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Chinese Investment in Europe: A Financing Perspective

Luqi Wang

A dissertation submitted to the University of Bristol in accordance with the requirements for award of the degree of Doctor of Philosophy in the

Faculty of Social Sciences and Law

June 2022

Abstract

This study examines Chinese multinationals and their foreign direct investment (FDI) activities in Europe from the perspective of corporate finance. Specifically, it attempts to explore the role of firm financing in the internationalisation of Chinese business and further investigates the extent to which and the rationale of, financing as an important factor in influencing the decisions and strategies of Chinese enterprises during this process. Inspired by FDI theories from the fields of international business and political economy, this study attempts to reappraise the long-established orthodoxy by demonstrating financing to be an important, yet often underestimated, variable in analysing FDI issues, particularly against a background of the growth of FDI from emerging countries such as the mainland China. In adopting a mixed methods approach with a design involving multiple case studies, this study has collected primary data via fieldwork interviews with corporate executives, senior staff, and financial experts, meanwhile incorporated a diverse range of secondary data gathered from commercial databases (such as BvD-Zephyr, Thomson One, and FDI Markets) and authoritative documentations from both publicly available and private sources.

The findings suggest that: 1) While Chinese firms are financed through four main sources - internal ones, debt financing, equity financing, and hybrid financing - internal funds and bank loans are the most commonly used arrangements; 2) Chinese firms are substantially affected by their financing strategy in their FDI activities in Europe, and this can mainly be attributed to the Chinese domestic financial system in which the firms, as actors, are embedded. As the Chinese political economy features a significant role for the state, the financial system is dominated by multiple levels of state-owned banks. The inherent preferences of such financial systems, therefore, lead to different treatment for various firms. Such differences, which are associated with firm size, ownership, industry, and transaction volume, etc., have significant implications for the investment strategies, process, and results of firms in FDI. These are particularly prominent with respect to Chinese firms that focus their internationalisation efforts on entering mature markets such as Europe.

The findings of this study provide valuable reference to supplement the existing literature, and it is one of the few contemporary studies that systematically reviews the financing sources of Chinese multinationals and how they affect FDI. This study contributes to both theoretical and empirical advancement by providing an additional analytical lens to the mainstream FDI theories on the one hand, whilst augmenting empirical evidence to the current scant literature on Chinese investment with a particular focus on Europe on the other hand.

Author's Declaration

I declare that the work in this dissertation was carried out in accordance with the requirements of the University's *Regulations and Code of Practice for Research Degree Programmes* and that it has not been submitted for any other academic award. Except where indicated by specific reference in the text, the work is the candidate's own work. Work done in collaboration with, or with the assistance of, others, is indicated as such. Any views expressed in the dissertation are those of the author.

SIGNED:

A solid black rectangular box redacting the author's signature.

DATE: 27 June 2022

Acknowledgement

As this thesis signifies the end of a challenging yet memorable academic journey, it also represents the start of a new adventure as I venture forth into the world with new perspectives and refined skills acquired through the rigorous training process. I am immensely grateful to all those who have supported and encouraged me throughout my PhD journey.

I extend my heartfelt gratitude to my supervisors, Professor Jeffrey Henderson and Dr. Magnus Feldmann, for their invaluable guidance, incomparable mentorship, and unwavering support throughout my research. Their expertise and encouragement were crucial in shaping my thinking and direction, serving as a guiding light, especially during times of my intellectual difficulties and the global pandemic. I owe them a great debt of gratitude.

I also want to thank the interviewees who participated in my fieldwork in Europe and China for their immense support and willingness to go above and beyond to assist me. Regretfully, due to confidentiality reasons, I am unable to mention their names. I am also grateful to my colleagues at UNIDO in Beijing, where I completed a half-year internship, for their inspirations and contributions to my research.

Lastly, I am thankful to my dear parents and grandparents who have always been there for me with their relentless love and trust. Their constant support has been the foundation of my journey, and I would not have been able to achieve this without them.

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List of Abbreviations

ABC	Agriculture Bank of China
AIIB	Asian Infrastructure Investment Bank
BOC	Bank of China
BRI	Belt and Road Initiative
CCB	China Construction Bank
CDB	China Development Bank
CEE	Central and Eastern Europe
CITIC	China International Trust and Investment Corporation
CPC	Communist Party of China
CSIC	China National Shipbuilding Industry Corporation
CSRC	China Securities Regulatory Commission
EU	European Union
EXIM Bank	Export-Import Bank of China
FDI	Foreign direct investment
ICBC	Industrial and Construction Bank of China
ICT	Information and Communication Technologies
IPO	Initial public offering
M&A	Merger and Acquisition
MNC	Multinational company
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NBO	Non-binding offer
NDRC	National Development and Reform Commission
POE	Privately-owned Enterprise
SASAC	State-owned Assets Supervision and Administration Commission
SinoChem	China National Chemical Import and Export Corporation

SOE	State-owned Enterprise
SPC	State Planning Commission
SRF	Silk Road Fund
WTO	World Trade Organisation

Chapter 1 Introduction

1.1 Research context

China is emerging as a major global investor. Indeed, the past few decades have witnessed China's growing from the largest foreign direct investment (FDI) importer among the developing world to be a leading net capital exporter. In 2003, its FDI outflows and stock accounted for only a bare minimum (less than 1 percent, 0.45 percent and 0.48 percent respectively) of the global share, and it is not until 2009 that China has climbed to be the largest outward investor among the developing countries and ranked 5th globally (UNCTAD, 1999: 56; 2003; MOFCOM, NBS, and SAFE, 2004; 2010). In 2015, for the first time, its outflows had surpassed inflows and become the world's second largest investor before it finally topped the global ranking in terms of FDI outflows (US\$ 154 billion) and accounted for around 20 percent of the world's total in 2020 (MOFCOM et al., 2016; 2021). Accompanying with the surging outward FDI, an increasing number of Chinese multinationals, as one significant driving force, have been showing greater presence globally following their international venturing (e.g., Zhang, 2003; UNCTAD, 2007a; Yeung and Liu, 2008).

This phenomenon, undoubtedly, has aroused wide scholarly attention¹. Researchers try to interpret Chinese FDI and multinationals from different angles, encompassing both a macro-economic level of investigation into the general trends and the impacting factors operating in both home and host countries (e.g. Wong and Chan, 2003; Cheung and Qian, 2009; Wang et al., 2012; Lu et al., 2014) and an examination of determinants, motives, and strategies of firms at a micro-economic level (e.g., Rui and Yip, 2008; Boateng, Wang, and Yang: 2008; Peng, 2012), based on diverse theoretical and analytical tools including the eclectic paradigm (e.g., Li, 2007; Ramasamy, Yeung, and Laforet, 2012; Sun et al., 2012), the international development path framework (e.g., Liu, Buck, and Shu, 2005), the Uppsala model (e.g., Liu, Xiao, and Huang, 2008), institutional perspective (e.g., Peng, Wang, and Jiang, 2008; Deng, 2009; Zhang, Zhou, and Ebbers, 2011), resource-based view (e.g., Cui and Jiang, 2010; Fornes and Cardoza, 2018), agent theory (e.g., Chen and Young, 2010), and so forth. A general consensus is that Chinese MNCs and their

¹ For a review, see e.g.: Wei (2010); Berning and Holtbrugge (2012); Deng (2012; 2013); Quer, Claver, and Rienda (2015); Alon et al. (2018); Buckley et al. (2018); Paul and Benito (2018).

FDI activities deviate significantly from those conventional practices which call for special attention and are worthy of more in-depth research.

Given the fact that China has been one of the main sources for South-South FDI (e.g., Aykut and Ratha, 2004; UNCTAD, 2007b), and the vast majority of its FDI has directed to and concentrated in other developing and transitional economies (MOFCOM et al., various issues 2004-2021), a considerable number of studies have, therefore, been devoted to China's engagement with the global South represented by Africa (e.g., Brautigam, 2009; Lee, 2017; Jepson, 2019), Latin America (e.g., Fornes and Mendez, 2018; Peters, 2019), and Southeast Asia (e.g., Lim, 2019; Tong, 2021). This scholarly effort, essentially, has dwarfed the level of academic attention that is directed towards the vast developed areas. Although China's FDI in developed regions (i.e., North America, Europe, and Oceania represented by Australia and New Zealand) merely accounted for around 10 percent of its total stock along the years (MOFCOM et al., 2021: Figure 16), the activities of Chinese firms in these regions have nevertheless become a force that cannot be ignored and have often been the subject of attention following highly publicised large-value buyouts. Among them, Europe, as a traditionally core developed region, has experienced the fastest growth of Chinese outward FDI in the past several years (see e.g., Hanemann and Huotari, 2015; 2017; 2018; The Economist, 2018; Kratz et al., 2022). What perhaps more intriguing, is the idiosyncratic nature demonstrated by such investment concerning the Chinese state (e.g., the role of a highly centralised party-state), investment patterns (e.g., different sectoral foci from those of the global South, preference of M&As rather than greenfield mode, with strong strategic assets seeking motives), as well as the impact of such investment (e.g., on Europe's innovation system and thus the broader economic competitiveness) during the process (Brennan and Vecchi, 2021; Henderson and Hooper, 2021). Research on this phenomenon is imperative, not least because it indicates a reverse flow (South-North) which contrasts with the common practice of down-market (North-South) investment.

The existing academic work on China's FDI in Europe, however, remains in its early stages albeit with growing volumes. While we have the seminal and flagship work represented by Brennan (2011) and Henderson, Feldmann, and de Graaff (2021), a few other scholars try to dissect this phenomenon with different emphasis. They include examining Europe as a whole by highlighting

the general patterns and motives (e.g., Meunier, 2014; Ma and Overbeek, 2015), determinants (e.g., Dreger, Schuler-Zhou, and Schuller, 2017), corporate strategies and labour relations (e.g., Drahokoupil, 2017), potential impact and policy responses (Nicolas, 2014; Meunier, 2019a; 2019b) of Chinese FDI, or they pay special attention on particular European countries such as Ireland (Collison, Brennan, and Ruth, 2017), Hungary (Nyiri and Xu, 2017), or carry out a survey using a country-level analysis (e.g., Seaman, Huotari, and Otero-Iglesias, 2017) in tackling with the investment. Despite the fruitful exploration, more research is needed to gain a more holistic understanding.

This PhD study, therefore, aims to enrich this stream of literature by adopting an additional and less often applied angle to look at the financing of Chinese investing firms. The motivations for this work are twofold: intellectual curiosity on the one hand and theoretical innovation on the other. Over the years, the myths surrounding Chinese firms and their supporting capital have aroused tremendous questions and doubts about the motivations for and impact of their investments, and their sources of finance have always presented a fundamental yet unsolved puzzle in fully understanding this phenomenon. Theoretical-wise, compared with the most dealt query concerning “*What drives it?*” in explaining the incentives and determinants that propels Chinese outward FDI, I emphasise more on “*What makes it?*” in accounting for the factors that enable the success of reverse FDI of this kind in the face of fierce competition. I believe that an examination of the issues surrounding investment financing is one of the keys in seeking to demythologise the issue of Chinese outward FDI. This thesis is, therefore, dedicated to this goal, based on both theoretically informed analysis and first-hand empirical evidence.

1.2 Research aims and questions

This study focuses on examining the financing dynamics involved in the FDI activities of Chinese firms investing into Europe. Specifically, the primary aim of this study is to explore and understand how the different financing sources function, and the extent to which, financial variables such as the nature of finance and the wider politico-economic context (particularly the Chinese financial system) operate in shaping Chinese firms’ FDI strategy and process in the European setting. In doing so, the broader aims are:

- To highlight the importance of finance as an important variable in general FDI research, particularly research into FDI from developing countries;
- To raise academic attention in exploring the issue of Chinese FDI in Europe, and to contribute to the scant literature in this growing field by documenting and explaining this emergent issue, which will further contribute to its theoretical and empirical development;
- To emphasise the wider political and economic environment that impinges upon the coordination of various social institutions, as well as the effect of such coordination on the behaviour of firms that are embedded in the environment, which further contributes to an exploration of the features and nature of the contemporary Chinese political economy system.

To achieve these aims, I proposed the following research question:

To what extent and in what ways does financing influence Chinese firms' investment strategies and processes as they engage in FDI in Europe?

This question can be answered by addressing the following two sub-sets of questions:

- On the dynamics of Chinese FDI in Europe and firm financing;
 - a. What are the trends and patterns of Chinese FDI in Europe?
 - b. How do Chinese companies finance their FDI in Europe?
- On the rationale and nature of Chinese FDI;
 - a. What is the background, motivation, and process for specific investment projects?
 - b. To what extent does firm financing influence firm strategies and the FDI process?
 - c. What role does the Chinese political economy (particularly the financial system) play in shaping Chinese FDI?

In answering these questions, this study contributes by providing augmented and original empirical material to the currently increasing yet still scant literature on Chinese investment in Europe. It also provides the impetus for theoretical advancement in the mainstream FDI theories by adding an additional and less frequently adopted analytical lens.

1.3 Research overview

This study consists of eight chapters. Following this introductory chapter that briefly elaborates the research context, motivation for the study, research aims, and key research questions, Chapter 2 sets the theoretical foundation for this study by situating it in the existing literature. To achieve this, it surveys the mainstream theories on multinational corporations (MNCs) and FDI before it settles on Dunning's eclectic paradigm as the general framework. It states that albeit the eclectic paradigm is the most recognised and adopted framework, it is not free of limitations. One of them is on the treatment of finance, and this is of particular importance in analysing outward FDI in the context of China. Based on these, the chapter then creates an analytical framework by extending the OLI framework for highlighting firm financing as a key part of the subsequent analysis.

