reduced after BOE issued additional B shares on

the Shenzhen Stock Exchange at the beginning of 2004. However, the asset-liability ratio in the third quarter of 2004 was still 66.32%. It is the Beijing Government's strong support which has made this high leverage rate become possible, as the IT industry's development is in the top position of the Beijing Government's future.

Source: Author's Survey, BOE annual report 2002, 2003, 2004; HYDIS annual report 2003

7.5-2 Summary of Case Study

There are three problems for Chinese brands:

1. Overall lack of knowledge of Chinese brand names. Whilst looking into the Chinese economy, it is interesting to see decades of high GDP growth which did not create many impressive Chinese brand names. The most well known Chinese brand names are 'Lenovo' and 'Hai'Er'.
2. By contrast, in some cases where products are 'made in China' this implies low prices but also poorer quality. Chinese investors, therefore, sometimes prefer not to advertise their identity.
3. The economic history of China created a Chinese market culture which commonly believes that foreign brands are more likely to be of better quality, higher priced, and have better service—especially for those high value products.

The first two problems created the desire to take over a local well known brand in order to enter the foreign market. There were 29 companies which chose the brand seeking motivation as 'very important', and 13 companies which chose it as 'critically important'.

However, the third problem created the desire to take over the foreign brand to increase the competitive power within China. In other words, to acquire a foreign brand seemed not only to benefit the OFDI process. A number of

interviewees mentioned the impact of the foreign brand on the Chinese local market. As part of Chinese market habit, customers seem more likely to choose a foreign brand.

While discussing brand acquisition, enough attention should also be paid to technology acquisition. Even though there are a number of Chinese high technology manufacturers, their patent technology, however, is not impressive. There were 13 companies which chose this as 'very important', and 17 companies which chose this as 'critically important'.

In some circumstances, obtaining a brand name is equal to obtaining the technology they need. Thereby, Chinese customers' attention and interest in technology innovation are diverted to the 'new' & 'sparkling' foreign brand name which overseas companies have introduced to China or were just purchased by a Chinese firm.¹⁰

The characteristics of Chinese overseas created asset augmenting are:

- I. Technology seeking is considered as the way to accelerate the technology innovation and catch up with (or, indeed, take a lead) the major competitors. 40 sample companies declared technology seeking as 'very important' or 'critically important' for them, where almost all of them were very satisfied in their aim via OFDI.

¹⁰ Brand name seeking is a common form of motivation, especially if the company was considering investing in a DC. However, the idea sometimes seems to be the company's own wishful thinking. On one hand they seem too enthusiastic about the impact of foreign brands in the local market, e.g. 'Thomson' does not seem to give TCL any added market awareness. On the other hand, their capability of maintaining the reputation of the brand name is questionable—it may be too early to decide if Lenovo can continue to maintain IBM's reputation, but their performance in 2006 in USA was not impressive.

In the case study, whilst BOE noticed new market demands, the company could only catch up by merging with an overseas firm which possessed the patent rights. Whether the length of time, or R&D capabilities, BOE could not afford the cost of 'self-development'.

- II. Meanwhile, brand name augmenting will benefit Chinese firms entering markets, as well as network extension.
- III. However, Chinese overseas investors generally seem to be too enthusiastic about deals, i.e. TCL's CEO Mr. Li DongSheng promised to turn Thomson's business to pay off within 18 months; Lenovo hoped to increase IBM's sales by 25% in 2006; and BOE planned to keep the South Korean subsidiary running healthily, so that the network position and R&D capability would be re-enhanced—none of these hopes were actually realised.

As introduced in previous chapters, this research focuses on investment motivation and location choice, rather than survival. However, it is worthwhile to look into the survival problem at this point.

(1) One would not expect the target company to sell the parts of the business which are booming. However, the financial power of Chinese investors must be considered, as what they can afford to buy may only be the less profitable section. As perhaps noticed in the BOE case, they purchased the 3.5th generation technology from Korea, whilst the market demand was for the fifth generation.

(2) Taking over an overseas brand is one story, but to maintain the brand's reputation is another story. Chinese investors suffered from a major sales decline after they started to use the brand name in a foreign market, e.g. Lenovo reported a 50% sales decrease in the USA market by the middle of 2006 (www.ftchinese.com/sc).

(3) As most Chinese investors still consider the Chinese market as their main market, it is common to see these companies take over the overseas target company, then transport the whole production line back to China—therefore, the overseas part is demoted to an international sales office.

Summary of Chapter

Chinese investment has demonstrated some interesting features.

Firstly, the Government involvement considerably influenced companies' decisions. The national strategy of natural resource seeking and certain methods of technology seeking greatly encouraged Chinese firms in their OFDI. Meanwhile, Government support also played an important role during investment.

Secondly, in response to the Chinese capital control policy, capital seeking became one of the motivations. By taking full advantage of reverse merger, Chinese investors can enlist in a foreign stock market without causing concern to Chinese overseas IPO regulations. As a consequence of the Chinese economic situation, foreign market capital seeking will become more frequently demonstrated, and renowned to the world, in the foreseeable future.

Some characteristics compartmentalise Chinese OFDI as the emerging overseas market investment. The Chinese OFDI represents a typical investment process, combining asset exploiting and asset augmenting. However, there is no point in discussing which kind of motivation is more significant for the overall Chinese OFDI, as they are deeply inter-correlated, which will be further discussed in Chapter 10.

The following two chapters will continue to discuss the investment activities, and the inter-correlation between the investment motivation and location choice.

CHAPTER 8, DATA DESCRIPTIVE ANALYSIS AND DATA EXPLORATION

In order to test the hypotheses presented in Chapter 5, this research will apply logistic regression analysis. This chapter will introduce the statistical method and explore the data for further analysis in the Chapter 9.

Firstly, this chapter will briefly introduce the logistic regression; and secondly, review the variable definitions and descriptive analysis to check for skewness and outliers in the data. It will then perform the univariate analysis to check the linearity of the relationship between each independent variable and dependent variable. Finally, the result of tests for multi-collinearity (correlation between independent variables) will be presented and discussed.

8.3 Outlier Detection

Outliers are those observations which are further away from the rest of the observations (Rosner 2003). There are four possible causes of outliers: (1) procedural errors, such as a data entry error or an error in coding; (2) some extra-ordinary events relating to a particular observation itself, (3) extra-ordinary observations for which the analyst has not developed an explanation; (4) an unconventional combination of values across the variables (Marsh 1990). However, considering the way the data was collected and recorded, as was already discussed in previous chapters, outliers should not be of concern.

Table 8.3-3 shows the result of a descriptive analysis of variables. As shown, there are no outliers for the ordinal data, all co-efficients are within the expected range, i.e. 1 or 2, or 0, 1, 2. For the only scale variable (Total_Assets), the skewness and kurtosis measures show values far smaller than '1' (the absolute value), so there is no indication of outliers here, either.

Table 8.3-3 Descriptive Exploration of the Data

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Target country by developed level	129	LDC	DC	1.18	0.87	-0.36	-1.59
Motivation: Market Seeking	129	Yes	No	1.28	0.45	1.00	-1.02
Motivation: Natural resource seeking	129	Yes	No	1.74	0.44	-1.09	-0.83
Motivation: Created Asset-Seeking	129	Yes	No	1.63	0.49	-0.54	-1.74
Motivation: Capital seeking	129	Yes	No	1.71	0.45	-0.95	-1.11
I-Capability: labour advantage	129	Strong	Average or Below	1.33	0.47	0.72	-1.51
I-Capability: Technology advantage	129	Strong	Average or Below	1.71	0.45	-0.95	-1.11
I-Capability: Relationship With the Government	129	Strong	Average or Below	1.53	0.50	-0.11	-2.02
I-Capability: Internalisation of Internationalisation	129	full-i2-- Partner of Sino-foreign	No Internalisation of Internationalisation	1.00	0.77	0.00	-1.31
Identity: Whether the MNE is a SOE	129	SOE	Non-SOE	1.43	0.50	0.27	-1.96
Identity: Regroup of Age	129	After 1992	Before 1992	1.35	0.48	0.64	-1.61
Activity: Enter Mode	129	WOFE	Joint Venture	1.63	0.49	-0.54	-1.74

8.4 Univariate Analysis

A process of variable selection should begin with a univariate analysis of each independent variable (Long 1997; Hosmer and Lemeshow 2000; O'Connell 2006). The independent variable should not be used in further multivariate analysis if the p -value of its univariate test is greater than 0.25 (Hu 2006). The reason it is that 0.25 rather than 0.05 is that some variables might not show a significant effect (at 0.05 level) to the dependent variable by themselves, but when taken into account with other variables, it could possibly be significant at the 95% confidence level (Hosmer and Lemeshow 2000).

The Result of Univariate Analysis is shown in *Table 8.4-1*. There are indeed some variables with a p -value larger than 0.25; namely, 'Age' (when the company was established or re-established), and the Total_Assets (Natural log transform of total assets).

The larger p -value of these variables implies that they are not strongly correlated to the companies' OFDI location choice. This issue is within the expectations based on the theory prediction and survey practice.

International Entrepreneurship Theory predicted that size and age are not a defining characteristic for a research company's OFDI activities (2000). Accordingly, as location choice is a kind of OFDI activity, the total assets of the companies and the age of companies should not have a significant effect on it. Previous empirical research also confirmed these predictions, Makino, Lau, *et.al.* (2002) examined the location choice of Taiwanese companies' OFDI, and found their variables of size (proxy by number of employees) and age were both insignificant in all six of the models.

Table 8.4-1 Logistic Univariate Analysis

	-2 Log Likelihood of Reduced Model	Chi- Square	df	Sig. (p- value)
Market_Seeking	30.402	14.486	2	0.001
Resource_Seeking	59.349	46.518	2	0.000
Created_Asset_Seeking	63.553	48.855	2	0.000
Capital_Seeking	74.456	62.102	2	0.000
labourCAP	19.067	2.193	2	0.234
Technology_Adv	28.420	12.177	2	0.002
Government_Supporting	31.122	14.523	2	0.001
i2	68.260	47.264	4	0.000
SOE	20.537	3.531	2	0.171
AGE	18.761	1.913	2	0.384
Entry Mode	24.426	7.475	2	0.024
Total_Assets	269.706	0.419	2	0.811

8.5 Multi-collinearity (Correlation Test)

A high inter-correlation between independent variables will lead to the problem of Multi-collinearity (Gujarati 1995; W.Hosmer and Lemeshow 2000) and the logit coefficients will become inflated. Multi-collinearity does not change the estimates of the coefficients, but their reliability (Garson 2006). It will cause problems from two aspects, (1) logically, it weakens the analysis as a result of reducing the degree of freedom; (2) statistically, it leads to the matrix being very unstable, i.e. a small change of one variable will lead a very significant change in the overall outcome. The higher the degree of multi-collinearity, the greater the difficulty for determining the individual effects of each of the independent variables. A Bi-variate correlation between observations which is greater than 0.70 should commonly be avoided.(Allison 1999; O'Connell 2005)

Accordingly, *table 8.5-1* shows the results of a Spearman's Rho Correlation test. As discussed in previous chapters, there is some correlation between companies' motivation, identity, and internationalisation capability. Thus, as expected, some significant correlations between variables can be seen.

However, fortunately, none of them demonstrated a Spearman's rho coefficient as large as 0.70 which suggests the chances of Multi-colinearity existing in this data are not high.

Nevertheless to ensure there is no Multi-colinearity, this research introduces the 'Tolerance or the variation inflation factor (VIF)' test¹¹. As a standard of 'safety', the VIF should be less than 4 (Garson 2006)¹².

¹¹ Tolerance=1-R², VIF=1/Tolerance. With high multi-colinearity, R² will be high, therefore tolerance will be low, and thus VIF will also be high. When VIF is high, the b and beta weights are unreliable and subject to misinterpretation (Garson 2006).

¹² In fact, it is commonly accepted that VIF <=15 suggests no multi-colinearity problem. This research adopts a slightly higher standard.

Table 8.5-1 Spearman's Rho Correlation matrix and Descriptive Statistic

	1	2	3	4	5	6	7
1 Market_Seeking	Correlation Coefficient						
	Sig. (2-tailed)						
2 Resource_Seeking	Correlation Coefficient	0.18*					
	Sig. (2-tailed)	0.05					
3 Created_Asset_Seeking	Correlation Coefficient	-0.20*	-0.28**				
	Sig. (2-tailed)	0.02	0.00				
4 Capital_Seeking	Correlation Coefficient	-0.22*	-0.34**	-0.17			
	Sig. (2-tailed)	0.01	0.00	0.06			
5 LaborCAP	Correlation Coefficient	-0.07	0.09	0.07	-0.13		
	Sig. (2-tailed)	0.41	0.33	0.44	0.13		
6 Technology_Adv	Correlation Coefficient	-0.22*	-0.22*	0.08	0.32**	0.05	
	Sig. (2-tailed)	0.01	0.01	0.37	0.00	0.59	
7 Government_Supporting	Correlation Coefficient	-0.07	0.24*	0.17	-0.19*	-0.05	-0.12
	Sig. (2-tailed)	0.44	0.01	0.05	0.03	0.54	0.18
8 Internalisation of Internationalisation	Correlation Coefficient	-0.09	-0.18*	0.40**	-0.07	0.06	0.13
	Sig. (2-tailed)	0.31	0.04	0.00	0.45	0.47	0.13
							0.25

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

(See CD-ROM Appendix for more details)

8.6 Summary of Chapter

This chapter explores the variables which are used in regression models.

The dependent variable which will be applied in the regressions is the dummy, Location Choice, where three observations are chosen: LDC=0, HK=1, DC=2. This is based on the hypothesis of the research which presumes that investment activities from China to LDCs, DCs and HK are affected by company's motivation and internationalisation capability.

The independent variables are classified into four groups. They are dummies representing a sample companies' core competence and motivation, i.e.

- ✓ Motivation: market seeking, natural resource seeking, capital seeking, and created asset seeking.
- ✓ Internationalisation capability: technology advantages, network relationship, labour advantage, internalisation of internationalisation, and relationship with the Government.
- ✓ Identity: natural log transform of total assets, whether the MNE is an SOE, whether the MNE is electronics manufacturer, Whether the MNE is non-electronics manufacturer, whether the MNE is a Beijing Company, and regrouped Age.
- ✓ Activities: Entry-Mode, and Aim market.