Chapter 3 describes the research design and methodology. It explains the reasons why this research has adopted a mixed-method approach and how both quantitative and qualitative data have been collected for analysis in answering the research questions. Of these mixed methods, the quantitative data were collected by consulting third party commercial databases including FDI Markets, BvD-Zephyr, and Thomson One, whilst the qualitative data were collected via personal interviews conducted in Beijing, China. To proceed with the analysis, a case study strategy, developed using process-tracing and comparative case analysis techniques, is adopted. This chapter serves as a general guideline by listing the methodological issues in conducting this research and the rationale applied in selecting the methods used to address these issues.

Chapter 4 provides basic background information on Chinese outward FDI. It first incorporates a historical review by tracing and presenting the four main stages along the development path of Chinese outward FDI since China's reform and opening-up began in 1979. To explain the liberalisation process, it then gives an account based on political economic analysis by introducing the promotion policies and monitoring schemes that have created the dynamics and led to the changes that have taken place during the past four decades. This chapter not only demonstrates the fact that Chinese outward FDI has been largely influenced by the Chinese political economy, but also provides the information required to situate Chinese FDI in the European context before proceeding to the three subsequent empirical chapters.

Chapter 5 is the first empirical chapter, and sets out to answer the first set of research question concerning the dynamics of Chinese FDI in Europe and the financing for such investments. It consists of an overview of the investment trends between 1979 and 2019, and demonstrates how Chinese FDI into Europe has experienced a sharp increase, particularly since the financial crisis of 2008. It also looks into more details on the geographical and sectoral distributions of both greenfield investments and merger and acquisitions (M&As) before it marches onto the generalisation of the four main financing modes (i.e., internal sources, debt financing, equity financing, and hybrid sources) that support the investment transactions. The empirical evidence collected in this chapter provides the foundation not only for selecting typical firms for comparative-case analysis in Chapter 6 but also for the integrated analysis contained in Chapter 7.

Chapter 6 follows on from the previous chapter by continuing to collect and analyse empirical data, yet via a fieldwork interview means. Based on the databases analysis, ten typical cases were selected for study by taking into account the factors of firm ownership, firm size, industry or sector, and financing modes for comparative study. Based on the data gathered during 20 personal interviews with corporate executives, senior managers, and financial experts between 2020 and 2022, this chapter presents single case analyses set within the previously outlined analytical framework of the study before generating a comparative analysis to describe in detail the investment processes and financing features of different kinds of Chinese firms. This complements Chapter 5 by providing more detail regarding specific firms and transactions, which will also allow for triangulation during the data collection process to ensure robustness and validity.

Chapter 7 is the third empirical chapter which sets out to answer the second set of research question concerning the rationale and nature of Chinese outward FDI by conducting an integrated analysis based on the first two empirical chapters. Informed by the analytical framework, this chapter generalises the ownership advantages of Chinese firms in conducting FDI, reasons of Europe as a destination for Chinese FDI, entry modes of Chinese firms for FDI, and the extent to which that firm financing in influence the FDI process. This chapter also argues that

it is the nature of Chinese financial system that contributes to the financing dynamics of Chinese firms.

Chapter 8 is the last part, providing a conclusion to the whole thesis by summarising the key findings and contributions, acknowledging the research limitations, and pointing out possible future research directions.

Chapter 2 Literature and analytical framework

This chapter sets the theoretical foundation for the whole study. It first situates this study in the existing literature by investigating the mainstream FDI and MNC theories. It then explains why the eclectic paradigm has been selected as the theoretical base for this research. After this has been done, it identifies finance as the research gap before develops an analytical framework to guide the subsequent analysis.

2.1 MNCs, FDI, and international business: A brief review of classical theories²

Multinational companies³ are global firms that operate—by actively coordinating and controlling assets—in two or more countries (UNDESA, 1973: 4; Dicken, 2015: 115). They are the principal and most important economic agents in the contemporary world, shaping and embodying the principles and practice of globalization throughout the increasingly integrated world economy and within society itself (Pitelis and Sugden, 2000: 1; Eden and Lenway, 2001: 383). The modern MNC dates back approximately to the latter third of the nineteenth century (Wilkins, 2001: 4). These organisations experienced rapid growth, both in size and numbers, after the Second World War. In parallel with this growth there was a surge in various modalities of cross-border activity⁴ (Buckley and Casson, 1976: Chapter 1). This was driven in considerable part by advances in technology, particularly improvements in transport and telecommunications, which allowed control to be exerted and maintained over increasing distances. Growth was also stimulated by the dependence of European countries and Japan on US capital to finance reconstruction following the material and economic damage caused by the war (Moosa, 2002: 16-17; Jenkins, 2013: 7). This led to the rise of the phenomenon now known as Foreign Direct Investment (FDI). Because of these origins, theories and studies of MNC and FDI have been inspired and largely based on MNCs from developed countries and tend to concentrate on studying FDI between

² This is yet an exhaustive list of MNCs and FDI theories. Due to space considerations and research aims, it synthesizes and presents the main and influential ones that have theoretical relevance towards the subject that under research. For a comprehensive analysis or a survey, see: Moosa (2002), Rugman (2009, Chapter 2 and Chapter 5), Ietto-Gillies (2014, 2019), Forsgren (2017), Jenkins (2013, Chapter 2).

³ Alternative expressions include multinational enterprise, transnational corporation, international corporation etc.; they are used interchangeably in this study. For a list of the definition of MNC, see: UNDESA (1973: 118-121).

⁴ They include trade, foreign direct investment, foreign portfolio investment, licensing, franchising, collaborative partnerships (e.g., joint venture, alliances) etc.

industrialised regions. Rooted in economic theory, within the discipline of International Business Studies (IB), these theories focus on presenting the various different aspects of MNCs and FDI, with study topics ranging from 'why firm internationalise' (rationale of FDI), to 'how do they internationalise' (modalities of their cross-border activities), to 'what kind of behaviour and patterns do they exhibit when they internationalise' (e.g., location choices, firm strategies) (Letto-Gillies, 2014: 39).

2.1.1 Hymer and the international operation theory

It is almost impossible to discuss FDI theories without mentioning Stephen Hymer, a Canadian economist who studied for his doctorate at the Massachusetts Institute of Technology. Hymer's doctoral research focused on the motivations of U.S. corporations investing abroad, and his thesis, *The International Operations of National Firms: A Study of Direct Foreign Investment*, (Hymer, 1960, published 1976), became a seminal work in developing a new understanding of FDI. Hymer was the first to challenge the dominant international capital movement theory of the time and provided novel accounts of the reasons why firms internationalise (why MNC?) and how they benefit from internationalisation (Why FDI?). At that time there was no separate and autonomous concept of foreign direct investment. Contemporary conventional economic theories gave equal treatment to various types of investment, implying that a unifying theory was feasible that would apply to them all. Hymer's innovation in distinguishing direct investment from other modalities and his subsequent analysis of the rationale for FDI established him as the founder of the modern theory of both MNCs and FDI (Horaguchi and Toyne, 1990; Dunning and Pitelis, 2008: 167).

Hymer (1976) and his pioneering theory addressed several key issues. He was also the first to point out that disparities exist between direct investment and portfolio investment based on control; a distinction that has led to theoretical differences in explaining discrepancies in firms' behaviour (Hymer, 1976: 4). Specifically, he showed that the traditional theory of international capital movements that had previously been used to explain portfolio investment, which is based on interest rates (i.e., differences in interest rates drive movements of capital from countries with low interest rates to those with high interest rates), was unable to explain the movement of

directly invested capital. There is no logical justification for seeking to establish an owned business, or take control of an existing business, in a foreign country if simply lending money abroad will of itself achieve the objective of generating income. In other words, he believed that the movement of capital is motivated by a desire to achieve control, and to maximise profitability by exercising control, rather than simply a desire to take advantage of differences in interest rates as conventional capital movement theory suggests. Further, he suggested that investors involved in direct foreign investment seek business control for two main types of reasons (Hymer, 1976: 23-25). The first is to put themselves in a position where they can physically oversee the prudent use of their assets in order to ensure the safety of their investments; that is to say, direct investment in this instance may be regarded as a substitute for portfolio investment when there is a high level of distrust for 'foreigners' or when there are significant concerns about expropriation and exchange rate fluctuations. The second, and perhaps more significant, reason is where investors act with the objective of eliminating competition between themselves and a foreign enterprise, or between a foreign enterprise and other enterprises in other countries, in order to acquire maximum benefit from certain skills and capabilities. Yet, although both of these reasons may be significant motivations behind foreign investment decision, they are not in themselves sufficient conditions for successfully conducting direct operations abroad. This raises the issue of the determinants governing direct investment in international operations.

Hymer (1976: 37-46) identified three principal determinants that contribute to direct investment that transcends national boundaries: a firm's possession of specific advantages, elimination of conflict, and diversification. Underlying all of these is the assumption that markets are imperfect. Specifically, direct investment abroad involves a number of unavoidable and imperative fixed costs arising from differences in cultures, languages, and laws, as well as often volatile and unpredictable political and social environments. There are also often formidable barriers arising from discrimination by local governments, as well as hostility from markets, local consumers and suppliers. Companies operating abroad must therefore possess certain advantages that allow them to exploit and overcome their significant disadvantages in competing with rivals in overseas markets. In the meantime, when companies from different countries sell and compete in the same market, conflicts inevitably emerge. Direct investment by taking control of foreign

businesses, compared with other means such as collusion or cooperation, is more likely to avoid or remove such competition and strengthen the firm's market position for profit maximisation. Apart from these two, there is a third, albeit less significant, reason for engaging in FDI, which is diversification. Intelligent diversification allows companies to effectively manage risks by widening their range of products, services, or suppliers.

Hymer and his theory of international production represented a departure from the prevailing orthodoxy of the time by assuming that firms operate in a world of imperfect markets. Competition in imperfect markets allows firms to develop their specific advantages ("monopolistic or oligopolistic power"), which enables them to increase market power by investing abroad. Many organisations choose direct investment in foreign markets in preference to alternative approaches, such as licensing, because it helps remove competition. By operating through affiliates in different countries, MNC's retain a monopolistic overall structure in order to assert and maintain dominance in international markets. Hymer was particularly creative in explaining the causes and determinants of direct investment. He was the first to put forward the 'advantages' thesis and to discuss the existence and role of market imperfections. He was also perceptive in understanding that the purpose of organisations in internationalising and entering other markets is not to reduce costs, but to enhance their ability to better exploit their own advantages (Dunning and Pitelis, 2008: 168). This new understanding inspired considerable theoretical development and was later adopted by John Dunning as a crucial element in his eclectic paradigm (see Section 2.1.5).

2.1.2 Vernon and product life cycle theory

The rapid expansion of trade and direct investment from US firms into Europe in the period following WWII has attracted the attention of many theorists, who have adopted a number of different approaches to explain the phenomenon. Like Hymer, who introduced direct investment theory as a criticism of the traditional theory of international capital movement, Vernon introduced the product life cycle (PLC) theory and brought it into the centre of the discussion by also applying it to critique the conventional theory of international trade and capital movement (Cantwell, 2000: 31). Though the product cycle thesis and the technological gap theory are not

novel concepts,⁵ Vernon was the first to put particular emphasis on them and to link them with international production (Ietto-Gillies, 2019: 71). In other words, compared with Hymer's analysis—based on individual firms' (micro) points of view—Vernon attempted to explain international trade or the direct investment activities of firms from the perspective of products, adopting a more general (macro) perspective (Dunning, 2009: 41; Ietto-Gillies, 2007: 198; 2014: 42).

The central argument of Vernon's product cycle model lies in the assertion that technological innovation and market expansion are crucial factors for understanding patterns of international trade. Although technology plays a key role in developing new products, market size and structure determine the extent and types of international trade (Morgan and Katsikeas, 1997: 69). Specifically, Vernon (1966) articulated and distinguished three stages of product development: innovation ("the new product"), maturity ("the maturing product"), and standardization ("the standardised product"). During the innovation stage, new products are invented and manufactured by developed industrial organizations with high levels of income and high unit labour costs to meet the consumption needs (largely labour-saving) of their domestic market. This initial stage is followed by the export of surplus products to serve foreign markets and, thus, a gradual capture of international market share. At the stage of maturity, as the new technology spreads, the local market reaches saturation and importing countries become capable of producing similar products. This is likely to result in an imperative shift in the location of production to a low-cost destination to enhance competitiveness. When a product finally become standardised, less-developed countries may offer competitive advantage as production locations and the original product exporters (developed countries), themselves become importers. This theory enables dynamic analysis of multinationals and their international investment activities in different locations and during different development phases.

However, with the ever-changing international environment—particularly the ever-spreading global networks of multinationals together with the obliteration of income gaps among industrialised economies—the explanatory power of the product cycle hypothesis has been

⁵ See Kutznets (1953) for product life theory and Posner (1961) for technological gap theory.

called into question (Vernon, 1979). Nevertheless, its assumptions with regard to firms undertaking production in foreign countries based on their specific monopolistic advantages (the generation of material benefits by endowing foreign countries with technology and innovation and the resultant stress on the locations of cross-border production activities) (Dunning, 2009: 42) have provided thought-provoking reference for subsequent theory development.

2.1.3 Internalisation theory and international firm

Among the various approaches adopted in the numerous studies, internalisation theory is another influential strand that seeks to explain why firms embark on international production and become multinationals. In line with Hymer, by taking a firm-centred perspective focusing on a market power-based interpretation of firms' specific advantages, this theory distinguishes itself by examining and emphasising firms' organizational production structures and by focusing on efficiency-based interpretation. This theory has come to be widely recognised and has gained wide currency through the work of Buckley and Casson (1976). However, the original idea is attributed to Ronald Coase (Jacobson and Casson, 2015), who argued in his seminal article that market operations involve transaction costs, and that such costs can be saved by forming an organization and allowing an authority (an entrepreneur) to direct the resources (Coase, 1937: 392); in other words, it is in the nature of a firm to establish an internal market for cost reduction. This concept established the foundation for the full development of the theory.

The core argument of internalisation theory, according to Buckley and Casson (1976: 33), is that, due to market imperfections in intermediate products and essential knowledge, firms will create internal markets (or internalise external markets by bringing several interdependent activities under common ownership and control) to reduce costs and thus increase profits. Where these efforts cross national boundaries, they lead to the creation of multinational organizations. Yet, firms do not always internalise markets, since internalisation involves costs as well as benefits. Benefits include those associated with the nature of the product ("creation of internal futures markets, imposition of a discriminatory pricing system, avoidance of the costs of bilateral bargaining, and elimination of buyer uncertainty") together with minimisation of government intervention. Costs include additional administration costs, added communication costs,

resource costs due to market fragmentation, and political discrimination against foreign firms (*ibid.*: 44). Internalisation occurs, and will only occur, when the benefits outweigh the costs, which, essentially, depends on the interplay among four sets of determinants: industry-specific factors (products and external market structures), region-specific factors (geographical distance or cultural separation), nation-specific factors (political and fiscal environment), and firm-specific factors (workforce expertise and management professionalism) (*ibid.*: 45).

The internalisation theory (Buckley and Casson, 1976; Rugman, 1980) further extended Hymer's thesis, but moved away from a market power-based interpretation of firms' specific advantages towards an interpretation based on the comparative efficiency of firms' operations. However, the theory has received criticism, such as pointing out the apparent tautology of purporting to be a general theory of 'why firms exist' as well as an explanation of internationalisation (Letto-Gillies, 2019: 111). Nevertheless, it remains a critical and indispensable dimension which was later incorporated into the eclectic paradigm that is used to analyse firms' internationalisation.

2.1.4 The Uppsala model

Different from these influential accounts, which are almost exclusively based on the experiences of US companies operating in the UK, scholars from northern Europe (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) have attempted to describe and explain the international operations of firms from countries with smaller domestic markets, such as Sweden. Rather than using purely economic accounts, they try to adopt an approach based on a sociocultural perspective. For the first time, they introduced the concept of 'psychic distance' and suggested that firms internationalise in an incremental process which usually starts from the area with the least psychic distance.

Specifically, they believe that psychic distance, among all other variables, is one of the most important factors that influence firms' internationalisation decisions and processes. It is defined as "factors preventing or disturbing the flows of information between firm and market". These include differences in language, culture, political systems, education, business practices, and level of industrialisation (Johanson and Wiedersheim-Paul, 1975: 308; Johanson and Vahlne, 1977: 24). For obvious reasons, psychic distance is often correlated with geographical distance,

yet exceptions to this generality exist, and are not uncommon. For example, countries that are geographically close to each other, even neighbours, may feel very 'far apart' due to deep political differences. However, individual firms usually embark on their course of internationalisation by first exporting to a country that is physically proximate, then setting up export channels or creating a sales subsidiary. Once common characteristics are established, firms tend to move on to produce or manufacture in the target country. Gradually, they increase their international involvement and eventually become fully internationalised.

2.1.5 Dunning and the OLI (eclectic) framework

Compared with previous studies that dealt with only partially with aspects of firms and their international activities (Dunning, 1973), Dunning (1977; 1979) offered a more integrated approach, known as the 'eclectic theory', which tried to explain why, where, and how multinationals engage in commercial activity across national boundaries. This theory, also known as the OLI theory (later renamed as the paradigm theory), suggests that: (1) a country's economic involvement with other countries mainly entails two kinds of engagement. One is related to those activities located within the national boundaries which produce goods and services to serve arms-length foreign markets. The other concerns goods and services produced outside national boundaries that directly serve local foreign markets. The former usually fall within the purview of international trade, while the latter are consistent with international production, especially where it involves direct investment in foreign countries (Dunning, 1977: 398). (2) The propensity and capability of a country's enterprises to engage in international economic activities are determined by three key and inter-connected factors: *ownership* (O) advantages of specific enterprises, *locational* (L) advantages or attractions of certain countries, and the *incentives* (I) for enterprises towards internalisation of such advantages (Dunning, 1979: 275).

Specifically, firms deciding to enter into production abroad must first possess net ownership advantages (or ownership-specific endowments). These are tangible and intangible resources internal to particular enterprises and usually stem from a firm's exclusive possession and use of certain kinds of property (Dunning, 1977: 406). These resources are of three main types: advantages that a firm may possess over another firm operating in the same location, advantages

that a firm may have over a new firm (or an existing one expanding into a new market), and advantages that arise from the multinational nature of a company (Dunning, 1977: 401; 1979: 276). If ownership advantages are obtained, firms must internalise these advantages for their own use by setting up overseas subsidiaries rather than externalising them by licensing or similar arrangements, which will allow them to maximise benefits. This will ultimately be driven by locational incentives relating to the host countries, which confer unique benefits for firms that possess ownership advantages and are willing to internalise them (Dunning, 1979: 275). Broadly speaking, the more ownership-specific advantages a company possesses the greater the incentive they have to internalise them; and the wider the appeal of a foreign country as a production location, the greater the likelihood that a company will engage in direct foreign investment (Dunning, 1980: 9).

The OLI theory also implies that the international competitiveness of a country's products is attributable not only to possession of superior resources by its enterprises, but also to the desire and ability of those enterprises to internalise the advantages resulting from such possession. Servicing a foreign market by foreign production confers unique benefits of this kind (Dunning, 1977: 402). This theory provides a systemic framework that assimilates elements from a number of other theories to give a fuller explanation of the motives, location, and timing of firms entering and conducting different modes of economic involvement encompassing trade, direct investment, and other international production activities (Letto-Gilles, 2019: 120). However, the theory is far from impervious. In fact, it has received fierce criticism and has undergone an extended process of revision in response to changing global political economic scenarios, as well as the emergence of MNCs from developing countries in addition to those from developed nations (Section 2.2.1 and 2.2.2).

2.2 The eclectic paradigm (OLI framework) as the general framework

Over the years, the eclectic paradigm has gained wide currency and has emerged as the dominant analytical framework for international business research (Dunning, 2000; 2001: 163). This can largely be attributed to its continual refinement since the original version was published in 1977

and 1979. These refinements have been responses to criticisms⁶ by researchers as well as reflections of the changing world economic environment and the ever more prevalent and complex activities of multinational organizations. This section will first trace the development of the eclectic paradigm, then discuss alternative approaches that derive, both exogenously and endogenously, from the changing external environment. This will explain why the eclectic paradigm is chosen as the general and fundamental theoretical framework for this thesis.

2.2.1 The eclectic (OLI) paradigm: developments and evolving patterns

Since its introduction in the late 1970s, the eclectic theory has experienced several rounds of refinement and clarification. It is almost impossible to review all of these, given the sheer volume of the literature, but its major developments can be summarised as concerning three aspects: dynamization, contextualisation, adaptation.⁷

2.2.1.1 Dynamization: introducing the investment development path (IDP) hypothesis

The original conception of the eclectic approach was criticised as being static and ineffective, especially when dealing with international production over time. Dunning and his colleagues (1981a; 1986; Dunning and Narula, 1996: Chapter 1) attempted to dynamize the framework by ‘injecting’ it with the investment development path (IDP) hypothesis, which seeks to explain the changing FDI attitudes and stances of certain countries as they progress through varying economic development phases. Specifically, IDP identifies five main development stages (while indicating that not all countries will go through the entire investment development cycle). The first stage assumes that, under pre-industrialised conditions, countries and their domestic enterprises have neither outbound nor inbound investments as, of themselves, such investments generate no ownership-specific advantages and the countries, in their underdeveloped state, offer insufficient location-specific advantages to appeal to foreign counterparts. International involvement may take the form of aid (capital or technological assistance from foreign governments or institutions) as well as imports of consumer goods from foreign producers.

⁶ See Dunning (1988).

⁷ For more systematic analysis, see Dunning (2000), Ferreira, Pinto, Serra, and Santos (2013: 62).

As these countries develop they will become capable of constructing adequate legal systems and business environments to support a viable market, and can provide essential transportation and communication infrastructure and a sufficiently educated labour force. They then enter the second stage. During this stage, locational advantages increase and bring in more inward investment. However, outward investment remains insignificant as domestic enterprises have not generated sufficient ownership advantages to support international production. Nevertheless, this does not prevent a certain amount of FDI in neighbouring areas. The third stage occurs as growing L advantages help nurture the O advantages of local firms. In this stage, net inward investment starts to fall and outward investment continues to rise. The OLI configuration continues to change as countries move along the development path. There is initially a fluctuating balance between inward and outward investment but, finally, countries become net capital outward investors and attain the fourth stage, during which indigenous companies reflect strong O advantages and have strong incentives to exploit them by internalising them through their foreign extensions. This also indicates that these countries have become fully industrialised, with the expectation of maintaining growth and productivity partly by harnessing all available technology and intellectual capital while taking advantages of lower labour costs and resources overseas.

In the final stage, FDI in both directions is expected to continue to increase, until a situation is reached in which no single country possesses absolute dominance over the value of assets created. Under these circumstances, firms become globalised and their nationalities become blurred. In other words, during this stage, the operations of MNEs are no longer managed in the interests of their country of origin but are driven by the resources and the locations that best fit the interests of the firms themselves.

Though the IDP has experienced several rounds of development, the kernel of the theory has remained consistent: that a country's international investment position is related to its level of development (Dunning, 1981a: 42). The investment activities of firms also influence their country's investment path (Dunning, 2001: 181). From a macro viewpoint, the original version of IDP has been extended to a more dynamic model by analysing the interrelationships between firms' foreign investment patterns and countries' development phases.

2.2.1.2 Contextualisation: categorizing FDI

While the original version of IDP suggests that the eclectic framework (or more precisely its three sets of OLI variables) is suitable for explaining a wide range of international production activities, and is applicable to all countries, it does not presume that these parameters are evenly distributed across countries, industries, companies, and through time (Dunning, 1979: 275). In other words, adequate explanation of certain transnational activities is not static; rather, it is context-specific, and is therefore highly dependent on how industries and firms are shaped by country-specific characteristics. The theory is therefore unable to generalize one country's experience to another in order to explain specific patterns of foreign investments.

In line with this argument, Dunning (1993: Chapter 3; 2000: 164; 2008: Chapter 3) further extended the theory by emphasising the *raison d'etre* for FDI. Specifically, he suggested that MNCs conducting foreign-based activities act out of four principal motives⁸: 1) Resources-seeking, including low-cost physical resources, a cheap and (un)skilled labour force, and management/organizational/technological skills in order to make the investing entity more competitive and profitable and thus gain more market power than it would otherwise have; 2) Market-seeking, either maintaining existing markets or developing new markets, by following their foreign counterparts in setting up facilities overseas, tailoring their products to serve local needs, and reducing transaction costs (or simply accepting them to be an inevitable consequence of the globalisation strategy); 3) Efficiency-seeking, for example, by mobilising and rationalising resources and markets that are under the common governance of geographically dispersed entities to achieve economic benefits of scale, or for risk diversification; 4) Strategic assets-seeking by acquiring those assets (usually physical assets or human capital) from foreign counterparts with the intention of serving the investing firm's long-term strategic goals and to strengthen their global competitiveness.

What must be mentioned is that consideration and balancing of these motives is not static either. On the one hand, multinationals today pursue multiple objectives, which means that when they

⁸ As Dunning has indicated, three of them, viz., resource-seeking, market-seeking, and efficiency-seeking, are borrowed from Behrman (1972).

engage in FDI they usually do so for a combination of reasons rather for the attainment of a single objective or set of objectives, as was previously normally the case. On the other hand, motives tend to change as the operations of multinationals become even more complex and their nationalities less distinct. In other words, the motives of a firm in conducting a series of FDI transactions might change from one transaction to the next as they gained experience and accumulate comparative advantages during the process. This again verifies the observation that analysing MNCs and their international activities is strongly contextual. When finding explanations for events, one must consider, at the very least, the political-economic conditions of both the home and the host countries or regions, the industrial landscape in each location and the nature of value-added activities that occur there, the specific characteristics of the investing firms, and the objectives and motives behind such activities.

2.2.1.3 Adaptation: M&As, alliances, and asset augment strategies

Since the 1980s, the economic landscape has experienced repeated waves of technological advances and the development of a more globalized, market-based economy, factors which have generated major changes. Among these are the increasing number of mergers and acquisitions (M&As), and the advent of 'alliance capitalism' (as opposed to 'hierarchical capitalism') as the preferred model of business organization (Dunning, 1995: 466; 1997: Chapter 1). While M&As allow firms to leverage the assets, skills and experience of partner firms and have proved to be an effective arrangement for reducing transaction and coordination costs, strategic alliances through inter-firm associations or networks also allow both parties to access new and complementary advantages. The choice of structure and process usually depends on the respective costs and benefits in each case (Dunning, 1995: 467). The common factor, however, lies in the need to reappraise the determinants of multinationals' activities, and particularly the eclectic paradigm of international production, against the background of such transformations.

Specifically, as Dunning (1995; 1997) indicated, the original version of the eclectic paradigm was created for, and is embedded within, hierarchical capitalism, which presumes that the properties of certain firms (O advantages) are generated from indigenous advantages (i.e., their own endowments or efforts when conducting foreign value-added activities), and that they engage in FDI to exploit these intrinsic advantages to sustain comparative advantages. With the broad

changes in the economic environment, the general orientation for multinational activities has changed from exploiting existing advantages to acquiring foreign-owned assets perceived as necessary to maintain and enhance competitiveness, e.g., by M&As. As firms are becoming more pluralistic in their modalities, methods for reducing transaction costs, obtaining new skills, and bypassing the barriers to market entry, domestically or internationally—represented by alliances or partnerships, which are usually less formal in structure but more purposively focused—are perceived as complementary ways to raise efficiency and maximise existing O advantages. Under these circumstances, the eclectic paradigm, or the configuration of OLI parameters, needs to incorporate the competitive advantages that flow from the ways in which firms coordinate inter-firm transactions, non-equity alliances, and inter- and intra-firm networks when examining the patterns, extent, and determinants of international business activities.