Most variables are coded as Yes=1, No=2. For the dummy of internalisation of internationalisation, Full i2=2, Semi i2=1, and No i2=0.

Benefiting from the data collection method and variable selection strategy, there are no significant problems of outliers and multi-collinearity. However, the univariate test did fail 2 variables, namely, natural log transformation of total assets, and dummy of entry mode. Apparently, these two variables do not significantly affect the company's OFDI location choice. This implied:

1. Size of companies is not a defined term for OFDI behavioural studies as predicted by IE (Oviatt and McDougall 2005; Oviatt and McDougall 2005a).
2. Entry mode choice is not closely connected to location choice as, from the micro-economic view, entry mode is a term more affected by the network situation. Therefore, it is not a target country's development level, but the overseas partner's conditions that affects the entry mode.

Nevertheless, one should be aware that the lack of significance of the 2 variables to location choice does not mean that size of companies, and entry mode choice is not important to overall OFDI.

Lastly, the multi-collinearity test was performed. There were some significant relationships between variables, but none of them showed a Spearman's rho coefficient as large as 0.70. Multi-collinearity, therefore, should not be of too much concern to this research. Nonetheless, 'Tolerance or the variation inflation factor (VIF)' test was applied and further confirmed the non-existence of the multi-collinearity problem.

CHAPTER 9 FACTORS AFFECTING LOCATION CHOICE

9.1 Introduction to the Chapter

Following data exploration and descriptive analysis in previous chapters, this chapter will discuss the regression analysis to see the inter-correlation between company motivation, identity & internationalisation capability (core competence) and choice of OFDI location.

The major concept behind the hypotheses is--as already discussed in Chapter 5—that the foreign location advantages the Chinese international investors could obtain are different between DCs and LDCs. Therefore, it is assumed that Chinese firms are investing in DCs for their created assets, capital and market share, and investing in LDCs for their market and natural resources. Besides DCs and LDCs, this research emphasises the importance of Hong Kong as a place of 'first step' OFDI for Chinese firms due to the relatively close psychic distance and network relationship.

The first section of this chapter will introduce the task of this chapter.

The second section will discuss the regressions performed to see which variable(s) significantly affect a company's location choice, and how these variables fit into the models, e.g. perform goodness-of-fit test and model fitting test. It will also describe how each independent variable affects the dependent variable, location choice.

The third section will interpret the findings of the regression analysis, while the last section will compare this research to other previous studies.

9.2 *The Models*

As reviewed in Chapter 5, logistic regressions are, in fact, a matter of 'comparing' companies. For multinomial regressions it is generally a comparison between four terms e.g. dividing companies into two groups according to whether they are with and without market seeking motivation and comparing these groups in terms of their location choice.

9.2.1 Regressions Model 1: Test of Motivation

Table 9.2.1-1 shows the effect of motivation and internationalisation capability on location choice.

Table 9.2.1-1 Regression: Motivation and Internationalisation Capability

This table shows the significance, strength, and direction of each independent variable's effect on the dependent variable (the location choice) where a value less than 0.05 (or 5%) suggests a strongly significant variable and a value between 0.05 and 0.1 (or 5% and 10%) suggests a weakly significant variable. A significant positive β value represents the preference for investing in LDCs or HK rather than DCs, while a significant negative β value represents the preference for investing in DCs rather than LDCs or HK. Significance values of greater than 0.1 (or 10%) suggest that this variable shows no evidence of an effect on location choice.

<i>Dependent variable: Investment Location Choice</i>				
		β	Sig.	
LDC v.s. DC	Intercept	-0.71	0.71	
	Motivation	Market_Seeking	3.47	0.03
	Motivation	Resource_Seeking	2.81	0.01
	Motivation	Created_Asset_Seeking	-4.24	0.00
	Motivation	Capital_Seeking	-19.44	0.00
	Capability	labourCAP	0.08	0.93
	Capability	Technology_Adv	-1.27	0.39
	Capability	Government_Supporting	-4.02	0.03
	Capability	Full_i2	-6.04	0.00
	Capability	Semi_i2	-4.11	0.00
	Control	Entry_Mode	1.60	0.07
	Control	SOE	4.41	0.02
	HK v.s. DC	Intercept	3.87	0.03
		Motivation	Market_Seeking	-19.99
Motivation		Resource_Seeking	0.71	0.66
Motivation		Created_Asset_Seeking	-0.14	0.89
Motivation		Capital_Seeking	5.60	0.00
Capability		labourCAP	1.54	0.33
Capability		Technology_Adv	-7.19	0.00
Capability		Government_Supporting	-7.66	0.00
Capability		Full_i2	-3.48	0.01
Capability		Semi_i2	0.44	0.64
Control		Entry_Mode	7.58	0.00
Control		SOE	-0.71	0.71

* Please refer to Section 9.2.3 for model fitting tests.

9.2.1.1 Motivation Effect on Location Choice

According to *Table 9.2.1-1*, companies with a stronger market seeking motivation prefer to invest in LDCs rather than DCs ($\beta=3.47$, $p=0.03$). This is expected in this research, as was hypothesized in Chapter 5. It reflects the 'production cycling' theory and IDP framework. Considering the international competitive power/advantages, south-south investment is more likely to be market seeking behaviour. It confirms that the majority of Chinese MNEs' products possess the 'price' advantage rather than 'high technology' or 'high quality' advantage. Therefore, it is more reasonable that Chinese international players would rather invest in LDCs in search of the market share.

As presented in the conceptual framework section in Chapter 5, market seeking for standard goods is more likely to be located in LDCs, but for differentiated goods it is more likely to be located in DCs. In the case of China, standard goods clearly account for the majority of market seeking.

Where the motivation behind investment is the aim of natural resource seeking, it is clear that companies with this motive prefer to invest in LDCs. For investment practise, it is generally believed that LDCs are rich in available natural resources; only a limited number of DCs are the destinations of 'other' Chinese natural resource seeking investments, namely, Canada, Australia and New Zealand. In contrast, Hong Kong (HK) is not a natural resource-rich region.

Nevertheless, it is very clear and significant that companies with created asset seeking motivation are investing in DCs or HK rather than LDCs, as it is significant when comparing LDC to DC ($\beta=-4.24$, $p=0.01$), but insignificant comparing HK to DC ($\beta=-0.14$, $p=0.89$). Certainly, it is DCs, or HK, rather than LDCs, which are rich in created assets such as technology, brand name, and operational know-how.

Moreover, for capital seeking motivation, Chinese firms prefer to invest in HK ($\beta=5.60$, $p=0.00$). As was reviewed, for Chinese growth-stage companies, investing in HK is a strategy to obtain necessary financial resources. These Chinese investors could benefit from Hong Kong city's 'free capital control', 'closer psychic distance', and richness of available capital.

Chinese companies intend to invest in DCs rather than in LDCs when they are seeking assets. Meanwhile, they are more likely to invest in LDCs when their motivation is to exploit assets they already hold. Thus, hypothesis 1 (including hypotheses 1-1, 1-2, and 1-3) and hypothesis 2 are safely confirmed.

9.2.1.2 Internationalisation Capability Effect on Location Choice

There are 2 significant internationalisation capabilities which significantly affect OFDI location choice, namely internalisation of internationalisation (i2), and possessing a strong relationship with the Government.

In detail, compared with companies which report themselves as having an average or weak connection with the Chinese Government, those with stronger connections are significantly more likely to choose DCs as their target regions. (LDC v.s. DC: $\beta=-4.20$ $p=0.047$; HK v.s. DC: $\beta=-7.42$ $p=0.002$). As western world DCs are further from Asian LDCs, and the culture & market are more different, it may be that the psychic distance between DCs and China is further than between LDCs and China. Plus, there is generally tougher competition in DCs, therefore, it could be assumed that investing in DCs is generally harder for Chinese MNEs than investing in LDCs and HK. It is not only the strength of the companies, but also support from the Chinese Government which helps them to invest in DCs. This 'support' is not only from the aspect of information provision or Government service system, but also from the aspect of policies, such as the necessary

foreign exchange, and national 'super support' for certain kinds of projects, i.e. mining sector and high technology, as discussed in previous chapters.

Fourthly, **internalisation of internationalisation** (i2) has a very significant effect on Chinese OFDI location choice. Compared with companies without i2, those with i2 are intent on investing in DCs rather than HK or LDCs. In detail, for full_i2 (which was measured by the presence of a Sino-foreign equity alliance), LDC v.s. DC:

$\beta = -6.91$ $p = 0.002$, and HK v.s. DC: $\beta = -7.81$ $p = 0.001$; and for semi-i2 (which was measured by the presence of a Sino-foreign non-equity alliance), LDC v.s. DC:

$\beta = -4.61$ $p = 0.004$, and HK v.s. DC: $\beta = -3.29$ $p = 0.01$. This demonstrates that domestic learning and preparation is critical for companies' OFDI decisions.

Indeed, experiential knowledge may not easily be obtained from any means other than 'learning by doing', which leads to the psychic distance. However, the interesting argument for the case of Chinese OFDI is that past decades of considerable inward investment from DCs has already brought China's local companies into a semi-international market. The Sino-foreign partnership and the strategic China-Foreign alliances had already started the process of acquiring 'experiential knowledge' and eventually helped these Chinese 'future investor' companies to know how to conduct business with 'foreigners' in a foreign country.

Thus, with the existence of i2, the ambit of 'learning for internationalisation' was fading. It upgraded the argument over 'how critical PTI is still reliable', i.e. if learning is still the most initial stage of internationalisation; to 'how should IE be applied in the research of internationalisation in the new wave of OFDI', i.e. firms could learn to deal with international investment in various ways, the critical part is how the learning process affects internationalisation decisions.

Furthermore, connecting i2 with the network approach, the pictures are clearly presented as follows: i2 is an internationalisation 'domestic network' building process, e.g. Sino-foreign partnership, extended to an internationalisation process, i.e. OFDI. The fact that companies with i2 significantly prefer to invest in DCs is reflected in the fact that the major inward investors to China are DCs. This implies an important network relationship between Chinese overseas investors and their foreign business partners.

One may deduce the rest of the logic by analogy, therefore deciding whether there should be more investment to HK from the i2 companies. This is, however, wrong--as discussed earlier, i2 is not only a matter of network relationship, but also an internationalisation capability to critically affect the internationalisation process. Companies with i2 should have more competitive advantages than those that do not e.g. what a Sino-foreign partnership gave Chinese companies was not merely a higher and wider network position, but also technology, know-how and expertise. Therefore, investing in DCs is easier for these companies than it is for the companies that do not have i2.

Meanwhile, neither technology advantages nor labour intensive production capabilities are significant. Although some Chinese firms consider technology as one of their major competitive advantages, in the investment practices this advantage does not seem to differentiate companies' investment location choice. This implies that technology may not be the major feature of investment for Chinese MNEs.

Due to a feature of the market, most Chinese companies have a relatively strong labour intensive production process capability, where about 70% of the sample companies reported it as 'strong'(please refer to Chapter 6 for more details). Therefore, this feature facilitated the investment regardless of

where the companies were investing and hence it cannot be used to differentiate between investment location choices.

9.2.1.3 The Model

Accordingly, the first regression model, Model 1, is representing as:

$$\text{Log} \left(\frac{P(LDC)}{P(DC)} \right) = 3.47 \text{MarketSeeking} + 2.81 \text{ResourceSeeking} - 4.24 \text{CreatedAssetSeeking} - 19.4$$

$$\text{Log} \left(\frac{P(HK)}{P(DC)} \right) = 3.87 - 19.99 \text{MarketSeeking} + 5.60 \text{CreatedAssetSeeking} - 7.19 \text{Technology} - 7.60$$

9.2.2 Interaction Regression:

9.2.2.1 i2 vs. Motivations

As demonstrated in *Tables 9.2.2-1 and 9.2.2-2*, i2 shows a great impact on both market seeking and created asset seeking motivations.

Table 9.2-2 Regression: Market seeking Motivations with i2

Model 2 is testing the interaction effect between market seeking motivations and internalisation of internationalisation. The forward stepwise entry method was applied in creating the model. This table shows the significance, strength, and direction of each independent variable's effect on the dependent variable (the location choice) where a value less than 0.05 (or 5%) suggests a strongly significant variable and a value between 0.05 and 0.1 (or 5% and 10%) suggests a weakly significant variable. A significant positive β value represents the preference for investing in LDCs or HK rather than DCs, while a significant negative β value represents the preference for investing in DCs rather than LDCs or HK. Significance values of greater than 0.1 (or 10%) suggest that this variable shows no evidence of an effect on location choice.

Model 2				
Dependent variable: Investment Location Choice				
			β Sig.	
LDC v.s. DC		Intercept	-0.74 0.67	
	Interaction	Market_Seeking * Full_i2	-1.34 0.42	
	Interaction	Market_Seeking * Semi_i2	0.33 0.84	
	Interaction	Market_Seeking * Without_i2	5.15 0.02	
	Interaction	Weak_Market_Seeking * Full_i2	-17.72 0.00	
	Interaction	Weak_Market_Seeking * Semi_i2	0.26 0.92	
	Motivation	Resource_Seeking	2.33 0.03	
	Motivation	Created_Asset_Seeking	-4.92 0.00	
	Motivation	Capital_Seeking	-19.33 1.00	
	Capability	Government_Supporting	-3.60 0.04	
	Control	SOE	3.61 0.03	
	HK v.s. DC		Intercept	-1.50 0.61
		Interaction	Market_Seeking * Full_i2	-4.74 0.10
Interaction		Market_Seeking * Semi_i2	-1.31 0.65	
Interaction		Market_Seeking * Without_i2	2.30 0.46	
Interaction		Weak_Market_Seeking * Full_i2	-24.70 0.00	
Interaction		Weak_Market_Seeking * Semi_i2	-4.51 0.12	
Motivation		Resource_Seeking	-17.67 1.00	
Motivation		Created_Asset_Seeking	-0.23 0.82	
Motivation		Capital_Seeking	5.67 0.00	
Capability		Government_Supporting	-6.83 0.00	
Control		SOE	6.30 0.00	

* Please refer to Section 9.2.3 for model fitting tests

Table 9.2-3 Regression: Created Asset Seeking Motivations with i2

Model 3 is testing the interaction effect between created asset seeking motivations and internalisation of internationalisation. The forward stepwise entry method was applied in creating the model. This table shows the significance, strength, and direction of each independent variable's effect on the dependent variable (the location choice) where a value less than 0.05 (or 5%) suggests a strongly significant variable and a value between 0.05 and 0.1 (or 5% and 10%) suggests a weakly significant variable. A significant positive β value represents the preference for investing in LDCs or HK rather than DCs, while a significant negative β value represents the preference for investing in DCs rather than LDCs or HK. Significance values of greater than 0.1 (or 10%) suggest that this variable shows no evidence of an effect on location choice.

Model 3				
Dependent variable: Investment Location Choice(a)				
			β	Sig.
LDC v.s. DC		Intercept	0.37	0.83
	Interaction	Created_Asset_Seeking * Full_i2	-25.77	0.00
	Interaction	Created_Asset_Seeking * Semi_i2	-24.56	0.00
	Interaction	Created_Asset_Seeking * Without_i2	-3.93	0.02
	Interaction	Weak_Created_Asset_Seeking * Full_i2	-5.36	0.00
	Interaction	Weak_Created_Asset_Seeking * Semi_i2	-3.56	0.02
	Motivation	Market_Seeking	2.88	0.06
	Motivation	Resource_Seeking	2.52	0.02
	Motivation	Capital_Seeking	-18.88	0.00
	Capability	Government_Supporting	-3.87	0.03
	Control	SOE	3.76	0.03
HK v.s. DC		Intercept	-3.40	0.20
	Interaction	Created_Asset_Seeking * Full_i2	-10.31	0.02
	Interaction	Created_Asset_Seeking * Semi_i2	-2.87	0.11
	Interaction	Created_Asset_Seeking * Without_i2	-0.57	0.79
	Interaction	Weak_Created_Asset_Seeking * Full_i2	-6.42	0.00
	Interaction	Weak_Created_Asset_Seeking * Semi_i2	-3.59	0.03
	Motivation	Market_Seeking	3.74	0.05
	Motivation	Resource_Seeking	-18.18	0.00
	Motivation	Capital_Seeking	6.41	0.00
	Capability	Government_Supporting	-6.58	0.00
	Control	SOE	6.47	0.00

* Please refer to Section 9.2.3 for model fitting tests

With full i2, i.e. sample companies which have (or had) a Sino-foreign equity alliance relationship, companies seem more likely to invest in DCs for market seeking rather than HK ($\beta=-4.74$, $p=0.10$), but there is no significant difference in preferences between DCs and LDCs ($\beta =-1.34$, $p=0.42$). This is because market seeking OFDI location choice relies on the production a company has to market. Companies making luxury or high technology items will be more willing to sell their production in DCs, with HK as their stepping stone. Therefore, i2 facilitates the investment to DCs where they might otherwise have settled for HK. However, a company making low value added items may sell their production to any part of the world. So in this case, possessing i2 may not be so important.

Whereas, with semi-i2, (a company which has (had) formed a non-equity strategic alliance with foreign business units), companies show indifference between DC and LDC ($\beta =0.33$, $p= 0.84$) and DC and HK ($\beta =-1.31$, $p=0.65$) for market seeking, so are equally likely to invest in any of the three country types. Finally, when companies do not have any experience of Sino-foreign partnerships or knowledge of host markets (no i2), they have a clear preference to invest to LDCs for market seeking ($\beta=5.15$, $p=0.02$).

Meanwhile, a similar situation was demonstrated regarding the created asset seeking motivation. Due to no considerable created asset seeking in LDCs, the resulting coefficient for LDCs is very large, suggesting a sample bias. This research will, therefore, ignore the created asset seeking in LDCs.

Comparing the investment to DCs and HK for created asset seeking, it seems that with an increase in i2, the significance level and logit β coefficient both increase. i.e. for the created assets seeking investment in HK, companies with full i2 present a clear preference for investing in DCs rather than HK ($\beta= -10.31$, $p=0.02$); with semi-i2, companies still having a preference to invest in DCs, but with this effect only significant at the 10% level ($\beta=-2.87$, $p=0.10$). Lastly, companies without i2 do not show a clear preference for investing in HK or DCs for their created asset seeking ($\beta= -0.57$, $p=0.79$).

This implies that the further the company's internalisation of internationalisation process has progressed, the more likely it is to prefer to invest in DCs for created asset seeking.

The internalisation of internationalisation process acts as a 'pre-training course' for Chinese international investors and enables them to ease the psychic distance. Thus their investments are more directly targeted to the DCs, where they augment the assets. It could, therefore, be argued that some Chinese firms' internationalisation process started when they were still only domestic companies.

Model 2 is written as:

$$\text{Log} \left(\frac{P(LDC)}{P(DC)} \right) = 5.15(\text{MarketSeeking} \times i2_{none}) - 17.72(\text{WeakMarketSeeking} \times i2_{full}) + 0.26(\text{We}$$

Model 3 is written as:

$$\text{Log}(P(LDC)/P(DC)) = -25.77(\text{CreatedAssetSeeking} \times i2_{Full}) - 24.56(\text{CreatedAssotSeeking} \\ \text{Log} \left(\frac{P(HK)}{P(DC)} \right) = -10.31(\text{CreatedAssetSeeking} \times i2_{Full}) - 6.42(\text{WeakCreatedAssetSeeking} \times i2_{fu}$$

9.2.2.2 Relationship with the Government vs. Motivations

Tables 9.2-4 and 9.2-5 show that the strength of relationship with the government demonstrates a significant effect on Chinese MNEs' investment.

Table 9.2-4 Regression: Market seeking Motivations with Government Relationship

Model 4 tests the interaction effect between the market seeking motivation and government relationship. This table shows the significance, strength, and direction of each independent variable's effect on the dependent variable (the location choice) where a value less than 0.05 (or 5%) suggests a strongly significant variable and a value between 0.05 and 0.1 (or 5% and 10%) suggests a weakly significant variable. A significant positive β value represents the preference for investing in LDCs or HK rather than DCs, while a significant negative β value represents the preference for investing in DCs rather than LDCs or HK. Significance values of greater than 0.1 (or 10%) suggest that this variable shows no evidence of an effect on location choice.

Model 4				
Dependent variable: Investment Location Choice				
			β	Sig.
LDC v.s. DC		Intercept	-15.59	0.00
	Interaction	Market_Seeking * Government_Supporting	15.09	0.00
	Interaction	Market_Seeking * Weak_Government_Supporting	18.87	0.00
	Interaction	Weak_Market_Seeking* Government_Supporting	12.10	0.00
	Motivation	Resource_Seeking	2.55	0.02
	Motivation	Created_Asset_Seeking	-4.08	0.00
	Motivation	Capital_Seeking	-18.80	0.00
	Capability	Full_i2	-5.59	0.00
	Capability	Semi_i2	-3.58	0.00
	Control	SOE	3.77	0.02
HK v.s. DC		Intercept	-2.73	0.17
	Interaction	Market_Seeking * Government_Supporting	-3.31	0.05
	Interaction	Market_Seeking * Weak_Government_Supporting	2.89	0.08
	Interaction	Weak_Market_Seeking * Government_Supporting	-7.65	0.01
	Motivation	Resource_Seeking	-18.22	0.00
	Motivation	Created_Asset_Seeking	-0.41	0.69
	Motivation	Capital_Seeking	5.83	0.00
	Capability	Full_i2	-7.22	0.00
	Capability	Semi_i2	-3.27	0.01
	Control	SOE	6.54	0.00

Table 9.2-5 Regression: Created Asset Seeking Motivations with Government Relationship

Model 5 tests the interaction effect between created asset seeking motivations and government relationship. This table shows the significance, strength, and direction of each independent variable's effect on the dependent variable (the location choice) where a value less than 0.05 (or 5%) suggests a strongly significant variable and a value between 0.05 and 0.1 (or 5% and 10%) suggests a weakly significant variable. A significant positive β value represents the preference for investing in LDCs or HK rather than DCs, while a significant negative β value represents the preference for investing in DCs rather than LDCs or HK. Significance values of greater than 0.1 (or 10%) suggest that this variable shows no evidence of an effect on location choice.

Model 5				
Dependent variable: Investment Location Choice				
			β	Sig.
LDC v.s. DC		Intercept	-0.10	0.96
	Interaction	Created_Asset_Seeking * Government_Supporting	-26.49	0.00
	Interaction	Created_Asset_Seeking * Weak_Government_Supporting	-1.99	0.22
	Interaction	Weak_Created_Asset_Seeking * Government_Supporting	-3.29	0.06
	Motivation	Market_Seeking	3.38	0.03
	Motivation	Resource_Seeking	2.65	0.02
	Motivation	Capital_Seeking	-19.46	0.00
	Capability	Full_i2	-6.07	0.00
	Capability	Semi_i2	-3.87	0.00
	Control	SOE	3.90	0.03
HK v.s. DC		Intercept	-2.49	0.22
	Interaction	Created_Asset_Seeking * Government_Supporting	-6.37	0.00
	Interaction	Created_Asset_Seeking * Weak_Government_Supporting	-0.82	0.50
	Interaction	Weak_Created_Asset_Seeking * Government_Supporting	-7.98	0.00
	Motivation	Market_Seeking	2.91	0.06
	Motivation	Resource_Seeking	-18.19	0.00
	Motivation	Capital_Seeking	5.92	0.00
	Capability	Full_i2	-7.24	0.00
	Capability	Semi_i2	-3.39	0.01
	Control	SOE	6.35	0.00

Similar to i2, companies which show themselves as having a relatively strong relationship with the Government seem more likely to invest in DCs rather than Hong Kong for created asset seeking ($\beta=-6.37$, $p=0.003$), while companies with an average or weak Government relationship do not show a significant preference for DCs or Hong Kong when seeking created assets ($\beta=-0.82$, $p=0.5$).

On the other hand, companies with a stronger Government relationship prefer to invest in DCs for market seeking rather than HK ($\beta=-3.31$ $p=0.05$), but companies with an average or weaker Government relationship apparently prefer to invest in HK rather than DCs for market seeking ($\beta=2.89$, $p=0.08$).

Much research has already reported that Governments from third world countries participate in OFDI, e.g. Turkey (Erdilek 2005), India (UNCTAD 2005a), South Africa (UNCTAD 2005b), China (Giroud 2005), South Korea (Moon 2005). The case of Chinese OFDI also exhibits considerable involvement from the Chinese Government. For example, while the British Government tried to persuade Shanghai Auto to take over Rover Ltd., the key people they negotiated with were not only the managers of the companies, but also the leaders in the Chinese Government.

Although the influence from relationships with the Government is not as strong as i2, it is still very considerable. For the case of Chinese OFDI, the Government incentive and Government support facilitates a company's market seeking and created asset seeking activities. It implies a possible alternative governance mechanism as suggested by international entrepreneurship theory. Chinese overseas investors may not be as powerful as their international competitors, so they must rely on a more powerful 'tool' to achieve their aim of offshore investments. The commonly used tool discovered in this research is 'Government support'.

Model 4 is written as:

$$\text{Log} \left(\frac{P(LDC)}{P(DC)} \right) = -15.59 + 15.09(\text{MarketSeeking} \times \text{Government}) + 18.87(\text{MarketSeeking} \times \text{Government})$$

$$\text{Log} \left(\frac{P(HK)}{P(DC)} \right) = -3.31(\text{MarketSeeking} \times \text{Government}) - 7.65(\text{WeakMarketSeeking} \times \text{Government})$$

And Model 5 is written as:

$$\text{Log} \left(\frac{P(LDC)}{P(DC)} \right) = -26.49(\text{CreatedAssetSeeking} \times \text{Government}) + 2.65\text{ResourceSeeking} - 19.46(\text{CreatedAssetSeeking} \times \text{Government})$$

$$\text{Log} \left(\frac{P(HK)}{P(DC)} \right) = -6.37(\text{CreatedAssetSeeking} \times \text{Government}) - 7.98(\text{WeakCreatedAssetSeeking} \times \text{Government})$$

9.2.3 The Model Fitting Tests for the Regressions

As Shown in *Table 9.2.3-1*, all the model fitting tests seem significant, which means that the final models (models containing the variables) significantly outperformed the null model where all the parameter coefficients are equal to 0. Thus, the models containing the variables are statistically meaningful (Hosmer and Lemeshow 2000; O'Connell 2006).

Table 9.2.3-1 Result of Model Fitting Tests

Independent variables	Model_1	Model_2	Model_3	Model_4	Model_5
Model Fitting	199.350***	176.87***	175.71***	185.1***	179.65***
Goodness-of-fit Pearson	73.42	168.47	128.29	142.23	132.57
Goodness-of-fit Deviance	53.61	88.36	89.51	80.13	85.57
Nagelkerke ^2 (R Square)	0.89	0.85	0.85	0.87	0.86

* p<0.1 **p<0.05 ***p<0.01

Meanwhile, all the goodness-of-fit tests seem to be insignificant, which suggests that the models are adequately fitting the data (Hosmer and Lemeshow 2000; Garson 2006). Failure of this test, i.e. the *p*-value is smaller than 5%, will generally reduce the explanatory power of the logistic regression, therefore it might not be necessary to go into detailed analysis of the regression.

The Chi-Square statistics shown are for each independent variable in *Table 9.2.3-1*. They indicate whether each of the observations has a significant effect on the dependent variables.

Moreover the VIF test of regression shows the test coefficients are smaller than 4, so there should be no cause for concern about the possible problem of multi-collinearity.

9.3 Findings of the Chapter

The findings of regression analysis are summarised in *Table 9.3-1* which shows the effect of all the variables on the location choice.

Table 9.3-1 Findings in Chapter 8

This table summarise the finding of the thesis. Where '+' and '-' represent the strength and direction of companies investment location choice.

	<i>Decision Making</i>		
	LDC V.S. DC	HK V.S. DC	
<i>With the Factor</i>	Motivation: Market Seeking	++	++
	Motivation: Natural resource seeking	++	0
	Motivation: Created Asset-Seeking	--	0
	Motivation: Capital seeking	--	++
	Internationalisation Capability: labour Intensive advantage	0	0
	Internationalisation Capability: Technology Advantage	0	0
	Internationalisation Capability: Relationship with the Government	--	--
	Internationalisation Capability: Internalisation of Internationalisation (Equity Alliance)	--	--
	Internationalisation Capability: Internalisation of Internationalisation(Non-Equity Alliance)	--	-
	Interaction: Market seeking with full i2	0	-
	Interaction: Market seeking with no i2	+	0
	Interaction: Created asset seeking with full i2	N/A	--
	Interaction: Created asset seeking semi i2	N/A	-
	Interaction: Market seeking V.S. Strong Relationship with Government	++	-
	Interaction: Market seeking V.S. weak Relationship with Government	++	0
	Interaction: Created asset seeking V.S. Strong Relationship with Government	N/A	--
Interaction: Created asset seeking V.S. weak Relationship with Government	N/A	-	

Note: ++ represents the strongly significant (at 5% level) decision to invest in LDC or HK.