2.2.2 The changing business world: the advent of developing world multinationals and complemented approaches

In parallel with the intense debate around multinationals from the industrialised nations of the developed world, first from the US and Europe (see, e.g., Section 2.1; Aliber, 1971; Caves, 1971) then Japan (Kojima, 1973; 1978; 1982), the new wave of FDI from MNCs with their origins in developing countries that has emerged since the late 1970s has attracted increasing academic attention. This has contributed to a growing volume of literature (e.g., Lewraw, 1977; Lall, 1983; Kumar, 1982; Wells, 1983). This research direction has been further strengthened by the continual stream of multinationals now emerging from the new industrial powers of Asia (see e.g., Lee and Yeung, 2001), with the result that increasing discussion has centred on the rise of mainland China MNCs (e.g., Alon and McIntyre, 2008; Buckley et al., 2007; Li, 2007; Morck, Yeung, and Zhao, 2008; Nolan, 2013). This phenomenon has generally been considered to be the result of structural changes in the global economy associated with sectoral technological advances, market liberalisation, and the regionalisation of trade (Dunning, Hoesel, and Narula, 1996: 2). However, the unique features of these MNCs and the ways in which they approach internationalisation raise doubts and suggest a challenge to the received mainstream theories. This, in turn, raises the question of whether these theories remain effective or whether they need further modification or extension to accommodate and explain these new phenomena (Child and

Rodrigues, 2005; Alon, Child, and McIntyre, 2011; Andreff and Balcer, 2013, etc.). New perspectives and novel accounts have accordingly been emerging to discuss and explain these issues.

Two opposite views are prevalent among this renewed flowering of the literature. One takes a radical stance and challenges the conventional accounts (e.g., the OLI framework) by proposing entirely new theories. The 'LLL' (linkage-leverage-learning) framework (Mathews, 2002; 2006), for example, argues that multinationals from developing country are a completely new species that differ from the Western incumbents. They are latecomers to the business system; born into a resource-poor background. Their goal is to evolve out of these lowly origins to become global players. Their internationalization can be explained by following the 'linkage-leverage-learning' route. This involves first establishing links (e.g., firm-firm contractual connections) with established businesses in other countries to create potential leverage opportunities. The firms then exploit these leverage opportunities to acquire resources while learning from repeated linkage-leverage transactions to finally master transferability. Utilising the insights of this resource-based view (Wernerfelt, 1984; Penrose and Pitelis, 2009), the LLL framework provides an alternative account for understanding the internationalisation strategies of late-comer multinationals from developing countries, especially those with an East Asian background (the 'dragon multinationals').

A second example is represented by the 'springboard perspective' (Luo and Tung, 2007; 2018). Different from the LLL framework, which points out and rests on the incapability of existing theories to explain the new environment, this perspective modestly states that the aim for developing this approach is to enrich existing theories by examining emerging market multinationals (EM MNCs), since they face unique circumstances and possess uncommon strengths when they delve into global markets. The new perspective thus emphasises the continued relevance of the conventional theories (e.g., Johanson and Vahlne, 1977; Dunning, 1981a; 1988; 2001; Buckley and Casson, 1976 etc.), arguing that they remain effective in explaining certain behaviour of EM MNCs (Luo and Tung, 2007: 482). The main thesis of this approach is trying to explain EM MNC's use of FDI as a springboard for the acquisition of strategic assets to enhance their global completeness while circumventing domestic institutional and

market barriers. These assets include 'hard' assets, such as technology and brands, but also 'soft' skills such as global vision, insight, and experience (Luo and Tung, 2018: 132). This approach offers a novel theoretical lens that can be applied alongside the mainstream viewpoints when analysing emerging market multinationals and their international activities, especially in the context of M&As.

Apart from these two examples, which both try to offer accounts that still fit within the international business and management domain, scholars have also attempted to explain this phenomenon through cognate disciplines, for example from the perspective of political economy (e.g., Bellabona and Spigarelli, 2007; Yeung and Liu, 2008; Luo, Xue, Han, 2010; Cui and Jiang, 2012). By emphasising the role and effects of the home government and institutions, they explain some of the unique features of MNCs from developing countries as they invest abroad. However, not all scholars agree with this perspective. In opposition to the 'radicals', there are also 'conservatives' who believe that existing theories remain adequate to explain this phenomenon (e.g., Hernant, 2012; Ramamurti, 2012). In particular, they argue that, though globalisation has modified the ecosystems of firms, the basic principles that support firms as they become MNCs remain unchanged (firm assets, home government, internalisation process, etc.) and their motives also remain driven by the acquisition of resources, penetration of markets, achievement of efficiency, and accumulation of assets. Existing IB theories, such as the Uppsala model, OLI paradigm, and internalisation theory, are considered still to be applicable and able to explain MNCs from developing countries, particularly as the differences between them and those from developed countries tend to diminish as they evolve (Narula, 2012; Benito, 2015).

2.2.3 The eclectic paradigm as the theoretical foundation

Despite the arguments among the different interested parties, it is generally regarded as proved that the eclectic paradigm (including its later developments) is the most recognised, widely used, and exhaustively tested of the available theories (Berning and Holtbrugge, 2012: 175; Casson, 2015: 63; Luo and Zhang, 2016: 336; Alon et al., 2018: 596; Paul and Benito, 2018: 94). The theory's importance and distinctiveness can be perceived through two primary features. First, its comprehensiveness. No single theory can be expected to adequately explain all types of foreign-

owned value-added activities, since the motivations for and expectations from such activities vary enormously (Dunning, 2001: 176). The OLI has assimilated elements from industrialisation theory, location theory, and the theory of firms (Dunning 1995: 474). It is relevant to all kinds of FDI and embraces all three main investment vehicles of firm's foreign activities (direct investment, exports, and contractual resource transfers) (Dunning, 1981a: 32). Second, its flexibility. The paradigm is always able to reflect the changes in the world economy so as to better capture the complexity and changing nature of its subject, including by altering the terminology from 'theory' to 'paradigm' or 'systemic work' to better reflect its relevance to real-world firms (Dunning, 1981b). It is always introducing new contextual analysis tools (see Section 2.2.1), and fine-tuning and augmenting variables to fit into new, emerging contexts.

Other approaches, in contrast, are able to only touch on some facets of the whole and can only partially answer the broad questions concerning the fundamental issues around why (motives and determinants), how (entry modes), and where (location choice) MNCs operate as they do. It therefore seems more sensible to use them as complementary tools in an eclectic approach, that can add to the framework as ingredients rather than seek to replace it (Dunning, 2006: 140). I consider that the eclectic paradigm implies twin interpretations: in a narrow sense, it refers to the OLI framework that consists of three sets of variables that allow firms to gauge whether and to what extent to engage in foreign value-added activities. In a broader sense, however, it refers to a grand theoretical framework that has sustained years of examination, with continuous developments and refinements encompassing various theories of different types, as well as new analytical tools and perspectives. I have chosen to adopt the latter interpretation as the analytical foundation of this thesis, as it is more open to embracing and accommodating whatever variables are necessary, appropriate and conducive to explaining the underlying issues I intend to address. Nonetheless, although it is considered to have many strengths as it stands, this framework, and the wider IB theories applied in FDI research, have certain undeniable shortcomings. One of them is its treatment of finance.

2.3 Finance and FDI research: a research gap

Finance, or financial factors, have received remarkably little attention compared with other aspects of FDI research. Mainstream theories, which are primarily expressed in the eclectic-OLI paradigm, have been accused of overwhelmingly emphasising the asset side of firms' financial structures, i.e., the advantages that firms need to be equipped with to be qualified for engagement in international investment, or the disadvantages that firms seek to overcome by engaging in FDI, whilst underplaying or even completely ignoring the liabilities side of firms' operations, such as operating costs, the availability of financing, and other financial considerations which also have a profound effect on international investment strategies (Agmon, 2006). Finance or, more precisely, financing or the availability of adequate funding, which is deemed to be integral to and even a precondition for every FDI business transaction for firms irrespective of nationality, is markedly absent from the mainstream literature (Meckl and Graser, 2011: 331).

The OLI paradigm, for instance, takes general financial factors into account, yet the minimum amount of ink has been expended in further examining them during the decades since its inception. Specifically, finance has been treated as an element in the 'O' advantages, referring to a firm's favoured or exclusive access to financial resources (either owned indigenously or gained from multinational operations) together with those generated by economies of scale (for example, supply chain rationalisation across a firm's networks) (Dunning, 1979: 276; Dunning and Lundan, 2008: 101). However, the importance of finance has been largely underestimated, especially when applied in the context of developing country MNCs. Similarly, the internalization theory, which was advanced by Buckley and Casson (1976), primarily focuses on firm-specific advantages in marketing and R&D while it does not analyse financial factors directly (Aulakh and Mudambi, 2005: 308). As a matter of fact, mainstream IB theory has generally simply taken finance as the "absolute amount of capital as a proxy for a firm's specific advantage". There has been remarkably little research on the abilities of firms to gain access to (national or international) sources of finance and financial management skills (Nguyen and Rugman, 2015: 470). Although some studies have taken special notice of this and have examined financial factors in some depth, they have primarily focused on exchange rates (e.g., Froot and Stein, 1991), international capital

market theory (e.g., Casson, 1982), or international financial competitiveness (e.g., Jochem, 2010) as the primary factors that affect firms' overseas investments. Such traditional practices in dealing with financial issues solely emphasise the macro-financial level and pay no heed to financial characteristics at the individual firm level.

Exceptions do exist, however. A few studies have noted this deficiency and have recognized the importance of financing in a firm's progress towards internationalization (e.g., Bowe, Filatotchev, and Marshall, 2010; Puck and Filatotchev, 2020). For instance, Rugman (1980) and his colleagues (Nguyen and Rugman, 2015: 470), suggested that financial advantages (capital as well as access to equity and loan capital) are essential, along with other intangible, knowledge-based firm-specific advantages, for supporting firm strategy and performance. Choi and Tsai (2006) also pointed out that conventional FDI theories only include strategic accounts while remaining apparently unaware of financial considerations such as the determinants for firms engaging in FDI. By integrating both factors, they emphasise the significance of financial factors (particularly internal financing and international diversification) in helping to explain the prevailing phenomena that current traditional strategy analysis fails to explain. Likewise, Oxelheim and his colleagues (Oxelheim, Randoy, and Stonehill, 2001) argued that financial factors play a crucial role in firms' cross-border investments, and that a firm's financial capabilities and resources are not merely by-products of its competitive strength. Instead, they should be incorporated as one of the variables in explaining firms' engagement in FDI. Further, they empirically verified this contention and drew the conclusion that a firm's costs and access to capital influence its ability and propensity to conduct foreign investment. Thus, strategies aimed at creating such financial advantages, such as access to competitively priced equity; cross-listing its stock in a larger, more liquid stock market; enjoying a strong investment grade credit rating; and being able to negotiate reduced taxation and/or to attract subsidies, will increase the likelihood of firms undertaking foreign investment (Forssback and Oxelheim, 2008). The importance of these arguments is that they further emphasise that, compared with the mature capital markets in developed countries, these financial factors are of particular importance to firms domiciled in less developed and emerging countries that have an illiquid and/or segmented capital market (Oxelheim, Randoy, and Stonehill, 2001: 382; Forssback and Oxelheim, 2008: 631).

Arguments of this type with regard to developing countries are not entirely new. In the early work of Agmon and Lessard (1977), they assessed the impact of financial factors on firms from small countries in their efforts to internationalise. Based on the premise that financial factors particularly affect multinationals' expansion when financial markets are imperfect, they argued that financial factors could operate as constraints (such as barriers to international capital movements and inefficiency in domestic capital markets) as well as motivations (to overcome such constraints by undertaking FDI in the forms of joint-ventures or offshore holding companies to gain wider access to international capital) on the expansion of developing country firms (*ibid.*, 1977: 197-214). Their conclusion demonstrates that financial factors have a strong connection with and influence on developing country firms in their progress towards internationalisation. Further to such arguments, Goldstein (2007: 127) also noted the importance of financial issues. In particular, he pointed out that some emerging country multinationals have relatively easy access to preferential loans or subsidies from their governments (for example, from state-owned banks), which give them comparative advantages against their international competitors in overseas investment. In sum, financing, which used to be underplayed, has now risen to become recognised as a key variable with the rapid rise of developing country multinationals and their ever-increasing investment activities.

Like most of the world's multinationals, financial issues are also fundamentally important in the internationalisation of Chinese firms. This is especially true when the domestic base in China is widely considered to be "far from fully developed along many dimensions, including incomplete and highly imperfect markets for capital, resources, labour, property rights, and corporate control" (Williamson and Zeng, 2008: 83). In particular, the capital market in China is often described as imperfect because it is not driven purely by market forces (Buckley et al., 2007: 501; Beck et al., 2015). The dominance of banks, particularly the state-owned banks, in the Chinese financial system (IMF, 2017: 9) has resulted in an environment in which state-owned enterprises (SOEs) often have privileged access to capital, often at below-market rates, while privately-owned enterprises (POEs) often face acute challenges in securing external finance and are forced to rely on self-retained capital or informal market loans (Allen et al., 2005: 79; Buckley, 2018: 10; Morck et al., 2008: 344). This imbalance and discrimination within the financial system is also

reflected in the financing patterns of Chinese firms venturing overseas. All Chinese firms, irrespective of their ownership, consider internal funds and bank loans to be the two most important sources of funding in their efforts towards internationalization (CCPIT, 2013; CCG, 2016: 101-102). However, when it comes to the primary source of funds for FDI activities, marked disparities emerge between SOEs and POEs. Government subsidies are considered to be the primary source of funding for many SOEs, while POEs often have to resort to informal financing. These disparities in financing between SOEs and POEs in their efforts towards internationalisation reflect the importance of finance as a variable while considering this issue in the Chinese context, particularly as the existing literature either represents the situation in developed countries or analyses the situation using quantitative modelling which largely ignores the significant political and social factors involved. An investigation into financing issues in developing countries such as China is necessary, with more qualitative data, to go beyond the statistics and provide an in-depth explanation of the rationale underpinning the operations of MNCs from developing countries.