+: represents the relatively weaker significant (at 10% level) decision to invest in LDC or HK.

--: represents the strongly significant (at 5% level) decision to invest in DC.

-: represents the relatively weaker significant (at 10%) decision to invest in DC.

0: represents no significant relationship between the variable and location choice.

N/A: represents no existing relationship between the variable and location choice

The regressions suggest that a company's motivations for investment and internationalisation capability both significantly affect their location choice for OFDI.

9.3.1 Motivation

The OFDI motivations are amongst some of the most important factors affecting location choice. The asset exploiting motivation encourages Chinese companies to invest in LDCs. By contrast, the created asset seeking motivation drives Chinese companies to invest in DCs and HK. Meanwhile, HK is apparently the most popular area for Chinese companies with the capital seeking motivation.

This phenomenon corresponds to the nature of the target regions. A company's motivation to invest in a particular location is pertinent to the host country's specific factors (Dunning 2000; Makino, Lau *et al.* 2002). OFDI is used as a means to gain access to a host country's comparatively advantaged specific assets. For Chinese international players, LDCs offer them relatively easy competition, somewhat similar market conditions, and rich, readily available natural resources. DCs, however, are rich in created assets. Moreover, Hong Kong is a particularly special economic region which offers Chinese companies an easier and quicker way to list in their stock market, gives them the opportunity to meet their financial support, and to some extent provides them with available created assets.

9.3.2 Internationalisation Capability

A company's internationalisation capability is generally positively correlated to the company's ambitions for investing within DCs.

MNEs with a stronger Government relationship will be more likely to invest in DCs. As the Chinese Government's power over the economy is considerably vast (Wu & Chen 2001; Giroud 2005; Yang 2005; and Cooke 2006), a closer relationship with the Government implies a greater level of resources that the

MNEs are able to rely on to invest overseas, thus, they are more likely to be able to invest in DCs, However, this research will only consider this finding as a short-term effect. For the long-term, the high government involvement may create some 'unexpected' activities, e.g. capital flight

The existence of the 'internalisation of internationalisation process' also encourages companies to invest in DCs for two reasons: (1) i2 refers to a network relationship with DCs, and (2) i2 implies a company's relative advantage of technology, management know-how, or even human resources.

More importantly, interaction analysis finds evidence that i2 will facilitate investment in DCs. i.e. companies with i2 are more likely to invest in DCs rather than HK for market seeking. However, companies without i2 would prefer to invest in LDC for market seeking. Meanwhile, firms with i2 are more likely to seek created assets in DCs rather than HK, whereas firms without i2 are equally likely to seek created assets in HK as in DCs. This implies that i2 helps companies to understand a DC market and to overcome the psychic distance, enabling them to take advantage of the more abundant created assets in DCs rather than rely on the 'closer' HK market where there is less choice in created assets.

Similarly, interaction analysis presents evidence that companies which have a stronger relationship with the Chinese Government will prefer to invest in DC rather than HK for market seeking. Meanwhile those with only an average or weak Government relationship would rather invest in HK for created assets seeking. This highlights Government support as an alternative governing mechanism to enable Chinese OFDI and international competition.

This research did not find clear evidence that technology advantages will facilitate the Chinese OFDI. It does, however, seem to be that other advantages enable Chinese firms to make an international investment.

9.3.3 Control Variables

This research also finds some evidence that a company's identity is correlated to the OFDI location choice.

For example, SOEs are more likely to invest in LDCs rather than DCs. This is influenced by the relationship between the Chinese Government and Chinese SOEs so that the Government's intention still has a critical effect on SOEs' operation (Pei He 2000, Li, G 2000, Fang Zhang 2001, JianQing Yang 2001, Wu and Chen 2001, YouShu Li 2002, GaoFei Wu 2002, MingHua Min 2003, Deng 2003, JianSun Shi 2003, Giroud 2005, Gan 2006).

Therefore, the Chinese Government's close relationship with some other third world countries, such as Tanzania or Pakistan, facilitates the international investment to these countries. Additionally, the long history of international aid to these LDCs since the 1950s helps to build up a network connection between certain Chinese SOEs and these countries (Li Jun 2003). This encourages SOEs to invest in LDCs.

9.4 Comparison with Other Studies

Table 9.4-1 compares this research to other similar third world foreign direct investment (TWFDI) studies.

Lecraw (1993) suggested that Indonesian MNEs benefit from the home country's low-cost labour and physical inputs. WIR 2006 (UNCTAD 2006) also found that the home country's low-cost input and TWMNEs' labour intensive production advantage enables them to invest internationally. This research further finds evidence that Chinese MNEs also benefit from their domestic production-process capability and domestic low-cost input.

Various research has found that TWMNEs invest in DCs for the motivation of 'technology (created asset) seeking' and 'management know-how seeking'

(Cantwell and Tolentino 1987; Turnbull 1987; Lecraw 1993; Chen and Chen 1998; Kumar 1998; Makino, Lau *et al.* 2002). This research has also found that phenomenon.

Lecraw (1993) and Makino (2002) suggest that market seeking motivation will encourage companies to invest in DCs due to the richer, differentiated production market share in DCs. Lituchy and Du (2006) further suggest that Chinese companies invest in Canada for resource seeking, strategic asset seeking, efficiency seeking, market seeking and to avoid trade barriers. However, unlike their argument, this research did not find 'market seeking' as a significant motivation for investing in DCs. In Chapter 7 it is suggested that market seeking encourages Chinese companies to invest in both DCs and LDCs.

Makino, Lau *et al.* (2002) suggest that technological advantages facilitate Taiwanese FDI in both LDCs and DCs. However, this thesis did not find any evidence of technology advantages influencing Chinese MNEs' location choice. i.e. technology advantage is not the most fundamentally reliable resource used by Chinese MNEs to invest and compete in an overseas market. Instead, this research finds that around 70% of sample companies consider themselves to possess strong labour advantages.

Moreover, in the case of China, Government intentions critically affect OFDI location choice, and Chinese OFDI was also significantly affected by the i2 process.

Kumar (1998), Chen & Chen (1998) and Makino, Lau, and Yeh (2002) suggested TWFDI to LDCs is driven by a host country's cheap labour and natural resources. However, the above research was all based on relatively 'stronger LDCs' such as Taiwan. Such research finds evidence of natural resource seeking in LDCs, however in the case of China there is no significant evidence of labour seeking in LDCs (please refer to Chapter 5).

Lau (1992) found that the internationalisation process of smaller export-oriented and large MNEs are different in HK. However, this research did not find significant evidence to show that the size of the companies influences location choice.

Last but not least, none of the previous research considered the difference between Chinese investment to HK city and the rest of the world. In contrast, this research can be seen as an investigation of the unique relationship between HK and China. All in all, Chinese investment to HK demonstrated a different story to either DCs or LDCs. Chinese companies invest in HK for capital seeking and created asset seeking. In the case of HK, a relatively closer relationship between China and HK, the further developed physical infrastructure and the more relaxed and less controlled capital market all make this city an 'easier step' for Chinese OFDI newcomers.

Table 9.4-1 Comparison of this Research with Previous Studies

	Motivation effect on invest to Developed Country
Lecraw (1993)	Indonesian Firms are more likely to invest in higher income countries if their motivation is 'technology and management know-how seeking' and 'market seeking'
Kumar (1998) and Chen & Chen (1998)	TWFDI invest in DCs to strengthen their non-price competitive advantages, such as technology and brand name
Cantwell and Tolentino (1987)	TWFDI's first motivation of investment should be resource seeking, as NICs are in the learning process position, whereas DCs are in the leading position.
Makino, Lau, and Yeh (2002)	Taiwanese MNEs invest in DCs for market and strategic asset seeking
Lituchy and Du (2006)	Chinese overseas investment to Canada is driven by motivation of resource seeking, strategic asset seeking, efficiency seeking, market seeking and avoiding trade barriers
This research	Chinese MNEs are more likely to invest in DCs for 'created asset seeking', and to invest in Hong Kong for 'Capital seeking'
	Motivation effect on invest to Less Developed Country
Kumar (1998) and Chen & Chen (1998)	TWFDI investment in LDCs to extend their price advantages, i.e. low cost labour and raw material
JiMin, Peng & YueYing Shi, (2001); XinJian, Cui, (2002); YeZhang (2002);and Yan G.(2002).	In certain over heated Chinese industrial sectors such as machinery, electrical appliances, and textiles, the large variations between sluggish domestic demand and an excessive industrial production capacity are becoming critical. It pushes the Chinese firms to invest to certain LDCs for quota faming.
Makino, Lau, and Yeh (2002)	labour-seeking motivation will drive Taiwanese MNEs to invest in LDCs
This research	For Chinese MNEs, There is no significant labour seeking, they invest in LDCs for their market seeking and natural resources
	Size
Lau (1992)	internationalisation process of smaller export-oriented firms and large MNEs are different,
This research	There is no evidence of size that the companies will have significantly effect on the OFDI location Choice.
	Internationalisation Capability
Lecraw (1993)	Indonesia MNEs benefit from the home country's low-cost labour and physical inputs
Makino, Lau, and Yeh (2002)	Taiwanese MNEs competitive advantages and experiences of internationalisation will influence the choice of host market; i.e. Technology advantage facilitates FDI to both LDCs and DCs.
UNCTAD (2006)	For Chinese MNEs, asset augmenting is far more important than their DC's pioneers. Seeking to create assets is one of the most major motivations behind Chinese OFDI
Rios-Morales and Brennan (2006)	The OFDI from China to Latin America is influenced by political considerations
Cooke (2006), Zhang and VanDen Bulcke (1996).	The development path of Chinese OFDI overall is not the same as that of DCs; this is as a result of the level of Government intervention that is not common in DCs
Ye (1992), Yang (2005), and Cooke (2006)	For emerging market OFDI, technology advantage is not as important as traditional DC's OFDI, instead, other advantages such as alternative governance structures, network relationships, and Government enhancement are considered more influential,
This research	Chinese Companies' investment in DC benefit from Production process capability, Government relationship and i2; However, there is no strong evidence to show technology advantages effect on location choice.

9.5 Summary of Chapter

Based on the previous analysis, this chapter discusses logistic regressions to examine the influence of Chinese overseas investment companies' characteristics on their OFDI location choice. The characteristics included: 'OFDI motivation', 'internationalisation capability', and 'company identity'.

Considering the conflict between the size of the sample and the number of variables, this research introduces the forward stepwise method to assure the models are not over-fitted. Additionally, the model fitting test and goodness-of-fit test are also introduced to test the models produced.

The models in this chapter have proved the hypotheses, set out in Chapter 5, about the internationalisation capability and motivation affect on location choice in some circumstances.

This chapter found that:

(1) OFDI motivations have a significant effect on location choice. Market seeking overall encourages Chinese MNEs to invest in both DCs and LDCs, but for particularly focused market seeking investment they are more likely to invest in LDCs. Meanwhile, Chinese international players are more likely to invest in DCs for created asset seeking and to invest in HK for capital seeking.

(2) Location choice is also facilitated by a company's internationalisation capabilities. This issue is particularly significant where companies have a close relationship with the Government or they are SOEs, and for companies with an internalisation of internationalisation (i2) process.

This implies a considerable influence from the Chinese Government to the Chinese OFDI. On one hand, the Government support is a very powerful

force for Chinese overseas investment, thus companies with a closer connection to the Government are more likely to be able to invest in DCs. On the other hand, there is a significant number of Chinese SOEs that invest in LDCs because the long term China-to-Third World 'brotherhood' helps SOEs to build up network relationships, and the Chinese national natural resource seeking policy leads some Chinese SOEs to be required to invest in LDCs for mining.

Internalisation of internationalisation is introduced in this research to measure the unique internationalisation process of Chinese companies. It has proved to have a significant effect on Chinese OFDI's location choice. Apparently, companies using the i2 process would be more likely to invest in DCs rather than LDCs.

(3) There is no evidence that Chinese OFDIs benefit from their technology advantages while investing in DCs or LDCs. This could be a result of the overall lower development level of the economy in China.

CHAPTER 10 CONCLUSION

This chapter will firstly review the research question and data collection; secondly, it will draw the conclusions and state the major findings; and lastly it will discuss possible further research.

10.1 The Research Question and Data Collection

10.1.1 Research Question

This thesis studies emerging market outward Foreign Direct Investment (OFDI) using China as an example.

Related literature presented four schools of internationalisation and OFDI theory that could be applied to the OFDI by third world MNEs: (i) Eclectic theory of OFDI (Dunning 1977; 1979; 1981; 1988; 1995; 2000) discusses the impact of OLI advantages, asset exploiting and asset augmenting activities; (ii) Process Theory of Internationalisation (PTI) (Johanson and Vahlne 1977, 1990) discusses the learning process, investment establishment chain and psychic distance; (iii) International Entrepreneurship (IE) (McDougall and Oviatt 1994) complements PTI by explaining why international new ventures are possible; and (iv) Johanson and Vahlne (1990) and Hakansson and Johanson (1992) introduces the network approach into internationalization analysis, where the internationalization process is seen as an effort to enhance or explore the business relationships within a business network by inducing inter-firm as well as intra-firms linkages (Holm, Blankenburg et al. 1996).

Specific to emerging markets' OFDI, it seems these investments represent some dissimilar features when compared with those from developed countries (Moosa 2002 and Mathews 2006). Their motivations are more diversified—less developed countries' (LDCs) investors do not always invest

internationally to expand their advantage but asset augmenting is becoming more significant (Makino 2002; Teece 1992; Dunning 1993a, 1995, 2000; 2006; Chang 1995; Almeida 1996; Shan and Song 1997; UNCTAD 2006).

Emerging market overseas investors' competitive advantages can be differentiated from those of DCs' investors. The most commonly considered ownership advantages, e.g. technology, brand reputation and management skill, were not significantly demonstrated in the Chinese companies. However, instead of their competitive advantages, other advantages such as support from the government (Wu & Chen 2001; Giroud 2005; Yang 2005; and Cooke 2006) and the internalisation of internationalisation process enhanced the OFDI.