2.4 Incorporating finance into the OLI paradigm: an analytical framework

As stated above, finance plays an essential role for firms conducting FDI. It has two connotations. On the one hand, finance epitomises the macro environment, i.e., it reflects the financial system, or more broadly, the political-economic system in which firms are embedded. On the other hand, it is part of the micro ecosystems of individual firms, shaping firm-level operations and dynamics.

2.4.1 Finance, institutions, and political economic systems

National political economies are made up of institutions represented by financial systems, labour and labour relations systems, and education and training systems, with individuals, firms, producer groups and governments as actors embedded within them. Firms are deemed to be the key agents, and their behaviour is influenced by the different coordination (e.g., liberal and coordinated) of the various institutions and their interactions with relational actors (Hall and Soskice, 2001). Variegated political economies have therefore generated different styles of financial systems, represented by capital market-based arm's length financial systems (Anglo-American style), and the credit-based relationship finance system (Japanese, German and French

style) (Zysman, 1983: 18; Dore, 2000; Allen and Gale, 2001). Under these different arrangements, firms adopt diverse kinds of corporate strategies (e.g., methods for raising funds) as well as having a wide range of different types of relationships with their nation-states.

Compared with Western regimes, the Chinese political economy has displayed unusual patterns (e.g., Feldmann, 2019). It has been labelled as having a 'politicised' nature, in which the state remains as the market maker, exerting its dominance by either intervening in the corporate governance of individual firms or by providing external assistance, for example by providing or securing loans for firm's transactions on a selective basis (Nee and Opper, 2007). This has been called 'Sino-capitalism', and highlights the informal political, social, and business network ties within Chinese society and advances the 'duality' theory which depicts the Chinese political economy as a combination of "top-down state guidance" and "bottom-up networks of entrepreneurs and innovators" (McNally, 2012). Alternatively, it has been conceptualised as "Market in State" (Zheng, 2016; Zheng and Huang, 2018). This concept holds that, in contrast with various forms of capitalist systems in the West, in which "market (economic) principles are dominant over state (political) principles (State in Market)", the Chinese political economy system is essentially 'Market in State', i.e., "despite the existence of different forms of capitalism and the functioning of market principles, China's political economy system is one in which state (political) principles are dominant over market (economic) principles" (Zheng and Huang, 2018: 23). Despite these somewhat different perspectives, all of these arguments serve to highlight the dominant role that the Chinese state plays in the country's economic institutions and systems.

The Chinese financial system, accordingly, echoes this institutional order. The model of the Chinese financial system has undergone a series of shifts; first from fiscal allocation to bank credit, and then to a bank-based diversified financing system. Initially, after the creation of the People's Republic of China in 1949, the Chinese economy was characterised by socialist, centralised planning, under which critical economic resources, including capital, were entirely controlled and distributed by the state. The 'financial system' then was purely nominal and firm financing mainly took the form of central government fiscal allocation. Other financing channels, such as commercial financing and securities financing, were extremely underdeveloped (or even forbidden). Since 1978, the Chinese economy has been going through a massive transitional

process driven by the reform and opening up policy, during which a series of market reforms have been implemented in order to activate and energise firms and the economy. The principal financing source for enterprises has been redirected to bank debt financing, and the normal investing entity has gradually been shifted from the central government to the state-owned banks. Since the 1990s, deepening reforms in the financial sector have seen the establishment of two stock markets (the Shenzhen Stock Exchange and the Shanghai Stock Exchange) as well as policy banks, diverse ownership banks, and non-bank financial institutions. However, today's Chinese financial system remains overwhelmingly bank-dominated, and firm financing mainly relies on multi-levels of banks, supplemented by other non-bank financial institutions.

Under this financial system, the one basic fact is that bank loans are the most important source of funding, accounting for the majority of funds flowing to firms among all other major sources of external funding. Theoretically, all firms, irrespective of their ownership, are able to raise funds from bank sources. In practice, however, most of the bank loans go to the state-owned sector and serve to nurture multi-level SOEs (Allen, Qian, and Qian, 2005: 79; Morck, Yeung, and Zhao, 2008: 344). This is primarily because the current financial system was developed from the very beginning to meet the needs of the SOEs, with the result that POEs are largely excluded from every part of the chain. Another major driving factor is the government's intention to achieve what is perceived as an essential social goal—preserving the many millions of jobs in the SOEs—by ensuring a continual flow of funding to these massive, unwieldy, and often unprofitable, enterprises (Poncet and Hericourt, 2009: 1-3).

These dynamics in the financial system also partly explain the financing patterns of Chinese firms attempting to invest overseas. According to a survey of Chinese firms conducting outward FDI (CCPIT, 2013: 18), Chinese firms, no matter their ownership structure, considered self-retained profits to be the most common financing source for their overseas investment projects (52 percent of firms responding); this was followed by bank loans, which were regarded as an important source of funds by 21 percent of firms. Other sources, such as direct government subsidies, capital market financing, informal financing, and funds from investment partners were listed as options in the survey yet were only considered important by a very small proportion of the responding firms. However, when it came to the primary source of funds for their FDI,

disparities emerged between SOEs and POEs. This is reflected in government policies as an actual preference for SOEs in practice. In contrast with the SOEs (albeit a small number) that considered government subsidies to be their main funding source, almost no POEs reported this to be the position, as they are far more likely to rely on informal financing as their primary funding sources. SOEs undoubtedly have advantages in terms of government policy support (such as access to subsidies for fixed/operating costs and zero to low interest loans) than POEs, and financing continues to be the main problem for POEs seeking to invest overseas. For them, accessing bank loans is not of itself the main obstacle. It is that they are severely disadvantaged in not being able to secure the zero or low interest loans that are available to SOEs. These dynamics and features, if projected on to individual firms, can translate into fundamental advantages or disadvantages that will inevitably influence their decisions with regard to operating overseas.

2.4.2 Firms, Finance, and the OLI paradigm

The OLI paradigm reveals that firms need to satisfy three conditions: firms' specific advantages (ownership advantages, or O advantages), location-specific advantages that may favour either home or host countries (location advantages, or L advantages), and incentives to internalisation (I advantages) to conduct foreign-owned value asset activities (Dunning, 1977, 1979, 1995, 2000, 2001). Of these, O advantages are further divided into three types: 1) asset-based advantages (Oa), obtained because of the firm's established position and size, including property rights and other intangible assets; 2) transaction-based advantages (Ot), which arise from economics of scale or common governance of the multinational network; and 3) institutional assets (Oi), which are formal and informal institutions relating to the whole production process among member firms and stakeholders (Dunning and Lundan, 2008: 101). Among the three sets of variables, Finance-related variables are considered to be O advantages (specifically Oa and Ot), referring to exclusive or favourable access to finance, or better knowledge about international markets (e.g., labour, finance), including those they own indigenously and those obtained because of multinationalism.

I endorse the OLI model's classification and interpretation of the financial variables. However, I will argue that financial variables should be treated as a separate category, independent from

the other OLI variables. The reasons are threefold. First, finance, in a broad sense, is more of a transaction vehicle that is external to the firm and forms part of the transaction process. It is a pre-requisite, which determines whether a transaction is able to progress further. It can therefore be seen as one determinant (rather than a sub-advantage, as in the OLI treatment) that is of equal (if not greater) importance than the other three variables in supporting firms overseas investments. Second, in a narrow sense—as in the OLI model’s interpretation of finance—appropriate and sufficient financial resources reinforce a firm’s intention and potential to invest overseas. Nonetheless, this is not necessarily an ‘advantage’. In some cases, or under certain circumstances, it could be a ‘disadvantage’. It could be an advantage, satisfying the requirements of L and I advantages and yet, due to other factors (political issues for example) could subsequently become a disadvantage. This is especially prevalent in the case of China and Chinese state-owned or state-backed enterprises operating in foreign markets.⁹ Consequently, it is inappropriate to simply categorise finance (or financial variables) as an O advantage as the OLI model does, as the word is neutral in this sense and does not reflect the complexity of financial practice. Lastly, financial variables in the OLI interpretation are quite partial, which could be interpreted as taking advantage of different currency rates, or differential ability to obtain finance in international capital markets, and so forth. In a nutshell, an extended framework that adequately and more accurately accommodates and reflects the complex role of finance is necessary.

2.4.3 Understanding Chinese FDI: towards an analytical framework

Based on the above discussion, I developed a “OLI-F” framework to analyse Chinese multinational and their FDI activities. It suggests firm financing as a detached and independent category with the three parameters (i.e., O advantages, L advantages, and Internalisation). A few elaborations are necessary to be made here. Firstly, by financing, I mean source of funds and firm’s capability of raising funds. Generally, there are two main sources of financing: internal sources, and external sources. Of them, internal financing refers to firm’s own funds or existing financial

⁹ Aborted M&A transactions in this case, e.g., Grand Chip’s acquisition of Aixtron (in 2016), CNOOC’s acquisition of Unocal (in 2005).

resources, which are mainly obtained from profits or assets. On the contrary, external financing indicates debt financing and equity financing, with funds mainly obtained from debt markets such as banks and stock markets. Table 2.1 presents the main financing sources in the context of China.

Secondly, the role of financing is demonstrated in two main ways: on the one hand, financing is one determinant (pre-requisite) that combines with the other three parameters to warrant the proceeding of investment transactions; on the other hand, financing influences the three variables in determining the extent and efficacy during the investment process. For instance, it could add to the ownership advantages (e.g., financial strength, or firm’s capability of sourcing funds), or via the locational advantages (e.g., by taking advantage of different currency rates or sourcing funds from host market), or through internalisation (e.g., the decision of entry mode) in influencing firm’s propensity and the extend of investment.

Lastly, firms and their financing are largely influenced by the institutional environment where they embedded in. This is particularly important in the Chinese context, as the Chinese political economy system that features a heavy role of state has nurtured a state-dominant financial system that has preferences and predilection on certain firms in their financing.

This framework is yet exhaustive to include all the variables, rather, it aims to highlight the role of financing in the Chinese context, and to indicate its often-under-estimated impact on Chinese firms and their FDI process. It provides a general guide for the following empirical analysis.

Table 2.1 An overview of the financing sources of Chinese companies investing overseas

Internal financing	Retained profits		
External financing	Debt financing	Bank loan	Domestic state-owned banks and other commercial banks Policy banks/funds: e.g., China Development Bank (CDB), Export-Import Bank of China (EXIM-Bank), Silk Road Fund, Sinosure

		Guarantees and security arrangements provided by onshore entities of offshore indebtedness
	Bond	Corporate bonds - for listed companies
		Enterprise bonds - for non-listed entities, usually government institutions/affiliations
		Bonds issued abroad – (US) Dollar bonds, Euro bonds
Equity financing	Initial public offering (IPO) - Shanghai/Shenzhen/Hong Kong/New York etc.	
	Allotment	
	Secondary public offerings	

Source: collated by the author by referring to the *Guidance of Enterprises investing overseas: Country Business Environment Series (2020)*, China Council for the Promotion of International Trade.

Chapter Summary

This chapter sets the theoretical base for the PhD study. Specifically, it first posits this study within the IB domain and gives an overview of the mainstream theories on MNC and FDI theories represented by Hymer (1960; 1976), Vernon (1966), Buckley and Casson (1977), the Uppsala school (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), and Dunning (e.g., 1977; 1979). It then focuses on Dunning's eclectic paradigm, surveying its latest developments and explain why this framework is selected as the theoretical foundation for the study. It suggests that although this framework has many strong points, it has certain limitations. One of them is on finance, in which it gives the minimum attention. Finance is crucial, as it is integral for each business transaction for firms across the world, and it is particularly important for MNCs from developing country such as China that have an unusual financial system. By highlighting finance, and incorporated it into the OLI framework, this chapter finally proposes an analytical framework to guide the ensuing empirical work of analysis.

Chapter 3 Methodology

In the last chapter, I have systematically reviewed the literature regarding the mainstream FDI theories, meanwhile critically indicated financing as an under-explored area which worth in-depth research. To carry out the empirical analysis and answer the research questions, it is necessary to develop a methodology and collect pertinent data. This chapter, therefore, aims to develop a methodology capable of connecting the research question to the empirical research. Specifically, it is outlined in four sections: Section 3.1 first sets out with introducing the theories of research philosophy and setting the philosophical underpinnings for this research. Based upon this, Section 3.2 then sketches the approach for theory development and its relation to the chosen methodology. Following that, Section 3.3 explains the appropriate research strategies, while Section 3.4 elaborates the data collection methods and the data sources. Step by step, this chapter depicts how the methodology forms a guide to the empirical analysis developed in Chapters 5-7.

3.1 Research philosophy

Research philosophy refers to a set of beliefs and assumptions concerning the nature of the reality being investigated and how knowledge is acquired and assimilated during the process of investigation (Bryman, 2016; Saunders, Lewis, and Thornhill, 2019: 130). It often becomes a concern at the point when a researcher is embarking on a program of research aimed at developing new knowledge in a particular field. In other words, it is the first thing that must be defined when commencing on a piece of research that seeks to push out knowledge boundaries. It plays a fundamental role, for the research philosophy adopted in any study contains important assumptions about how the social world can be studied. These assumptions help to further formulate the research strategy and underpin the methods chosen as part of that strategy (Saunders, Lewis, and Thornhill, 2007: 101). To put it simply, research philosophy implies the process of knowledge development, defines the nature of such knowledge, and indicates the methodological techniques for conducting the research.