Accordingly, this research focussed on 3 issues: (i) the motivation (ii) the internationalisation capabilities; and (iii) how these motivations and internationalisation capabilities affect investment location choice.

10.1.2 The Research Data

Firm-level emerging market OFDI research suffers from misleading and low-quality data (UNCTAD 2005c; Meyer 2006), as does China's own OFDI research (Giroud 2005 and Yang 2005). As suggested by this research (Chapter 4), two aspects contribute to the distortion in Chinese OFDI statistics. i.e. (i) the relatively short statistical history, Government bureaucracy and regulation systems (Yang 2005 and Giroud 2005); and (ii) the considerable, unusual OFDI activities and "noise" within the data-- specifically, capital flight (Shi J.X. 2003, H. Wu & CH. Chen 2001, Gunter 1996, and Song 1999), non-economic reasons (D.Wall 1997, Lin 1998 and Cai 1999), and round tripping (Wong 2006; Gan 2006).

Consequently, this research collected data via interviews and questionnaires. The survey focused on companies' internationalisation capabilities,

investment motivation and investment activities. Approximately one thousand companies were contacted during the survey, with 152 of them responding. Among the responses from the companies, 129 of the interviews and questionnaires were actually able to be used.

10.2 Contribution of the Research

This research has concluded that the basis of emerging markets' OFDI is not so unconventional compared with DCs' OFDI. However, there are some features which are relatively more important in emerging markets' OFDI compared to those from DCs which have been discussed in this research.

Firstly, Chinese overseas investment combines both asset augmenting and asset exploiting strategies. Secondly, the investors were mostly enhanced by their labour intensive production advantages rather than the technology advantages. However, both of these advantages did not significantly differentiate between the locations for companies' OFDI. By contrast, the Chinese Government's support and supervision significantly influenced the investment decisions of companies (such as where to invest). This research also identifies an internalisation of internationalisation process which provides Chinese firms with an opportunity to achieve internationalising knowledge even before they have invested abroad.

However, as discussed in previous chapters, even though ownership advantages may be emphasised differently in the specific content of emerging market OFDI, the core values of OFDI still remain the same. Therefore, this research suggests that the contribution of emerging market OFDI to the traditional theories, should be complementary, rather than as a substitution. This will be discussed in more detail in the following sections.

10.2.1 Investment Motivation and the OLI Framework

Firstly, Chinese investors are trying to expand their competitive advantages via seeking overseas market share and obtaining natural resources. They are also addressing their shortcomings through augmentation of overseas resources, i.e. acquiring technology & brand name, or capital seeking.

These findings are compatible with the concept of Dunning's eclectic theory (Dunning 2000)—although there are certain unconventional features in Chinese overseas investment, the very foundation of the intention of the investment still remains the same. This research concludes that the TWMNEs' OFDI are just another wave of OFDI—they are not entirely 'new' or significantly different from previous international investment—and therefore suggests that the explanatory power of the OLI framework remains intact.

In the case of China, each type of motivation presents certain unique features:

- i. Setting up an overseas sales office is still a major market expansion strategy. Unless there are un-avoidable requirements of localised production (such as the target countries' trade protection policies, or that resources are only accessible in the local target country) Chinese firms are willing to locate their manufacturing base inside China. This, as discussed in the thesis, can be decided not only by the 'stage' of internationalisation (as may be suggested by IDP or PTI), but also by the international division of labour.
- ii. Chinese natural resource seeking OFDI is the most significant overseas investment. The Chinese Government is highly involved in natural resource seeking activities. It is, therefore, inevitable that Government support is a feature of the early stage of OFDI. This support comes not only through the subsidised cost of capital but also through political support such as the diplomatic initiatives between China and other third world governments.

- iii. 'Technology and brand name seeking' is another important motivation for Chinese OFDI. Past decades of IFDI does not seem to have satisfied the desire for technology transfer (Ping, Guan *et al.* 2007). OFDI is considered as a strategy for technology augmentation.
- iv. One of the most interesting motivations is 'overseas capital seeking'. Responding to the relatively isolated stock market and Chinese Government capital control policy, a number of Chinese firms invest internationally to gain the opportunity of listing in overseas stock market. However, this investment mechanism is complicated as Chinese international investors usually have to bypass the official regulation system. This type of investment often goes to large world capital market centres with which Chinese firms are familiar, for example, Hong Kong and New York.

10.2.2 Internalisation of Internationalisation (i2)

The internalisation of internationalisation process refers to the systematic evolution a company undergoes in order to be prepared for an overseas investment while still operating within the domestic market. This research hypothesises that there has been a management knowledge transfer process which has occurred when China opened its market. With deeper involvement with inward overseas investors from outside the country, Chinese firms learned how to deal with the international competitors and form alliances, and this has enhanced their capacity to engage in OFDI.

The original idea of i2 emerged from information gained in interviews. It became apparent that for those firms with a past (or present) Sino-foreign partnership or for those with past (or present) China-Foreign business alliances, outward investment from China would be more competitive, clearly

targeted and confident than for their peers without this accumulated experience.

The survey found that 70.6% of sample companies (91 of 129 companies) showed evidence of 'internalisation of internationalisation', which, on the one hand, confirmed that decades of economic reform has built up a closer relationship between China and the rest of the world. On the other hand, it implies a connection between the internationalisation process and companies' domestic market experience.

Some research has argued that, as one target of Chinese economic reform and liberalisation, the outcome for technology transfer has not been very impressive (Ping, Guan *et al.* 2007). However, our research shows that the consequences of 'management know-how' transfer is significant. As a proxy for the internalisation of internationalisation, this research has used two variables: the history of Sino-foreign non-equity partnerships and Sino-foreign equity joint venture alliances. Both of these proxy variables were significant, suggesting Chinese OFDI is influenced by the build up of management expertise in working with foreign partners (as introduced in Chapter 7).

The target nations of companies with i2 are different from firms with no experience of i2. i2 firms choose to invest in other developed countries rather than HK, which is opposite to the behaviour of those who do not have experience of working with foreign partners. In short, i2 appears to have a significant effect on companies' location choice. Market seekers with i2 are more likely to invest in developed countries (DCs) rather than Hong Kong (HK). Similarly, companies with i2 are also more likely to invest in DCs rather than HK while seeking created assets.

Emerging market OFDI and so-called international new ventures bring into sharp focus the question of antecedents to OFDI. Both challenge 'classical'

internationalisation theory and OFDI theory. Our identification of a process of internalisation of internationalisation provides a possible explanation to harmonise classical theory and the new phenomena of the IB in an increasingly international world economy.

The OLI framework emphasises the contribution of asset exploiting vs. asset augmenting. However, it seems that some further explanation is needed to describe how the asset augmenting companies in 'disadvantaged positions' can carry out international investment. The internalisation of internationalisation process should be seen as an ownership advantage. Although it may be difficult to measure precisely how i2 enhances OFDI, it should be accepted that from participation in various forms of international alliances many companies learn to deal with overseas management prior to their investment. While i2 may improve companies' international management skills, it is not a sufficient requirement for OFDI however it does provide one possible explanation for why emerging market OFDI is capable of overcoming the international investment barriers.

To state the contribution of this research, the following four sections will further discuss the relationship between internalisation of internationalisation and Process Theory of Internationalisation, International Entrepreneurship, Network Approach and Eclectic Theory.

i2 and PTI

The concept of i2 is an extension of the classical process theory of internationalisation (PTI). PTI assumes that the internationalisation process is a learning process, and the internationalisation experience can only be learned by practice. It considers the learning process to start within and be accomplished by companies, and that it is driven by the companies' growth. As a result of growth, companies choose to expand internationally (Autio 2005).

The framework of i2 also agrees that the internationalisation process is a learning process. However, i2 postulates that the process of learning how to internationalise (particularly in terms of dealing with overseas business units and customers), starts long before the actual overseas investment starts. The concept of i2 can easily be confused with one of PTI's assumptions-- establishment chain, also known as the Uppsala Model, which predicts that companies need to prepare for internationalisation before performing OFDI. The establishment chain notion focuses on the internal learning-by-doing process and implies that learning about 'OFDI' will only occur whilst the company is actually operating overseas. This differs from the concept of i2 and is also challenged by various researchers (Oviatt and McDougall 2005).

The framework of i2 predicts that the learning process will start, and be accomplished, through the companies' business network (rather than drawing exclusively on the company itself). International expansion is, very importantly, a **process** of growth rather than a **result** of growth. Emerging market international investors achieve knowledge and experience from their foreign business partners and alliances. When they detect an opportunity in the overseas location and consider it to be worth a potential risk, they will be more likely to engage in overseas investment than those investors without their prior international knowledge. Therefore, for those emerging market investors investing abroad outward investment is not just an outcome of growth, but is a strategy for obtaining certain resources for further growth (which does not only refer to asset augmenting).

The enormous number of joint ventures is a common feature of the current world economy. One consequence of international joint ventures is that it entails the internationalisation of host country partner companies.

i2 Attunes International Entrepreneurship and PTI

Potentially, i2 also corresponds to an argument in international entrepreneurship (IE) theory stating that inward foreign investment in LDCs

forces emerging market firms to compete with foreign investors. *'With many markets internationalizing, fewer new ventures can escape confrontations with foreign competition, and more entrepreneurs are adopting a multinational viewpoint'* (Oviatt and McDougall 2005). This gives local firms a chance to learn how to deal with the foreign companies, thus making them more familiar with FDI while operating within a domestic market. The IE literature discusses the impact of competition, but ignores the potential impact of co-operation. IE also does not probe how the knowledge transfer process would work.

As discussed in Chapter 2, International Entrepreneurship and the Process Theory of Internationalization (PTI) are not contradictory, but rather are complementary to each other (Autio 2005). IE attempts to explain PTI's outliers, i.e. international new ventures. It demonstrates that routes to other processes of internationalisation, apart from the PTI framework, are possible. The next question is: how can a company's investment activities change paths from PTI's prediction to IE's prediction? Or, how can a company be born global? And, technically, how does IE connect to PTI?

This research suggests that **i2 builds a bridge between PTI and IE**, explaining why some companies are able to launch international new ventures. This research suggests that the reason PTI has been challenged so considerably by international business research is because it ignores the existence of different 'training programmes' for the current generation of international investors. In case there is any confusion, i2 is introduced and used to explain Chinese OFDI in this research. However, considering the massive international investment all around the world, it is very reasonable to believe i2 exists in most of the opening and semi-opening economies. i2 can be seen as a process for building up a network relationship, and hence it helps MNEs to overcome the psychic distance present between different investment environments. i2 could also be seen as an internationalisation capability—companies with i2 have more knowledge and experience of FDI,

albeit at home. Accelerated internationalisation, as introduced by IE, is now possible without the long growth process which was necessary decades ago. However, it is by no means certain this will occur and it depends critically on the accommodation of ownership specific advantages.

While some 'new' international investors seem more impatient and are accelerating the long 'classical' internationalisation processes identified in PTI, it is important to remember that these firms are a small minority in developing countries.

Our concept of i2 provides an eclectic way of putting the two schools of theory together and suggests one explanation for the increase in OFDI from large emerging markets. Companies have been imperceptibly building their internationalisation capability while participating in joint ventures with overseas partners.

i2 and Network Relationships

The network approach and i2 have some similarities. They both focus on the dynamics of partnerships, and obtaining knowledge and information from relationships. In fact, the network approach is one method for constructing the internalisation of internationalisation. As proposed in this thesis, companies' Sino-foreign partnerships provide a network connection and a possible opportunity for i2.

However, concentrating on Chinese firms' internationalisation process, the network approach and i2 emphasise different features. The network approach focuses on the connection between 'network actors'. It is a framework which refers to 'whom you know'. The concept of i2, however, focuses on the process of international joint venturing and the internationalisation of knowledge and capabilities. For companies performing OFDI from China it is no longer 'whom they know', but rather 'what they have learned'.

i2 and OLI Framework

Internalisation of internationalisation refers to the systematic knowledge-based resources within companies; in other words, *i2* is seen as a method of potentially improving a company's cross-national operational skills. It should be seen as an ownership advantage within the perspective of the OLI framework.

Together with other ownership advantages (such as labour intensive production capabilities), and unique resources (such as Government support), *i2* provides a possible explanation for why emerging market outward investors are able to invest and compete internationally with companies in more developed countries.

The phenomenon of *i2* is a consequence and driver of globalisation. The numerous cases of international joint venturing catalyse it. This research suggests that with the evolution and progress of globalisation, internalisation of internationalisation will be demonstrated by more overseas investors from emerging markets.

10.2.3 The Government Impact

This research confirms expectations about the importance of government influence on Chinese OFDI. As introduced in Chapter 7, only a limited number of sample companies reported that their Governmental relationships were not important for international investment. Basically, sensitive to capital flight and state owned property losses, the Chinese Government imposes strict capital controls.

The Chinese government has a great impact on companies' OFDI activities: Firstly, the Chinese Government possesses the power to promote/demote the SOEs' managers; secondly, the government also holds the power of

directed credit lending; thirdly a closer relationship with the Government will greatly increase the probability of 'examination and approval' success. Last but not least, China's friendship with other third world countries also helps some Chinese firms to win the project in certain countries, such as for CNPC in Indonesia.

This research found that companies with closer Government connections are more likely to invest in developed countries for market seeking and capital seeking (as discussed in Chapter 9). This confirms the hypothesis that Chinese MNEs require the Government's support both economically and politically, so that they can compete with their international competitors.

The internationalisation processes of Chinese firms provide some interesting insight to improving theory. As a result of 'national strategy', the country can concentrate on the best resources, such as work force, low cost of capital, even favourable policies, and overseas investment activities. Consequently, from the macro-view, the Government introduced some powerful support services, such as Shanghai Foreign Investment Development Board, and Chinese Export Credit in Beijing. From the micro-view, some large firms established their 'elite group' to focus on the international investment. These services and elite groups greatly enhanced the investors' internationalisation capabilities, hence accelerating the process of internationalisation. This research suggests that Government intention and support should be considered as another type of ownership advantage which applies to the OLI framework. However, it might be too early to declare that the Government will positively enhance OFDI. In the short-term, there might be some surface benefits, however, in the long-term such 'support' might breed some unexpected outcomes such as 'capital flight'. Moreover, the Government support cannot fundamentally improve the overseas operational capability of Chinese firms. The problem of cross-national survival, therefore, is possible.