All social scientists, regardless of their research subjects and stages, have adopted explicit and implicit assumptions on the nature of the social world and the ways in which it can be investigated (Burrell and Morgan, 2019: 1; Neuman, 2014: 93). Among the various strands of these assumptions¹⁰ are those that are concerned with ontological issues (what is the nature of reality?) Others are of an epistemological nature (how can we learn about reality and what is the basis of our knowledge?) (Ritchie et al., 2014: 46). Among the many elements and aspects of philosophical assumptions, ontology and epistemology are the two principle building blocks that differentiate divergent schools of thought or philosophical positions on how to approach specific research topics. They are regarded as the foundations upon which research is built, and they are closely connected to methodology and methods, as well as data sources, as these build upon the ontological and epistemological assumptions that form the basis for any piece of research (Grix, 2010: 58; 2018: 126).

3.1.1 Ontological considerations

Ontology is the science or study of being. More specifically, in terms of its function within the social sciences, it refers to claims and assumptions about social reality, suggesting what 'exists', how things that 'exist' appear to participants and observers, what components 'reality' consists of, and how those components are interrelated and interact with each other (Blaikie, 2000: 8). As the starting point of all research, ontology represents the first steps that lead logically to epistemological and methodological positions. In other words, ontology determines how the social world is perceived, and this perception shapes the choice of what to research and how to approach certain research objects.

One of the central questions of ontology is whether social entities can and should be regarded as 'objective'; which is to say external to and independent from social actors. In other words,

¹⁰ While with ontology and epistemology are considered as two essential dimensions of research philosophy, scholars also included and placed different foci and perspectives upon their philosophical considerations. Ritchie and Lewis (2014: 46), for instance, have incorporated assumptions of axiology along with ontology and epistemology as one of the major areas of philosophy; Creswell and Poth (2018: 77) included both axiology and methodology within broader research philosophy; Burrell and Morgan (2019: 1-2), considered human nature and methodology as the main strings of the philosophical assumptions. To serve the purpose of this study, ontology and epistemology as the two main dimensions of philosophy will be discussed.

whether they can and should be considered to be social constructions that are the results of the subjective perceptions of and the interactions between various social actors (Bryman and Bell, 2011: 20; Bryman, 2012: 32). Often, answering this basic ontological question leads to one of two basic, yet opposing, philosophical stances: objectivism (or realism) and subjectivism (or idealism/constructivism). Objectivism holds that social entities exist independently of and beyond social actors. Thus, for an objectivist, there is a 'true' reality which is detached from human perceptions of the world and can therefore be defined and quantified objectively. It is deemed to be 'there', external and waiting to be discovered, and usually 'what you see is what you get'. Thus the object that the human senses apprehend is 'real' and complete in and of itself. Subjectivism, on the other hand, holds that the real world is invariably viewed and captured through a lens of interpretation based on individual subjectivity. Subjectivists believe that the world is in fact multiple realities, none of which are 'real' in the objectivist sense. This, they argue, sets boundaries and limitations on what we can learn or, more accurately, what we can unequivocally state to be 'true' or a 'fact' (Vrasidas, 2000: 6). In subjectivism the process of acquiring and interpreting knowledge relies largely on the experience and understanding of the inquirer (Johansson, 1991: 10). If we were to regard ontology as a continuum, objectivism and subjectivism would therefore represent the 'poles' or the two extreme positions at either end.

However, this does not mean that objectivism and subjectivism are the only possible positions. Within the ontological spectrum, there are numerous scattered dots that represent the many viewpoints that have been convincingly argued and widely accepted. Among the various established positions is 'critical realism', the proponents of which tend to be more cautious than outright subjectivists while acknowledging that subjective interpretations may have a significant impact on our perceptions of reality. There is also moderate nominalism, which accepts that subjectivity profoundly influences our interpretation of the social world and that such factors can never be fully eliminated from social inquiry (Neuman, 2014: 94-95). After considering these, and other, different views about what constitutes social reality, the consequent issue is how to analyse and measure that reality and what constitutes knowledge that can be gleaned from that reality. This leads to the questions that lie at the heart of epistemology.

3.1.2 Epistemological considerations

If ontology is about what we know, or what exists, then epistemology is about how we come to know what we know (Grix, 2004: 63). To be more specific, epistemology is the theory or science of methods for acquiring, and the grounds for accepting, knowledge. Epistemology consists of assumptions regarding what can be known, what can be counted as knowledge, and what criteria must be fulfilled to ensure the adequacy and legitimacy of knowledge, which requires a perceptible external reality (as distinct from belief which does not) (Blaikie, 2000: 8; Neuman, 2014: 94-95). This is regarded as another core branch of research philosophy that sits alongside and is intimately connected to ontology. Together they shape the philosophical framework, with each perspective informing a particular way of understanding questions in terms of *what is* as well as *what it means to know* (Crotty, 1998: 18).

A central point with regard to epistemology lies in the ways in which knowledge is created and the ways we learn about reality. This often entails assumptions that are based upon a view of the nature of knowledge itself: whether, for instance, the nature of knowledge can be identified as hard, concrete, and capable of being transmitted in tangible form, or whether the knowledge that we assimilate is softer, more abstract, subjective, or even spiritual and therefore highly dependent upon the personal experiences and insights of individuals (Burrell and Morgan, 2019: 1-2). The adoption of different sets assumptions has led to dichotomous positions. One asserts that knowledge is just 'there' and can be accessed and acquired by observation and measurement. The other suggests that knowledge is something which has to be carefully filtered and distilled from individual experience and understanding. The former position is usually referred to as realism, the latter as nominalism.

Those who stand with realism advocate that social reality is empirically 'out there' and that it should be studied using the same principles, procedures, and ethos that are applied in the natural sciences (Bryman and Bell, 2011: 15; Bryman, 2012: 27). Holding that reality exists beyond our inner thoughts and perceptions of it, realists argue that we can obtain knowledge by either testing pre-existing theories (deductivism) or by gathering facts and making generalisations from them (inductivism). Contrarily, those who believe in nominalism contend that knowledge about reality can never be achieved by making simple observations, since subjective perceptions and interpretations profoundly influence all observation. The social world is therefore multifaceted

and presents itself as multiple realities. Again, similar to ontology, these two epistemological positions represent the extremes of the epistemology spectrum. Along the continuum between them, they are modified and complemented by many other streams of thought, such as critical realism, feminism, humanism, and so forth.

3.1.3 Philosophical positioning

As the two main dimensions of research philosophy, ontology and epistemology are rarely applied separately. They tend to merge together, since how we can learn about the world (epistemology) is deeply rooted in how we perceive it (ontology). With this close relationship, the two concepts shape the way, and underlie the choice of how, we approach our research (methodology). Taking these two dimensions together, three broad research paradigms are presented in the present research (Table 3.1). They are chosen for two basic reasons: firstly, they are typical, mainstream philosophies that have gained wide acceptance and circulation in the social sciences. Secondly, they are particularly appropriate for this research. They embrace both ends of the subjectivism-objectivism spectrum, together with a third perspective that escapes the constraints of the circular debate. Again, these should not be considered as fixed categories or labels, and it should not be assumed that one approach is considered to be superior to another; rather, they are evolving and interchangeable positions that offer alternative ways of observing, measuring, and understanding social reality.

Table 3.1 Key paradigms in social sciences¹¹

	Positivism	Interpretivism	Pragmatism
Ontology	Objective, external, independent Realism	Nominal Multiple realities and meanings	Complex, rich, external 'Reality' is the practical consequences of ideas

¹¹ Despite several subdivisions or cognates that they have, they are not going to be discussed and recategorized further for the purpose of this research. For more, see, e.g.: Cuba and Lincoln (1994: 112; 2005/2017: Chapter 5); Blaikie (2007: 12-18, Chapter 4); Saunders, Lewis, and Thornhill (2007/2019: Chapter 4), Porta and Keating (2008: 23); Grix (2010/2019: Chapter 5); Bryman and Bell (2011: 24), Newman (2014: 121), Creswell and Poth (2016: Chapter 2).

	One true reality	Flux of processes, experiences, practices	Flux of processes, experiences and practices
Epistemology	Natural science method Observable and measurable facts, numbers, phenomenon Causal explanation and prediction as contribution	Adopt the assumptions of the arts and humanities Individual opinions, narratives, perceptions, and interpretations New understanding and worldviews as contribution	Truth and knowledge are those that enable success action Focus on problems, research questions, and practices Problem solving and informed future practice as contribution
Methodology	Typically deductive Highly structured and replicable Large sample Measurement Quantitative methods	Typically inductive Small samples in-depth investigations Qualitative methods	Following research problems and research questions Qualitative, quantitative, multi methods, mixed methods Emphasis on practical solutions and outcomes

Sources: Adapted from Saunders, Lewis, and Thornhill (2019: 144-45)

Positivism, among the three key approaches, is generally regarded as the orthodox position in science—the ‘received paradigm’—and has long dominated formal discourse in both the physical and social sciences (Cuba and Lincoln, 1994: 108). It emerged in the late eighteenth and early nineteenth centuries among Western European philosophers, represented by David Hume, John Stuart Mill, Auguste Comte, and Emile Durkheim (Crotty, 1998: 28; Neuman, 2014: 97). This stream of philosophical thought is deeply rooted in the tradition of rigorous inquiry and classification that accompanied the flourishing of the natural sciences during the Enlightenment period. As naturalists distinguished, named, and classified objects and organisms in nature, so

contemporary philosophers regarded social entities as real, detached objects that can be measured using highly structured methodologies in order to facilitate replication (Saunders, Lewis, and Thornhill, 2019: 147). In other words, by adopting a realist ontological approach, combined with a dualist and objectivist epistemology, this tradition applies an experimental and manipulative methodology to investigate how things are *exactly* in the observable (neutral) world (Cuba and Lincoln, 1994: 110-11). Often, this implies a logical linkage from the abstract theory to the social world, according to which measurement or empirical testing can be conducted to verify the laws suggested by a theory, following the natural science paradigm of testing hypotheses by experiment (Neuman, 2014: 102). Although it is rather an oversimplification, this paradigm remains the orthodoxy that authenticates and underpins quantitative methods of doing social science research (Feiler, 2010: 6; Robson and McCartan, 2016: 20).

The counterpoint to positivism is interpretivism. This opposing position emerged in early mid twentieth century Europe. Drawing on earlier Kantian and Hegelian philosophical traditions, it was expounded and developed particularly by Max Weber, Wilhelm Dilthey, and Wilhelm Windelband, as well as Heinrich Rickert (Crotty, 1998: 79). It brings the subjective perspective to the forefront, and emphasizes the creation of new, richer understandings of social reality through different meanings and interpretations of social life and interactions as perceived by people from various cultural backgrounds (Saunders, Lewis, and Thornhill, 2019: 149). Specifically, by adopting “a relativist ontology, transactional epistemology, and a hermeneutic, dialectical methodology”, this tradition orients itself in such a way as to generate reconstructed understandings of the social world (Denzin and Lincoln, 2018: 196-97). Interpretivists (or constructivists), accordingly, believe that there are many realities, with participants and researchers both contributing to their creation and construction. Researchers within this theoretical orientation therefore usually prefer to adopt qualitative research methods which allow them to acquire multiple perspectives on the real world (Erlandson et al., 1993: xi; Robson and McCartan, 2016: 24-25). Most current ongoing research in the social sciences is based upon at least one, but often both, of these two philosophical positions.

Both can be applied simultaneously because, apart from these two fundamental positions, there is a third ‘lens’ that bypasses the ‘purist’ viewpoints, or the either/or positions, of the

subjectivism-objectivism debate. That ‘lens’ is pragmatism (Tashakkori and Teddlie, 2003; Teddlie and Tashakkori, 2010)¹². Originating in late nineteenth and early twentieth century America among philosophers represented by Charles Pierce, William James, and John Dewey, pragmatism strives to reconcile the two opposing views of subjectivism and objectivism by concentrating on solving research problems (or research questions) while providing practical solutions and instruments to inform results in specific contexts (Cherryholmes, 1992; Schwandt, 2007: 239-40; Kelemen and Rumens, 2008: 49). Unlike ‘pure’ subjectivism and objectivism, which both stress abstract distinctions, this stream of philosophy values concrete practice by managing appropriate instruments for practical outcomes (Small, 2011: 62). ‘Truth’ in this tradition is simply defined as “whatever works” (Robson and McCartan, 2016: 28). Thus, for pragmatists, it is not important whether reality is viewed objectively or subjectively, or how an investigation is carried out (applying positivist or interpretivist ideas). These approaches can happily be combined or utilised separately, so long as the outcome is an appropriate approach to providing the best possible insights into the issues at hand (Kuada, 2012: 61; Ritchie and Lewis, 2014: 51). Often, pragmatists are guided by their value systems to study what they deem is important, collecting and analysing data by whatever methods they consider to be most appropriate to answer the research questions, usually with the expectation that the results will be consistent with their value system (Teddlie, 2005: 215). Following this thread, pragmatic philosophy thus naturally embraces multiple methodological perspectives, but only insofar as they enable the capture of credible, well-rounded, and reliable data to describe and reflect a multifaceted reality, or multiple realities, that provide a route to solving empirical puzzles (Small, 2011: 63).

In the present research, pragmatism is adopted as the central approach. The reason is threefold. First, the research aims and questions of this study (see Chapter 1 and Table 3.2) are such that using a single perspective, whether positive or interpretive, will be unable to achieve the ultimate goal. The choice of a particular perspective and approach depends on the nature of each question

¹² Beyond the subjective-objective debate and other to pragmatism, there is another school (or view) called situationism (see, e.g., Rossman and Wilson: 1985: 630). It has nuanced difference from pragmatism: while situationist is more likely to draw upon a combination of perspectives in specific project, pragmatist may prefer to select one perspective (without rejecting a combined approach). For the purpose of this study, it is not subject to in-depth discussion.

or sub-question and assumes that one approach may be 'better' or more appropriate to more comprehensively capture the realities on which it is projected. A positive approach is more appropriate for answering the first set of sub-questions, since the patterns, trends, and financing of Chinese FDI in European countries are empirical facts that can be observed and measured. However, for the second set, an interpretive approach will be more appropriate, as knowledge concerning the processes and understandings of particular investment transactions depends to a considerable extent on the actual experience, and the subjective interpretation of that experience, of individuals who have been personally involved in the specific events studied and who have personally acted in certain relevant contexts.