10.2.3 The Motivation of Capital Seeking

Capital seeking is introduced in this research. It refers to the investment activities from which companies seek a way to list in the host countries' stock market easily and quickly. This motive is not included in Dunning's framework.

In fact, recent research has paid much attention to the capital seeking motivation by Chinese firms. Wong (2006) has an insightful discussion of how this kind of investment will work, and the book is even used by some companies as their investment guide. The nickname 'Red Chip' is used to refer this kind investment and is well known by entrepreneurs.

This research has found empirical evidence that the capital seeking motivation plays an influencing role in Chinese OFDIs. Companies with this motivation will invest in a few special cities, that is, Hong Kong, New York, Singapore and London. This type of investment also contains some unconventional features, which this research will sum up as follows: Firstly, the Government financial control policy is the direct cause of this motivation. On one hand, the Chinese Government as the major shareholder of all SOEs is very cautious of losing state property, so it has very strict rules for supervising the international investments(Author's interview). On the other hand, Chinese firms require some freedom while developing their companies and one of their choices is to invest to a host country where the Chinese Government cannot directly influence them.

Secondly, the benefit of capital seeking is not only the financial freedom, but also from taking advantage of government policy. In order to attract more overseas investment, the national policy of China has a great emphasis on offering favoured policies to the foreign investors. Through complicated operations in the stock market, Chinese companies can move their headquarters or registration to a foreign location, and thus become an 'overseas' company as far as the government is concerned.

Thirdly, the capital seeking investment procedure is unconventional. The procedure for capital seeking can vary but the most common one is the reverse takeover (RTO). This refers to the takeover of a host country public firm, using the public firm to M&A the Chinese parent company and then to list in the host country's stock market with the public firm. This is a quick way to list in an overseas stock market without IPO.

RTO was the most used method of capital flight from China, or round tripping. With the joining of WTO, the amount is expected to be reduced, however it is still valuable to observe it in further Chinese International Business research, and for it to be used as a reference in research on other emerging countries.

10.3 Further Research

A number of undiscovered issues still remain. Future research could investigate the following topics.

10.3.1 Survival Problem

Research on survival after investment would be particularly interesting for Chinese OFDI. As was briefly introduced in the previous chapters, Chinese investments seem to combine the story of rapid growth and considerable loss. 'Leading investors', such as TCL, Lenovo, and BOE, all achieved their investment goal, but cannot manage to maintain the resources they obtained from the deals. For research on the problem of survival, there are three issues:

1. How to evaluate the success of the investment?
2. Based on the evaluation standard, how do internationalisation capabilities of Chinese investors enhance their later localisation in the market? In detail, are there any special company core competences that help the companies to achieve certain targets?

3. What would be the key factors affecting the survival problem of the Chinese firm?

10.3.2 Tracking the Survey Companies

This research has a survey involving about 160 companies. The survey covered 14 provinces, which include the most major Chinese 'economic centres' i.e. Beijing, Shanghai and Guangdong. During the two and a half years of this survey, it was noticed that sample companies were adopting dynamic internationalisation strategies in response to the changing business environment and the growth of experience.

It is, as the author believes, very valuable to track the growth of the Chinese international investors. In details, how would the overall growth of Chinese GDP enhance the OFDI? What will the companies consider as a major lesson from their own (or from their close business partners') internationalisation experience? How do they survive? How do they adjust their strategies while responding to the problems of survival? How will they re-structure themselves when they have to deal with trade friction? Most interestingly, how would the Chinese Government modify the national policy and regulation system to adapt to the future new situations? And how would the sample companies respond?

10.3.3 Further Research on the Impact of i2 in OFDI

Further research on the impact of internalisation of internationalisation should be the most interesting and exciting. The concept of i2 is to indicate the process of the domestic 'internationalisation know-how' transfer. This indicator should further enhance the explanatory power of eclectic theory, and attune the contribution of PTI and IE theory.

This research used 'past Sino-foreign partnership' and 'key manager knowledge' to measure i2. Further research could focus on finding another measure for i2, as the definition of i2 is those 'domestic business activities which enable companies to obtain internationalisation knowledge', e.g. could financial data have been used to measure i2?

Future research could also cover the impact of i2 on OFDI in other countries. The tasks could be: (i) to confirm the existence of the process of i2 in other third world countries; (ii) to examine the effect of i2 on OFDI in various economic regions.

Other research could be on the capital control problem, or even a comparison with Japan and South Korea.

All in all, there are several possibilities for future research on Chinese OFDI, or research on the extension of this research thesis. However, to apply this research, one should pay close attention to the quality of data. Official data, i.e. data provided by the Chinese Government or the UN, is necessary for presenting the full picture. However, there is a question of whether the official data offers enough information to answer the above research questions. Meanwhile, even though primary data is obviously the more reliable data source, this presents its own difficulties in data collection.

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APPENDIX:

Appendix 5.5-1 Questionnaire for Interviews

The **questionnaire's length** and **degree of structure** are required to be different for the different administration methods (Oppenheim 1992; Hair, Bush *et al.* 2003), hence there are two versions of questionnaire: one for face-to-face interviews and one for mailing. In the version used in interviews, questions are mainly on corporate firm or governance related issues and are designed to elicit more details. Meanwhile, in the version for postal administration, questionnaires are designed to be much shorter in order to improve the response rate.

The questionnaires were, necessarily, in the Chinese language but the translations are presented here.

Introduction

Hello, I am Mr Li, HouChao. I am interviewing you as part of my PhD research with the University of Edinburgh, UK. The aim of my research is to better understand outward foreign direct investment behaviour of Chinese firms like yours.

*Please answer the questions according to your own experience and understanding. Let me ensure you, **all information you provide will be treated strictly anonymously and confidentially.** Your name will not be used in any documentation produced as a result of this survey.*

Section 1
Background information

101 Name of the parent
Company _____ [1001]

102
Location _____ [1
002]

103 When was the company established?
_____ [1003]

Name of the foreign subsidiary	Location of the foreign subsidiary	When the foreign subsidiary was established	Investment structure of the subsidiary ¹³	
				[1004]
				[1005]
				[1006]
				[1007]
				[1008]

¹³ Please choose the number of the following options

- 01 Joint Venture
- 02 Acquisition of a local company
- 03 Wholly owned subsidiary
- 04 Other(Please specify in the blank)
- 05 Don't Know.

105 What is your equity component in China? [1021]

- 1 A state-owned enterprise under the control of a ministry
 - 2 A provincial enterprise under the control of a provincial Government
 - 3 A municipal enterprise under the control of a municipal Government
 - 4 A township/collective enterprise under the control of rural authorities
 - 5 A firm that is privately owned
 - 6 A corporation that is listed on a Chinese stock exchange
 - 7 Other, please specify _____
-
-
-

106 (背景) What is the *principal* sector in which your parent firm operates?
[1022]

- 01 Manufacturing _____
(Please specify main product line e.g. textile, chemicals, etc.)

- 02 Services _____
(Please specify main service provided e.g. consulting, transportation)

- 03 Commerce (e.g. retail/wholesale trade)
- 04 Agriculture, hunting, fishing _____
- 05 Mining and Quarrying _____
- 06 Electricity, gas, water _____
- 07 Construction _____
- 08 Other (please Specify) _____

107) How many countries does your company have equity investments in? ____ [1023]

108) In which year did your company first export to a market outside of China? _____ [1024]

109) In which year did your company first invest in a foreign market? _____ [1025]

Why? [1026]

110) In which country is your company's most recent international investment? [1027]

111) In which year did this most recent investment take place? [1028]

112) In which country is your company's largest international investment (measured in terms of total capital invested)? [1029] -

113) In which year did your company's largest investment take place? [1030]

114 Could you please give your estimate of the following:

	Whole Company (In Us Dollar)	Foreign Subsidia (In US Dollar or Percentage)
The amount of your firm's fixed assets		
The amount of your firm's debts		
Growth in sales for last year		
Anticipated increase or decrease in annual sales over the next year		

115 If your company is a public company, could you please state which financial market you are accessing? (*You can make more than one choice*)

[1038]

- 1, A stock in Shanghai
- 2, B stock in Shanghai
- 3, Shenzhen
- 4, ADR (American Depository Receipt)
- 5, GDR (Global Depository Receipt)
- 6, London
- 7, Tokyo
- 8, Other (*Please specify*)

Section 2

Selecting a foreign country & entry mode

701 (投资环境 pull) In your opinion, which of the following factors are influencing the decision to invest aboard

Factors
Market Size and potential of host market [7001]
To improve the competitiveness of your export activities[7003]
An emerging market: <i>To gain the First-mover advantages OR develop new markets outside of China</i> [7004]
Proximity of host country to large, third markets for exports[7005]
Quota Farming/Tariff and non-tariff barriers: <i>To overcome tariff and non-tariff barriers to your company's imports in a foreign market or markets</i> [7006]
Signatory country to international trade and investment treaties with China[7007]
Availability of finance capital[7008] ...
To take advantage of host country investment incentives : <i>i.e. Local Tax incentives Rule of law/ Physical security / Political stability / Local Government efficiency</i> [7009]
To benefit from lower production costs in international markets: <i>i.e. low cost land</i> [7010]
Because you were invited to invest by a local

customer or supplier[7011]	
Low labour costs in foreign country [7012]	
Chinese business and family connections[7013]	
Highly educated workforce[7014]	...
To be closer to your foreign suppliers [7015]	...
To be closer to your important customers[7016]	...
Good physical infrastructure (e.g. transportation and communication networks) [7017]	
Geographically close to China and your Chinese operations[7018]	...
Presence of potential partners [7019]	...
Absence of foreign exchange controls[7020]	...
Cultural similarity with China[7021]	...
<i>Other (Please specify) [7022]</i>	

[7023]

703) Typically, what is the final destination of your overseas production[7025]

Local foreign market

China

Third country

markets

Don't know

705) Why do you use a particular method most often today? Is that the same as 3 years ago? Why? [7045]

Section 3
Motivation

201 (原因/motivation) In your opinion, which of the following **reasons** are influencing the decision to invest aboard?

<i>Brand & Reputation [2001]</i>	
<i>Technology: i.e. To gain access to new management know-how & access the new technology[2002]</i>	#201.2
<i>To carry out research and/or product development in foreign markets[2003]</i>	#201.3
<i>International diversification: To spread the risks associated with production [2004]</i>	
<i>Foreign financial market accessing: To improve access to sources of cheaper external finance [2005]</i>	
<i>Antidumping/ Quotas faming[2006]</i>	
<i>To obtain foreign citizenship [2007]</i>	
<i>In response to growing competitive pressure in Chinese markets[2009]</i>	
<i>Natural Resources Seeking: To gain access to raw materials not available readily in China [2010]</i>	
<i>Because your markets are becoming saturated in China[2011]</i>	
<i>To comply with the Chinese Government's policy statements[2012]</i>	
<i>To benefit from Chinese Government incentives to invest overseas [2013]</i>	
<i>To benefit from Chinese Government concessions (in finance, taxation, foreign exchange, for example). [2014]</i>	
	<i>Other (Please specify) [2016]</i>

#201.2 Which kind technology is your company most interested in? [2018]

#201.3 Which kind of natural resource is your company seeking? [2019]

Section 4
Government Services

301 To what extent do you think the Chinese Government is encouraging Chinese companies to invest oversea? (*Please move to question #301 if your choice is 4 or 5*) [3000]

- 1, very Dis-couraging
 - 2, Dis-couraging
 - 3, Neutral
 - 4, Encouraging
 - 5, very Encouraging
-
-
-

#301 Could your briefly state the Chinese Government's motivation behind OFDI, according to your own understanding? [3001]

302 How do you describe the relation between your company and the Chinese central Government? [3002]

0, not interesting to answer this question

1, provides leadership

2, partner

3, supervisory

4, regulatory

5, supporter

6, nothing related / no relation

7, other _____

303 How do you describe the relation between your company and the local Chinese Government? [3003]

0, not interesting to answer this question

1, provides leadership

2, partner

3, supervisory

4, regulatory

5, supporter

6, nothing related

7, other _____

304 Please judge from a scale of 1 to 5 how important the following **organisations** are in influencing the decision to invest aboard.

	1	2	3	4	5
Reasons	Critical negative effect	negative effect	Nothing related	Positive effect	Critical Positive effect
central Government[3004]					
local Government[3005]					
commercial banks[3006]					
central bank[3007]					
Other[3008] _____					

For example: [3009]

305 Overall do you think the following problems exist in currently Chinese Government operation. (*you can make more than one choices*) [3010]

- 1, Bureaucratic and low in efficiency
- 2, Lack of controlling of Capital Flight

- 3, confusion of the ownership structure
- 4, Weak information and advisory system
- 5, other _____

Section 5

Competitive Advantages of Your Firm

401) Briefly, in your view what makes your company competitive in international markets? [4000]

402 Please judge from a scale of 0 to 4 how important the are following **factors** to your company's competitiveness in international markets.

	0	1	2	3	4
Reasons	Not consider ed	Minor Factor	Moderat e Factor	Major Factor	Critical Factor
The profitability of your company's operations in China[4101]					
The quality of your company's technology[4102]					
The support your company gets from the Chinese Government[4103]					
The quality of your company's product and/or					

service[4104]

Your company's
brand/s[4105]

Low cost of inputs
components source
from China[4106]

Your company's
experience in
manufacturing
operations[4107]

Your company's
ability to obtain
investment finance
in China[4108]

The protection that
your company
enjoys from the
Chinese
Government in its
domestic
markets[4109]

The international
experience of your
company[4110]

The quality of your
company's
operations
management [4111]

The low price of
your company's
product and/or

service[4112]

The quality of your
company's middle
and top
management
personnel[4113]

Your company's
Chinese nationality
and cultural
heritage[4114]

Your company's
strategy of targeting
countries not as
developed as the
industrialized
countries. [4115]

**Other, please
specify [4117]**

403, Please rate the performance of your overseas investment against the original targets set for profitability and revenue growth:

- 1, Below Expectations
- 2, Met most expectations
- 3, met all expectations
- 4, Above expectations

Section 6
Human Resources

504 by the end of 2003 how many workers in total were employed in the parent company and subsidiaries?