Table 3.2 Research question

Core research question:

To what extent and in what ways does financing influence Chinese firms' investment strategies and processes as they engage in FDI in Europe?

Sub-sets of research questions:

- On the dynamics of Chinese FDI in Europe and firm financing
 - a. What are the trends and patterns of Chinese FDI in Europe?
 - b. How do Chinese companies finance their FDI in Europe?
- On the rationale and nature of Chinese outward FDI
 - a. What is the background, motivation, and process for specific investment project?
 - b. To what extent does firm financing influence firm strategies and the FDI process?
 - c. What role does the Chinese political economy (particularly the financial system) play in shaping Chinese FDI?

Secondly, such a pragmatic approach is in line with the theoretical framework that warrants the consistency of the study. More specifically, since the analytic framework (Chapter 2) is based on the OLI-eclectic paradigm, the eclectic nature of the perspective is congruent with pragmatism insofar as it endorses eclecticism and pluralism to collate different, even competing, theories, views, or experiences that are deemed to be useful for understanding the issues under examination. Lastly, a third, practical, reason for adopting pragmatism is because of the

anomalous social environment created by the worldwide Covid-19 pandemic which was underway during the core period of carrying out the research (see Covid-19 Statement). This rendered the original approaches and methods envisioned for this research impractical or even invalid, which forced a reorientation and reorganization of my theoretical framework and methodology. When the wider context (travel restrictions) made specific approaches (qualitative on-site fieldwork) impossible for considerable periods of time, alternative approaches had to be adopted in order to achieve the research goal within the required time frame. In sum, pragmatism was, and is, deemed to be the most appropriate and suitable approach for this research, and remains as the recurring theme throughout this thesis.

3.2 Research design

The underlying methodology for this PhD research is pragmatic in nature (Section 3.1.3). This philosophical stance implies utilising a combined qualitative, quantitative, multi method, and/or mixed methods approach; whichever fits into the research aim when considering individual research questions, contexts, and likely consequences (Nastasi, Hitchcock, and Brown, 2010). The dual purpose of this study is, firstly, to map out the dynamics of Chinese investment in Europe as well as the financing status of the firms involved and, secondly, to add to the empirical understanding of the nature of and rationale for FDI in order to contribute to existing theories or FDI and more general political economic theory. These purposes require repeated oscillation between theory and data, so that existing theories are tested while simultaneously identifying themes and patterns. Emerging themes and patterns are then positioned within an analytic framework and subsequently themselves tested by collecting and analysing data. An abductive¹³ or dialectical approach that combines both inductive and deductive elements is therefore appropriate for this research. This, essentially, positions the study within a mixed methods approach.

¹³ Abduction is a third way of reasoning that differentiate from yet interrelated with deduction (from a general rule to a specific conclusion) and induction (from specific evidence to general probable rule). Specifically, it refers to a logical process during which observations are made based on collected evidence in order to generate the hypothesis that best fit to explain the observations; in other words, abduction involves a hypothesis (or conclusion) formulated based on the known information.

3.2.1 Mixed methods approach

Mixed methods, in this study, refers to a form of inquiry that systematically integrates both qualitative and quantitative methods of data collection and analysis for the purpose of obtaining a fuller and deeper understanding of a phenomenon¹⁴. A core assumption of this approach is an emphasis on the collective strength of combining statistics (quantitative data for visualisation of trends) with personal experiences (qualitative data for in-depth perspectives) to enable a more holistic understanding of the research problem, rather than treating either form of data in isolation (Creswell, 2015: 2; Creswell and Plano Clark: Chapter 1). Mixed methods is considered to be a third category that goes beyond both quantitative and qualitative methods. The research logic encompasses induction (discovery and identification of patterns followed by generation or construction of an explanatory theory), deduction (testing and evaluating propositions and hypotheses related to an existing theory), and abduction (moving back and forth, from data to theory then from theory to data, to generate a new theory or modify an existing theory) (Tashakkori and Teddlie, 2003: 5; Johnson and Onwuegbuzie, 2004: 17; Morgan, 2007: 71; Teddlie and Tashakkori, 2009: 11). Rather than replacing the qualitative and quantitative approaches, this hybrid approach is based on the understanding that it is perfectly legitimate to use multiple approaches; drawing strengths from and minimizing the limitations of the various approaches in answering research questions (Truscott et al., 2010: 317; Kuada, 2012: 119).

Though it has been accused of creating problems and causing controversies (see, e.g., Teddlie and Tashakkori, 2003; Miller, 2006), the mixed methods approach enjoys many advantages, such as enabling research to be more comprehensive and complete (Morse, 2003: 195), as well as addressing quantitative and qualitative questions simultaneously within the scope of a single study (Tashakkori and Teddlie, 2003). It allows researchers to access and acquire knowledge and insights that would otherwise be inaccessible when conducting exclusively quantitative or qualitative study independently of each other (O’Cathain, Murphy, and Nicholl, 2007: 147). Accordingly, researchers adopt mixed methods to achieve a number of diverse objectives.¹⁵

¹⁴ For a more in-depth review regarding the definition of mixed methods research, see, e.g.: Creswell, Plano Clark, Gutmann, and Hanson (2003: 164-165); Johnson, Onwuegbuzie, and Turner (2007).

¹⁵ For a more comprehensive typology, see, e.g., Collins, Onwuegbuzie, and Sutton (2006: 78-79).

These objectives include: triangulation to provide corroboration and cross-checking for internal consistency or reliability (Jick, 1979: 603; Greene, Caracelli, and Graham, 1989: 259); complementarity, to elaborate, enhance, illustrate, and clarify results from one method using results from the other method; initiation, to discover paradoxes and contradictions that lead to a reframing of the research question; development, using findings from one method to help inform another method; expansion, to expand the breadth and range of research by using different methods for different inquiry components; and bias elimination, compensating and combining strengths and weakness intrinsic to single method research (Greene, Caracelli, and Graham, 1989: 259; Denscombe, 2008: 272).

The mixed method approach has found much favour in business and management research, particularly because it allows for contextualisation (e.g., firm-specific and industry-specific factors), the level of analysis (e.g., firm-level and resource-level), and longitudinal studies (Molina-Azorin, 2011: 16). For this research, the application of mixed methods has two particular benefits. First, the data collected is mixed in nature and includes both quantitative data (administrative records from various databases, etc.) and qualitative data (interview transcripts, media sources, and other documents). Second, multiple methods are used for data collection, for example, in-depth interviews and documents are both used for qualitative inquiry. This hybrid, mixed approach aims to achieve triangulation and corroboration of the research logic before it comes to the findings and conclusions.

3.2.2 Mixed methods design

According to Creswell and Creswell (2018: 299), there are three main types of mixed method research designs: the convergent design, the explanatory sequential design, and the exploratory sequential design. Saunders, Lewis, and Thornhill (2019: 182) go further and add sequential multi-phase design as a fourth type (Table 3.3). Of these, the convergent (or concurrent) design refers to a single-phase design that allows researchers to collect quantitative and qualitative data simultaneously and analyse them separately in order to compare results from both to see whether the findings agree or disagree with each other. This is the most common and familiar approach. It is based on the key assumption that, despite the differences between quantitative

and qualitative data, the results, or findings that they yield will often be essentially the same, whether expressed as measurements and statistics or as detailed descriptions or accounts of the expressed views of participants.

Table 3.3 Main types of mixed methods research designs¹⁶

Concurrent (convergent)	Quantitative methods - Qualitative methods
Sequential explanatory	Quantitative methods -> Qualitative methods
Sequential exploratory	Qualitative methods -> Quantitative methods
Sequential multi-phase	Qualitative methods -> Quantitative methods -> Qualitative methods

Source: adapted from Creswell and Creswell (2018: 300) and Saunders, Lewis, and Thornhill (2019: 182).

Unlike the single-phase convergent design, both the explanatory sequential design and the exploratory sequential design are two-phase designs. The former involves a two-phase data collection scheme, in which the researcher collects and analyses quantitative data first. This is then followed by a qualitative phase that builds upon the quantitative results and which may include purposively selected participants and queries to help explain the initial results in more detail. The latter (sequential exploratory design) is similar, but the process is reversed. This design begins with a qualitative phase, which focuses on identifying features or themes to be explored and tested in the subsequent quantitative phase. Like the explanatory design, the design and implementation of the second phase builds upon the initial results.

Last, but not least, the sequential multi-phase design is the most complex of the four. It consists of three phases of data collection and analysis. It usually begins with a qualitative phase involving initial exploration to reveal the significant features of the research object, which then guides and informs the selection of content and the framework for the following quantitative phase. Following the quantitative phase, a further qualitative phase is performed to more exhaustively

¹⁶ For a full review of typologies of mixed methods research designs, see, e.g.: Greene, Caracelli, and Graham, et al. (1989); Morse (2003); Creswell, Plano Clark, Gutmann, and Hanson (2003); Leech and Onwuegbuzie (2009); Teddlie and Tashakkori (2009: Chapter 7); Creswell and Plano Clark (2018: Chapter 3).

explain the patterns identified before reaching conclusions. The current thesis will use a sequential multi-phase design. Qualitative data collection is first carried out and the data analysed by drawing comparisons with the existing literature (diverse documents) to generally explore financing patterns and make initial hypotheses. Quantitative data is then gathered, firstly, to capture the demographics and test the validity of existing theories and, secondly, to identify specific cases (Chinese firms that have investment projects in Europe) and develop appropriate sets of questions for the subsequent in-depth interviews. By moving back and forth and integrating different forms of data, the aim is to build a fuller and richer understanding of the research problem that will enable explanations of both general patterns and particular cases.

3.3 Research strategy

Case studies are used in seeking to answer the research questions in this study. The specification of the case studies is developed by using data collection techniques such as process tracing and cross-case comparative analysis. Combined, they enable more profound data analysis in deconstructing research questions and understanding multifaceted research problems.

3.3.1 Case study

Case study analysis has been identified as the primary research strategy for studying this topic. On the one hand, the approach is suitable for answering explanatory questions and extensively and intensively investigating the rationale for contemporary phenomena (Yin, 2012: 5; 2018: 13-15). It facilitates tracing the process of how firms' approaches to financing affect their behaviour as well as facilitating exploration of the reasons behind that behaviour and enabling further in-depth explanation of the rationale for these phenomena. On the other hand, since a case study approach enjoys natural advantages in research of an exploratory nature (Gerring, 2004: 349), its subjectivity provides it with an edge in generating hypotheses that might not be apparent from a quantitative approach (Gerring, 2007: 41). It therefore allows for generation and testing of a multitude of hypotheses and insights for further theory generation or concept building during the analysis process. In addition to the advantage of being flexible and incorporating multiple perspectives, data collection tools, and interpretive strategies in the research (Marshall and Rossman, 2016: 19), such a strategy also allows for diverse possibilities in collecting data via

different approaches to make the research questions more readily answerable and the research aims more easily achievable.

In this study, the case study approach is pursued by adopting a multiple-case design using the techniques of process tracing and comparative case analysis. The multiple-case design is partly determined by the research questions and goals, which are mainly concerned with the relationship between corporate finance and international corporate ventures and attempts to capture differences in investment behaviour and approaches to financing between various Chinese firms. It is also prompted by the advantages of multi-case studies, for example in enabling broader exploration of research questions and comparisons among selected cases, as well as creating more robust, generalisable, and testable theories from diverse empirical evidence (Eisenhardt and Greabner, 2007: 27). Specifically, the design of such a multiple-case study follows the logic of replication, i.e., each case will be carefully selected in order to compare the individual case studies with each other by predicting either similar or contrasting results (Yin, 2018: 55).

In terms of the current topic, Chinese firms investing in Europe consist mainly of SOEs and POEs, and significant differences exist in their financing strategies (Section 2.4.1). The design process therefore began by broadly divided the potential cases into these two large groups, with individual firms then being selected purposively according to financing source, firm size, industrial sector, and other relevant factors. After conducting fieldwork and collecting data for each case study company, individual case reports are written to summarise findings and conclusions. Conducting individual case studies (including writing individual reports) is neither simultaneous nor linear work. Rather, conclusions from certain case studies are considered as referential for replication in subsequent cases, and any changes or additions in subsequent cases will be based on individual findings. After completing all the subgroup case studies and the individual reports, cross-case conclusions are drawn, which will summarise the logic followed and the results, including particular emphasis on replication (either similarities or differences), which will be used for the further development of emergent theories and concepts.

The case study strategy is developed by the use of the process tracing technique for further exploring the texture within each case. By definition, process tracing refers to 'the analysis of

evidence on processes, sequences, and conjunctures of events within a case for the purpose of either developing or testing hypotheses about causal mechanisms that might causally explain the case'. The technique involves two dimensions: the deductive theory-testing aspect, which examines the observable effects of hypothesised causal mechanisms to test whether a particular theory explains the case; and the inductive theory-development aspect, in which evidence is generated and organised to develop hypotheses that might explain the case (Bennett and Checkel, 2015: 7-8). Three prominent features make this method particularly invaluable for studying the cases proposed in the present design. First, it helps in fleshing out the causal mechanisms that are operating in certain cases (Vennesson, 2008: 233). Identification of the inferences and causal processes that arise from independent variable(s) and affect the outcomes of dependent variables (Gorge and Bennett, 2005: 206) allow for mapping of the logical inferences that link various items of collected evidence, further contributing to a comprehensive understanding of how financial variables and other relevant factors lead to individual firms' investment decisions or strategies.

Second, as the mapping process will inevitably generate numerous observations, accounts, and variables, the evidence gathered will probably include 'new facts' which have not been identified or specified in advance (Vennesson, 2008: 234). This feature enables the uncovering of hidden variables and accounts that may enrich the hypotheses and further explain the causal processes in each case.