	Parent company	Subsidiaries
Permanent[5000]		
Temporary[5008]		

505 What percentage of the permanent workforce at your establishment have the following education levels

	At company (in China)%	Parent (in (Overseas) %	Subsidiaries
Under secondary school[5015]			
Secondary School[5020]			
University[5025]			
Postgraduate or higher[5030]			

506 what percentage of foreign managers are?

	At Parent company (in China)%	At Subsidiaries (Overseas) %
Chinese Managers [5006]		
Foreign Managers[5007]		

508 Does your company have any plans to replace most of the Chinese staff with locals? [5009]

Yes/No

Section 7

Improve the Chinese OFDI

801 What do you think are the major barriers preventing further exploring of Chinese OFDI ? [8001]

802 As a What is your company's long-term plan for the future? [8002]

803 How do you expect Chinese Government improve to help Chinese outward direct investment to change in the foreseeable future? Why? [8003]

804 According to your OFDI experiences, do you have any lessons to offer to other Chinese companies? [8004]

This Survey Ends Here
Thanks for your time.

Appendix 5.5-2 Questionnaire for Email and Posting¹⁴

Hello, I am Mr Li, HouChao. I am interviewing you as part of my PhD research with the University of Edinburgh, UK. The aim of my research is to better understand outward foreign direct investment behaviour of Chinese firms like yours.

Please answer the questions according to your own experience and understanding. Let me ensure you, **all information you provide will be treated strictly anonymously and confidentially**. Your name will not be used in any documentation produced as a result of this survey.

Profile of the company and its operations

1. Name of the parent Company _____ [1001]
2. Location _____ [1002]
3. When was the company established? _____ [1003]
4. What is your equity component in China? [1021]
 - 1 A state-owned enterprise under the control of a ministry
 - 2 A provincial enterprise under the control of a provincial Government
 - 3 A municipal enterprise under the control of a municipal Government
 - 4 A township/collective enterprise under the control of rural authorities
 - 5 A firm that is privately owned
 - 6 A corporation that is listed on a Chinese stock exchange
 - 7 Other, please specify _____
5. What is the *principal* sector in which your parent firm operates? [1022]
 - 01 Manufacturing
(Please specify main product line e.g. textile, chemicals, etc.)

 - 02 Services
(Please specify main service provided e.g. consulting, transportation)

 - 03 Commerce (e.g. retail/wholesale trade)

¹⁴ The vision which was actually used, was a Chinese vision

- 04 Agriculture, hunting, fishing
- 05 Mining and Quarrying
- 06 Electricity, gas, water
- 07 Construction
- 08 Other (please Specify) _____

7, How many Overseas subsidiaries do you have?

8-11 What is your Entry mode?

How many subsidiaries choose to Wholly Own by M&A _____

How many subsidiaries choose to Wholly Own by Green Field

Investing _____

How many subsidiaries choose to JV with a local company _____

How many subsidiaries choose to JV with a 3rd country company

12-17 Please specify the information about your overseas subsidiaries.

Name of the foreign subsidiary	Location of the foreign subsidiary	When the foreign subsidiary was established	the investment structure of the subsidiary ¹⁵	
				[1004]
				[1005]
				[1006]

18-27 Could you please give some key fanatical feature about your company during 2002 to 2004?

¹⁵ Please choose the number of the following options

- 01 Joint Venture
- 02 Acquisition of a local company
- 03 Wholly owned Subsidiary
- 04 Other(Please specify in the blank)
- 05 Don't Know.

	2002	2003	2004
Operating Income			
Net Income			
Total Assets			
Total Liabilities			
Book Value			

10 By the end of 2003 how many workers in total were employed in the parent company and subsidiaries? (you can answer it by percentage)

	Parent company	Subsidiaries
Permanent[9001] [90011]		
Temporary[9002] [90021]		

11 What percentage of the permanent workforce at your establishment have the following education levels

	At Parent company (in China)%	At Subsidiaries (Overseas) %
Under secondary school[5015]		
Secondary School[5020]		
University[5025]		
Postgraduate or higher[5030]		

Does your company has (had) an equity or non equity alliance with an overseas company before the investment?

equity alliance	Non-equity alliance	none

Please judge from a scale of 1 to 5 how important the following **factors** are in influencing the decision to invest aboard

Motivation					
	Not important 0	Helpful 1	Important 2	Very important 3	Critical 4
Proximity of host country to large, third markets for exports					
To improve export activities to host market					
Localisation of production					
Low cost labour seeking					
Antidumping/ Quotas					
China's domestic market pressure [2009]					
Capital market relative Information Obtain Technology or R&D					
Target company's Brand & Reputation					
Foreign financial market accessing / Availability of finance					
Absence of foreign exchange controls					
Natural Resources Seeking:					
Other (Please specify) [2016]					

Therefore, which of the following operations represent the investment (you can pick more than one)

	Yes	No
Motivation: Market Seeking		
Motivation: Natural resource seeking		
Motivation: Created Asset-Seeking		
Motivation: Capital seeking		
Motivation: Low Cost labour Seeking		

Competitive Advantages					
	Not important 0	Helpful 1	Important 2	Very important 3	Critical 4
The profitability or market advantage in China [4101]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The support your company gets from the Chinese Government[4103]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The quality, brand(s), technology or price of your company's product and/or service[4104]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Low cost of inputs components source from China[4106]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The capability of your company to achieve financial support (4108)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The international experience of your [4109]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The quality of your company's management or work force [4111]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your company's lower price production [4112]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your company's Chinese nationality and cultural heritage[4114]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (Please specify) [2016]					

Therefore, which of the following advantages was considered when engaged in the investment (you can pick more than one)

	Yes	No
labour advantage	<input type="checkbox"/>	<input type="checkbox"/>
Technology advantage	<input type="checkbox"/>	<input type="checkbox"/>
Government relationship	<input type="checkbox"/>	<input type="checkbox"/>

This Survey Ends Here

Thanks for your time.

Appendix 7.6 Research Note: Issue of Information and Know-How

This research did not design questions for 'information seeking' and 'management know-how seeking', as they could be a very general motivation for all kinds of sample companies. However, some interviewees voluntarily talked about the issue of information and management know-how:

1. As international venture newcomers, naturally Chinese firms do not possess much information on the target market. There is always a question of whether they have enough information or knowledge about the target market.

On top of this, it is also often seen that Chinese managers are aware of their problem of knowledge shortage. They indeed try to be as prepared as possible, but once the investment starts, they will notice that their knowledge is still far from enough. E.g. A Chinese private investor thought he was ready for investing in the UK as his son had studied in the country for 8 years. However, his problem with fitting into the British business culture was still not overcome before he withdrew the investment (was bankrupted). In one instance he was even fined for his 'vacancy poster' as he listed the requirements including the gender, height, age and that applicants should look pretty, which is very common in China but illegal in the UK.

2. Following the first point, Chinese firms, therefore, may not possess the international operational know-how either. In other words, merging Chinese corporate culture with the local business environment may also be a problem.

Although international entrepreneurship (IE) theory assumes that companies' international operational knowledge can be shared (Autio 2005), the fact is that at this stage there are too few Chinese firms

actually investing abroad and the feasibility of their strategies is still being tested. Therefore, for the whole economy, there is no reliable OFDI process that can be used for reference.

3. The third aspect is the problem with the workforce. The sample companies commonly complain that their workforce cannot cooperate with their foreign partners.

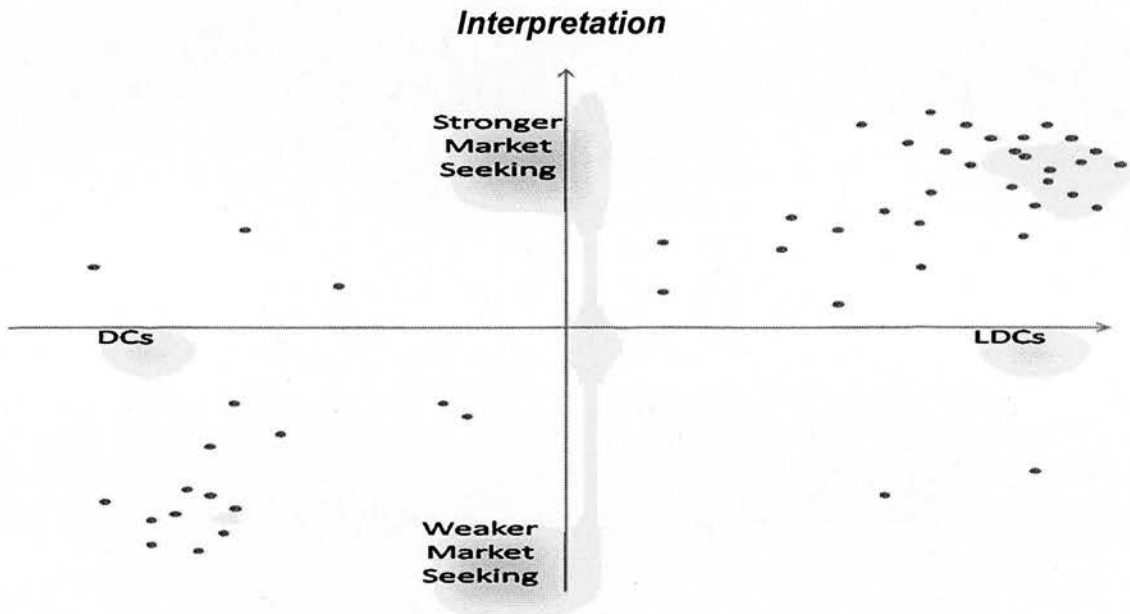
Basically, Chinese investors require their subsidiary's manager to be able to speak both the local language (or English) and Chinese. They also need these people to have enough professional knowledge about the company's business operation. However, to hire people with both the communication capability and professional knowledge is a considerable problem for the Chinese investors.

Plus, the biggest headache for Chinese investors is the loyalty of their subsidiaries staff, especially when they invest in DCs. As the Chinese investors generally cannot offer a high wage or satisfactory welfare, they commonly suffer from a high local staff turnover. The even more humiliating issue is that those staff or managers who were sent from China tend to leave their job as soon as they can find another job in a local company. This is because generally these companies pay more. Moreover, for the Chinese business culture, the experience gained in a foreign company generally gives a great benefit to an individual in the future job seeking.

Therefore, as a result of the limited suitable work force, high foreign staff turnover, and low loyalty of Chinese staff, to acquire cross national investment experience is ever harder for Chinese firms. This starts a vicious circle for the process of obtaining knowledge, and therefore creates great problems for the Chinese investors' survival.

Appendix 9.2 Research Note: How to Interpret Logistic Regression

Figure 9.2-1 An Example of Multinomial Logistic Regression Result



For example, the effect of market seeking motivations to location choice of DC v.s. LDC (as seen in *Table 9.2.1-1, Model 1*) could be presented as *Figure 9.2-1*. The coefficients suggest that compared to companies with weaker market seeking motivation, those with stronger Market seeking motivation would prefer to invest in LDCs rather than DCs. Since the coefficients are significant (at 95%) and positive.

Appendix 11.1: Research Note: Location Choice and Psychic distance

Location advantage seeking is one of the most fundamental assumptions of OFDI. This research has already discussed the impact of investment motivation to the location choice. However, there are some more issues which need to be covered.

Some interviewees complained that one of the major OFDI barriers is from the competition between Chinese overseas investors. i.e. *HuaWei Co.Ltd* suffers from its business followers—once it has started to do business in a country, the follower firms will rush into the country and offer a lower price. This is because the follower companies generally do not possess enough information for the overseas market and are only willing to try those countries which have already been proven accessible by the market leaders. Meanwhile, as they only need to follow the market leader's investment location, the international office could be very small, and the cost could be further reduced.

This creates two interesting phenomena: one is that Chinese production's prices could be even lower than the target nation would hope, another one is that it seems that all the Chinese companies are sticking together—they either do not enter the country, or all rush into it together.

However, for international business studies, the valuable questions are: (1) how much psychic distance and information limitation will affect the location choice of emerging market OFDI, and moreover (2) how these overseas investment newcomers will overcome them.

The impressive amount of investment from China to Hong Kong—which was reported in both the official data and this research—proved that psychic distance will lead companies to invest to somewhere they know. Meanwhile, even though there are other locations that may provide similar but richer supplies of resources than Hong Kong, the Chinese new investors still prefer to use Hong Kong as the stepping stone, as they are naturally risk averse.

Appendix 11.2: Research Note: The Government Impact

As has been discussed in the thesis, the Chinese Government plays a major role in the OFDI process. The survey found clear evidence of the Government's influence on a company's decision making and internationalisation capabilities. This section will review two issues—how the

Government influences companies' decision making and how the Government helps Chinese firms to become international:

1. How does the Government Department influence a company's decision?

First of all, the Chinese regulation system re-confirms the influence. With the aim of capital control, almost all Chinese business activities are under Government supervision. Specifically for OFDI, as shown in *Figure 11.1-1*, companies will most likely be involved in the following procedures:

(1) Information Achievement: where the company obtains information about the business opportunities in an overseas market from the Government Service Department, a business partner or by other means. Or, the Government intends to invest in a certain country, and discusses this with the firm's director.

(2) Companies will then apply for the project to be examined and approved through the Local Government Departments. (It can take up to 6 months to complete the whole process).

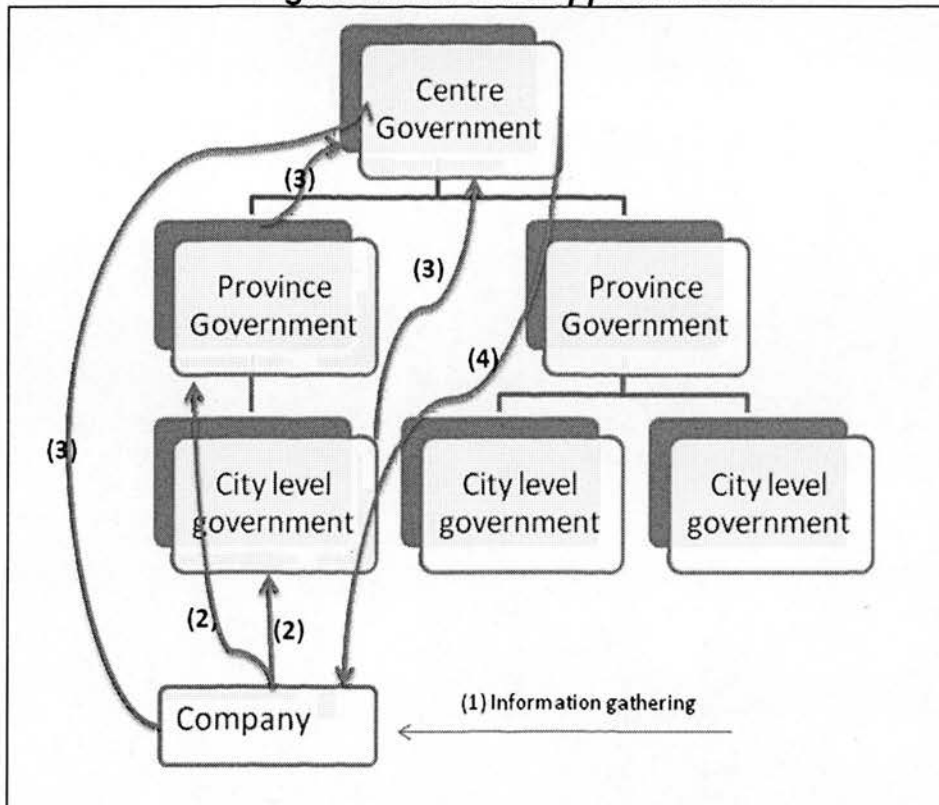
(3) After Local Government approval, the company will send the application to the Central Government, depending on the type of project and size. Meanwhile, the Local Government will also send the report and application to the Central Government, also depending on the size of the project (however, unlike companies, in most cases the Local Government will have to report to Beijing).

(4) With the permission of the Government (which may take up to 3 years to gain), the company can therefore start the investment process. This would still heavily involve the Government as major economic resources, such as banks, are controlled by the Government.

Importantly, examination and approval is required for any OFDI project, regardless of the companies' ownership structure.

Depending on the size of the project, whether small or large, and the type of project, whether primary or developing, companies may have to deal with city level, province level or the National Government. However, it is most likely that companies will start applications from the city level Government, and then move upward through Governmental levels.

Figure 10.1.1-1 the approval route



Secondly, the Chinese overseas investors will have to report back to the Government about the performance of the project each year. For those SOEs, the large amount of re-investment will still require future permission from the Government.

Thirdly, to ensure that the Government's intention is directly linked to the SOEs' managers' personal career services.

It is interesting to see how Chinese firms promoted their major managers. As is well known, the Government is the major shareholder of SOEs, however, as part of the reform policies, the Government has also tried to act as though it is encouraging SOEs to be more independent of the Government. Meanwhile, there are also real benefits and a necessity for capital control. Therefore, the process of promoting company leaders seems very complicated, namely a democratic centralism mechanism. In short, it is the superior Government Department which decides who is going to be the leader of the company.

From the company's leaders' point of view, satisfying the Government's intention will be their main concern. i.e. while the Government evaluates company's performance by reading the balance sheets, the managers then consider 'maximising the profit' as their premium target; nonetheless, other Government intentions will also become the SOEs' targets, such as OFDI. To sum up, due to the superior power the Government holds over SOEs, the Government's intention will be the highest priority of the SOEs' operational goals.

From the economic point of view, the Government is the major shareholder, therefore it has the power over SOEs' Managers—in other words, SOEs' managers should satisfy their shareholders hence they should follow the Government's intention.

The heavy Governmental control and regulation system forces the Chinese companies to constantly watch the Government's pulses. Companies would only be able to perform the investment if they could persuade the Government to allow it, otherwise they would have to bypass the regulation system. On the other hand, as the Government also has a strong influence on the SOEs' managers' personal careers, and in issuing the approval of overseas investment, the intention of the

Government is actually one of the most determining factors over Chinese international investment.

2. How does the Government enhance companies' internationalisation capabilities?

Having a close and friendly relationship with the Government has been considered as a critical competence for Chinese international investors (as reviewed in Chapter 6). This presents two major issues.

One issue is about the overall weak competitive power relative to companies from the world's DCs. This involves not only normal business resources such as technology, capital resources, information, human resources and even the market reputation, but also some abnormal resources, such as organisational structure and incentive mechanism. Lall (1983) suggested that the similarity in economic and social factors and an interdependent political relationship between LDCs will enhance emerging market OFDI to other third world countries which is confirmed by Chinese cases. Chinese diplomatic relations with other LDCs aid the investments, e.g. CNPC's investment in Sudan.

Government support seems to be one way of overcoming weaknesses, so that the Chinese investors can compete with their international competitors.

Another issue links the Chinese examination and approval systems. As a consequence of the long and bureaucratic process, companies have to learn to 'survive smartly'. A friendly interplaying relationship will greatly reduce the duration of the process. Specifically, closer relationships with the Local Government are essential for all kinds of Chinese companies' daily operations—the Local Government will not only benefit companies with their localised operations, but will also help them to deal with the central Government.

Appendix 11.3: Research Note: The Aversion to Overseas Localised Production

The following questions should be answered: Why is there no significant Chinese overseas labour seeking? Why is there no significant Chinese overseas localised production? Will there be more in the future?

While discussing investment motivations in Chapter 7, three interesting issues were mentioned—the considerable number of overseas sales offices, the limited amount of localised production and the non-existence of overseas low cost labour seeking.

These 3 issues seemed to be common in the early stage of both Japanese and South Korean OFDI. They could also be explained by the Uppsala model of PTI, which indicated companies' internationalisation process as containing four stages (Johanson and Wiedersheim-Paul 1975). Accordingly, as China is still in the early stage of OFDI, apart from certain pioneers, the major Chinese firms are more willing to consider their international investment as a trial. Thus, their major focus of business is still in China.

This research will use the explanation of stages to describe the overall picture for the current Chinese OFDI. However, for the specific case of labour-seeking and localised production, more issues are involved:

1. China is one of the lowest cost manufacturing areas in the world. This is not only judged from the cost of labour, but also from other physical infrastructures, policies, regulations, and efficiency of the Government. Thus, it is not necessary to search for an overseas location for production, unless there are other benefits to be gained .

Considering the Chinese national economic strategy and the number of rural low income labourers, the cost of manufacturing may not significantly increase for a long period. Until an overseas area overtakes China with considerably lower costs of productions, an aversion to overseas localised production will still be demonstrated.

2. The size of the Chinese market is another factor. With the right strategy, a company can grow dramatically and achieve a considerable economy of scale. This has attracted a number of foreign FDIs into China, as well as encouraging Chinese firms to keep their production base inside China during the OFDI.

Although one may argue that international production would be a rational way to diversify the risk, it might be too early for those newly established (or re-established) Chinese companies to consider it.

3. It should be noted that Chinese SOEs were the leading players of international investment. This implies: (1) the Chinese Government would prefer SOEs to be based in China to increase job opportunities; (2) the Government may not be happy with too much overseas production, in case there is uncontrollable capital flight (Author's interview).

Therefore, the long period of aversion which Chinese companies show towards localising their production overseas will probably become another special feature in the foreseeable future. From the micro-perspective, this feature might provide some new insight into the process of internationalisation.

Additionally, this also implies a strategy for Chinese overseas investment—Chinese firms could optimize their advantages by investing abroad for

marketing and technology seeking, while keeping their production in China, as much as possible, because of their production process capability.

Appendix 11.4: Research Note: Asset Augmenting, Asset Seeking, and 'New Theory'

The OLI framework emphasises the necessity of certain advantages while a company engages in OFDI. This argument was somewhat challenged by some emerging market OFDI research, e.g. Yin and Choi (2005), Li (2006), Mathews (2006), Rios-Morales and Brennan (2006, 2006a), due to the relatively weaker competitive positions of TWFDIors'.

As reviewed in Chapter 3, some 'new theories' were therefore introduced to explain the new wave of OFDI, i.e. Moon and Roehl (2001) and Mathew (2006a). These journal articles questioned the value of eclectic theory, and argued that the growth of the unconventional emerging market OFDI activities were encouraged by the competitively disadvantaged position, or other factors—i.e. linkage, leverage and learning (so-called LLL framework).

Under the principal that 'OFDI is the process of company growth rather than the result of the company's growth', this research tries to address the above concerns by constantly examining the assumption of 'asset exploiting v.s. asset augmenting'.

Asset exploiting (A.E.) was the original argument of OFDI theory. It was developed by Dunning's OLI framework—accordingly, those companies possessing ownership advantages, location advantages, and internalisation advantages would be capable of, and willing to, invest overseas in order to exploit their advantages. (Dunning 1977, 1979, 1981)

However, with the boom in international investment, it seems that some investors do not necessarily hold the 'advantaged position' (Makino 2002;

Teece 1992; Dunning 1993a, 1995, 2000). Therefore, the OFDI theory developed another branch of argument to discuss asset augmenting (A.G.) (Dunning 2006; Chang 1995; Almeida 1996; Shan and Song 1997; UNTCAD 2006). This refers to those investors who try to address their short-comings during the OFDI process.

Importantly, as ignored by 'new theory', it is necessary to address inter-correlation of the two motivations. '*...the eclectic paradigm might better address itself to explaining the process of international production...*'(Dunning 2000). **Following the logical path of OLI, more advanced firms exploit the advantages, and less advanced firms seek the advantages.** For most mid-ranged companies, motivation development should be shown in table 10.2-1

The survey found that both the motivations of asset augmenting and asset exploiting were demonstrated in the sample. A numbers of Chinese firms invested with multiple objectives. 34% of the sample companies (44 of 129) have both asset exploiting and asset augmenting motivations, e.g. TCL's M&A with Thomson's colour TV business was very obviously market seeking (A.E.) plus created asset seeking (A.G.); whilst CNPC's international investment is combined with natural resource seeking (A.E.), technology seeking (A.G.)and capital seeking (A.G.).

It should be noted that asset augmenting and asset exploiting can co-exist in the same company. Hence, there is barely any company in the absolute position of advantage or disadvantage and, therefore, companies sometimes address their shortcomings by investing in a foreign country where the target resource is available or the asset augmenting cost is lower than in the home country. Meanwhile, these companies may also maximise their profits via investing in an overseas location where they can exploit and fully use their current advantages. These investments can therefore connect to each other and co-ordinate, so that a company can invest in a country which has a rich

supply of technology resource (country A) for asset augmenting, and then invest in a country with a rich supply of market resource (country B) for asset exploiting using the technology which the company achieved from country A.

Table 10.2-1 the motivation development



Furthermore, adopted as the most fundamental assumption in this research, **internationalisation should be seen as a process of growth rather than a result or inducement of growth.** Meanwhile, the process-based view of international entrepreneurship should be emphasised (Moosa 2002; Young 2003; Autio 2005). OFDI is only one of the strategic choices made by the company to maximise profits. It is not worth discussing whether it is precisely the advantaged or disadvantaged competitive position of the companies that encourages companies to invest internationally. International investment will always exist as long as individual markets are not similar, e.g. while location makes a difference, and production endowments are still unique. However, the so-called 'new theories' or 'unconventional' emerging market OFDI theories simply assume that international investors are either in a positive

position or a negative position, and base their argument on the hypothesis that OFDI is the result of a company's growth.

Consequently, this research will have to decline the argument of these 'new theories'.

Also, together with the arguments proposed by Dunning (2000; 2006) and Narula (2006), this research found evidence that **asset augmenting and asset exploiting should be seen as two aspects of one circle rather than two independent branches**. A company's multiple investment strategies should be seen as a 'normal issue' in OFDI research. Therefore, as long as the inter-correlation between 'asset exploiting and asset augmentation' is considered and applied, the explanation of Dunning's eclectic theory (Dunning 2000) should still be unquestionable.

Appendix 11.5: Research Note: The labour Intensive Production Advantages

This research divides ownership advantages into two categories: technology advantages; and labour intensive production advantages.

Theories have suggested that there are certain types of technological advantages which enable the OFDI, e.g. small-scale technology (Wells 1977; 1981; 1983) and technological accumulation (Cantwell and Tolentino 1987). However, this research found no evidence that Chinese firms are heavily reliant on these technological advantages. Instead, Chinese investors very commonly consider their labour intensive production advantages as fundamental advantages.

This should be accepted as a result of the country's economic structure. Just as units in the 'world factory', Chinese firms have to compete with other companies with labour intensive production advantages. More 'accomplished'

companies are likely to be the most highly efficient and lower cost ones. The survey finds that the majority of companies used in the sample were still very confident about their labour intensive production advantages, and were planning to compete internationally, using these capabilities.

Relying on these advantages, companies either augment the resources and 'graft' them to the existing superb labour intensive production advantages, or expand to an overseas location hoping to spread the highly efficient Chinese production process to the target nation.

Appendix 11.6: Research Note: A Few Last Words: The Future of Chinese Firms' Internationalisation

The emerging market's OFDI is becoming more important in the world's economy (WIR 2006). Chinese firms themselves benefit from OFDI which has been discussed throughout the thesis. In contrast, the world will also benefit from China's increasing overseas investments.

China's capital resource seeking has already become a phenomenon (Wong 2005) resulting in Chinese capital control and a relatively weaker domestic financial resource. In the foreseeable future, more Chinese firms will consider overseas capital seeking as an operational strategy. Regardless of how they will manage to list in an overseas market, **it should be emphasised that Chinese OFDIs offer another way of investment into China.**

By registering overseas, Chinese firms take a large step towards their investors. Non-Chinese investors are able to invest in China through their own capital market. Investors can examine a Chinese company using their own market standards as those Chinese investors have to obey the target market's regulations. Thus, they will make decisions based on their own know-how and will be more certain about the information. This will also encourage those investors who are willing to invest in Chinese firms, but who are uncertain about Chinese Government policies.

Meanwhile, responding to the increasing demand of R&D, Chinese companies are investing in DCs which offer them richer R&D resources. However, these firms generally keep their manufacturing bases inside China due to the internationalisation stage and economic condition.

From the Chinese MNCs' view, China is becoming their manufacturing base, whilst the subsidiaries in DCs are becoming their R&D centre, training centre,

and marketing centre. In contrast, from the developed markets' view, Chinese firms are taking over production lines which are in decline due to increased costs and competition, and shipping them back to China. Meanwhile, these Chinese firms are setting up their business service facilities in the DC where the service sector is booming. Consequently, a further massive aversion which Chinese investors have towards overseas localised production will objectively deepen the international division of labour.

Chinese OFDIs are seen as part of the process of the growth of Chinese companies. With the further progress of these investments, the Chinese economy is increasingly acclimatising to the world trend. In this regard, future Chinese OFDI will be more considerable, exciting and interesting for both the academic and business world.