Third, process tracing proceeds through both inductive and deductive reasoning (Bennett and Checkel, 2015: 17-18). In this study, as there is no substantive knowledge or theory which can unilaterally and universally account for the financial dynamics affecting firms' strategies and investment processes, the analysis of each individual case by process tracing proceeds primarily through inductive analysis, supplemented by deductive analysis. This process is iterative, enabling constant generation and testing of hypotheses, which further contributes to the formation of robust hypotheses and the development of theories and concepts. These features make process tracing a particularly useful tool in conducting and facilitating multi-case studies.

The process-tracing technique applied within each case is further complemented by adopting a cross-case comparative approach. This approach has particular strengths and is highly effective

in synthesizing information that transcends time and space. It bypasses the limitations of the traditional case study approach, which often encounters difficulties in defining cases and their dynamic boundaries while underrepresenting the value of each case by treating it as particularistic and descriptive, rather than using each case as a basis to extrapolate and generate wider theoretical contributions (Bartlett and Vavrus, 2017: 901-905). For this study, a comparative approach is particularly relevant, since it allows for both horizontal comparison (financing details across similar companies by ownership, industry, etc.) and vertical comparison (within the same company through different development stages).

3.3.2 Case selection

Cases to be examined in case study research should be selected in a purposive fashion, and case selection in this sense is based on the twin objectives of being representative and of being useful for identifying variations between firms that are of theoretical interest (Seawright and Gerring, 2008: 295-296). For a chosen case to be representative, a non-probability approach rather than probability or randomisation is used for sampling, which can be achieved by following predetermined criteria for case selection, such as selecting typical, diverse, extreme, deviant, most-similar/different cases using purposive procedures (e.g., Gerring and Seawright, 2007: 89-90; Patton, 2015: Chapter 5). However, as the selected cases must also fulfil the 'theoretically interesting' requirement in order for them to contribute usefully to theory-building research, the cases should be selected for their particular suitability for creating or illuminating theoretical constructs, hypotheses, or propositions (Eisenhardt and Greabner, 2007).

Following these techniques and principles, while considering pragmatic issues (such as convenience, access, and other factors), ten firms were selected as suitable cases for this study. They are: COSCO, Huawei, Legend Holdings, Jinsheng, Joyson, SANY, State Grid, Weichai, Wanhua, and Zoomlion. These cases (firms) are pertinent for this study as they are not only qualified in the sense that they are representative of the full range of potential candidates for study but are particularly relevant for the purpose of demonstrating different financing processes from a variety of perspectives.

These firms were screened out using a five-step process (Table 3.4). First, general research was carried out on all the initial potential candidate firms, all of which were firms that have an investment history in Europe. This was done by referring to mainstream commercial databases including BvD-Zephyr, Thomson One, and FDI Markets (See Section 3.4.1). Frequent investor companies were identified for further selection, as well as those with particularly large volume transactions. Based on this, the second step was applied to purposively categorise the group of candidates according to their ownership¹⁷. This is because financing sources differ between SOEs and POEs in the Chinese political economy (Chapter 2). Consequently, two subgroups were formed following the selection process: the SOE group and the POE group. After that, according to firm scale, both subgroups were further subdivided according to the size of each enterprise, with SOEs classified into mega SOEs (central government-owned) and municipal SOEs (provincial and city level government-owned), and POEs into global players (true multinationals and transnationals) and domestic industry leaders. This was done to reflect the hypothesis that differences in the scale of enterprises lead to discernible differences in their financing capabilities from the various available channels. In the fourth step, all of the firms were labelled and regrouped by the principal funding sources, which were identified from desk research and fieldwork interviews. Based on these conditions, meanwhile ensuring an inherently diverse industry distribution to facilitate comparative analysis, ten representatives (Table 3.5) from each sub-type were shortlisted by considering all relevant factors, e.g., transaction frequency, ownership, size, financing source, industry, FDI entry mode, and accessibility for interviews.

Table 3.4 A summary of the case selecting procedures

Selecting procedures	Selecting conditions
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¹⁷ Two issues to clarify: 1) ownership status. The categorisation of firms' ownership is based on its shareholder's information published on firm's official website or via official outlets such as Juchao database. Yet since change occurs upon the shareholders and the holding shares from time to time, for the purpose of this thesis, the categorisation is based on the shareholder information when the investment occurs. 2) ownership and corporate control. The issue of ownership is more complicated in the Chinese context, for example, blurred boundaries between SOEs and POEs, state's influence on both SOEs and POEs in terms of decision making and corporate strategies, for debates, see e.g., Milhaupt and Zheng (2015); Henderson, Feldmann, and de Graaff (2021: 1051-1054).

<p>Step 1:</p> <p>Identifying firms with a successful investment history based on multiple databases (i.e., BvD-Zephyr, Thomson One, and FDI Markets) and independent research:</p>	<ul style="list-style-type: none"> • A long list of firms with tracked records of investing in Europe • Targeted firms which are frequent investors, and those with a history of major or large-volume transactions
<p>Step 2:</p> <p>Categorizing the targeted firms by ownership</p>	<ul style="list-style-type: none"> • SOE group • POE group
<p>Step 3:</p> <p>Further categorising the above firms by firm size within each subgroup</p>	<ul style="list-style-type: none"> • Centrally-owned SOEs • Municipally-owned SOEs • Global leading POEs • Domestic/industrial leading POEs
<p>Step 4:</p> <p>Identifying the principal sources of finance in each subgroup</p>	<ul style="list-style-type: none"> • Internal funds (retained profits) • Capital market • Debt market (e.g., bank loans)
<p>Step 5:</p> <p>Shortlisting firms from each of the financing typologies by taking industry distribution into consideration</p>	<ul style="list-style-type: none"> • To accommodate as more as industries • To highlight the industries that with most Chinese investments

Table 3.5 Cases selected for empirical analysis

Ownership	Corporate scale	Industry	Case firm	Financing source
SOE	Central SOE	Utility	State Grid	Internal funds Bank loans

				Corporate bonds (raised from overseas by taking advantage of its high credit rating)
	Central SOE	Shipping	COSCO	Internal funds Bank loans (ICBC, BOC, CDB) Stock and bond issuance for daily operations (from both domestic and overseas through its listed subsidiaries)
	Provincial SOE	Multiple but specialise in Industrial machinery	Weichai	Internal funds (retained profits, main source) Bank loans (support from state banks in the early days)
	Provincial SOE	Machinery	Zoomlion	Internal funds Bank loan External parties (e.g., for the CIFA case, it has involved Hony Capital, Mandarin Capital, and Goldman Sachs)
	Municipal SOE	Chemical	Wanhua	Internal funds Bank syndicate (BOC, BoComm, ICBC)
POE	Global leaders (True multinational)	ICT	Huawei	Internal funds (retained profits, main source for cross-border investment) Employee stock investment returns Bank loans (for clients, usually from policy banks such as EXIM Bank and CDB) Corporate bonds (since 2019)
	Global players (Transnational)	Multiple industries	Legend Holdings	Internal funds International capital market (Hong Kong Stock Exchange)
	Niche market industrial leader	Auto manufacturing	Joyson	Internal funds Domestic capital market (Shanghai Stock Exchange)
	Niche market industrial leader	Construction machinery	SANY	Internal funds

				External party (such as CITIC PE Advisor for the Putzmeister case)
	Niche market POE	Machinery manufacturing	Jinsheng	Internal funds Bank loans (Policy bank such as CDB)

3.4 Data collection

The data for this study include both primary and secondary data, and they mainly come from three sources: commercial databases, fieldwork interviews, and documentation. The advantages for collecting and using such multiple sources of evidence is twofold. On the one hand, it enables of examining a phenomenon in great depth in the real-world setting, which requires data from many sources in examining events over a period of time; on the other hand, using multiple sources of data will allow for data triangulation, which will strengthen the “construct validity” of the understudied and further help generate more convincing and accurate findings or conclusions (Yin, 2018: 126-129).

3.4.1 FDI databases

The data concerning Chinese investment in Europe has been constantly documented by a few organizations including government institutions, commercial entities, non-profit organizations (NGOs) worldwide. Yet a closer look may find that great discrepancies¹⁸ exist among the databases, since each of them has their very own way of data collection and calculation. To serve the purpose of the thesis, several databases have been identified; they are selected based on three principles: authoritativeness, comprehensiveness (both longitude and scope), availability of financing information. Of them, three databases, namely, FDI Market, BvD Zephyr, and Thomson ONE serve the core reference database for analysis (Table 3. 6); the others, China Global Investment Tracker (AEI), Chinese government (MOFCOM), Juchao, China Stock Market and Accounting Research Database (CSMAR), and The Mercator Institute for China Studies (MERICS) are complementary ones (Table 3.7).

¹⁸ This is attributed to three main reasons: 1) data coverage: databases vary on the deal status, some incorporated completed while others included both announced and completed; 2) data source: some are based on media sources and official publication, while some including rumoured ones; 3) calculation: different treatment on Chinese companies registered in offshore markets (such as Cayman).

Table 3.6 Core databases for Chinese FDI research

Investment type	Database	Main Features
Greenfield	FDI Markets	<ul style="list-style-type: none"> • A service from the Financial Times, the most comprehensive online database of cross-border greenfield investments available, covering all countries and sectors worldwide; • The most comprehensive, from 2003 onwards
M&A	BvD Zephyr	<ul style="list-style-type: none"> • European originated with data concentrated specifically on M&As; • The subdivision of deal financing is relatively detailed.
	Thomson ONE	<ul style="list-style-type: none"> • Canadian origin, another mainstream M&A database; • Includes information of source of funds for specific transactions; • Valuable especially for its analysis report on various corporations.

Table 3.7 Complementary databases (for triangulation purpose)

Database	Main Features
China Global Investment Tracker (AEI)	<ul style="list-style-type: none"> • Pros: <ul style="list-style-type: none"> - Include M&As, greenfield, and construction projects - Very brief and concise, good for users to have a general understanding of the Chinese investments. • Cons: <ul style="list-style-type: none"> - Data only including very basic information, not detailed enough for in-depth research; - Data mainly come from media sources, the stats (e.g., volume) are misinformed and unreliable for some cases.

	Used as an index to trace specific deals that might be omitted by mainstream databases; triangulation purpose.
Chinese government (MOFCOM)	<ul style="list-style-type: none"> • Pros: <ul style="list-style-type: none"> - Official stats, reliable; - Detailed to the specific country (FDI flows and stock); - Main publication: <i>Statistical Bulletin of China's Outward Foreign Direct Investment series</i> • Cons: <ul style="list-style-type: none"> - Macro level, quite general, not detailed to specific companies. <p>Data used to visualize the general trends of Chinese outward FDI since 2003; The analysis of investments in European Union (EU) as a whole can be a good reference.</p>
Juchao Database	<ul style="list-style-type: none"> • Pros: <ul style="list-style-type: none"> - An information disclosure website designated by the China Securities Regulatory Commission for all Chinese listed companies. - Comprehensive official data (announcements, filings, etc.) from Chinese listed companies. • Cons: <ul style="list-style-type: none"> - Non-listed companies not included. <p>Key information can be collected by referring to company's announcements, annual reports, M&A transaction reports, etc.</p>
China Stock Market & Accounting Research Database (CSMAR)	<ul style="list-style-type: none"> • Pros: <ul style="list-style-type: none"> - Source of funds data available to be collected yet very limited. • Cons: <ul style="list-style-type: none"> - Available source of funds data might be very limited.

	Source of funds info for complementary purpose.
The Mercator Institute for China Studies (MERICS)	<ul style="list-style-type: none"> • Pros: <ul style="list-style-type: none"> - Various analysis reports as references • Cons: <ul style="list-style-type: none"> - Specific data not available

The aim of these databases is to extract relevant data and create the very own core database (CNFDI-Europe) for further analysis. The data were sorted out by using three search strategies:

1) Time frame:

17 years from 1 January 2003 to 31 December 2019

Reasons:

- FDI Markets database only dates from 2003;
- Chinese M&A in Europe is very rare before 2003;
- Chinese POEs are only allowed to investment overseas since 2003 onwards.

2) Deal status:

Only include completed deals, i.e., excluded the rumoured, withdrawn, announced yet uncompleted transactions.

3) Geographic area:

A wide range of European countries, altogether 39 in total. They are:

Albania, Austria, Belgium, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Republic of Kosovo, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom

The preliminary results shown as follows:

Table 3.8 Raw data of Chinese investment projects in Europe

Database	Results (Raw)	Geographic area
----------	---------------	-----------------

FDI Markets	2235 projects	39 countries 3 of them, i.e., Liechtenstein, Albania, Kosovo, are null/zero data.
BvD Zephyr	806 transactions	39 countries
Thomson ONE	664 transactions	39 countries
Note: These are raw data, i.e., data include those investor company acquired several times on one target company (might or might not be at different times).		

Since these are raw data, a cleaning process is necessary to eliminating those inappropriate data and sort out those valid one. The table below shows the conditions that applied to remove those void transactions or projects for this study.

Table 3.9 Databases and data cleaning procedures

Database	Exclude those:
FDI Markets	Investments by financial institutions (e.g. asset management companies, banks)
	Non-mainland Chinese companies (e.g., foreign company branch/subsidiary in China or from Hong Kong, Macao, and Taiwan)
	Misinformation/unidentified project
	Others e.g., international cooperation rather than greenfield investment (cross-border cable facilities)

BvD Zephyr	Investments by individuals
	Investments by sovereign wealth funds (SWFs), i.e. China Investment Corporation, State Administration of Foreign Exchange
	Investments by financial institutions (e.g. asset management companies, banks)
	Unknown majority stake By celebrities/businessmen, largely out of personal purposes, such as buying football club, hotel operator, wineries.
	Unknown stake, includes those capital injections at post-M&A stage (e.g. after acquisition expansion)
	Misinformation e.g., transactions conducted by non-mainland Chinese firms, such as those from Hong Kong, Macao, Taiwan, Chinese subsidiaries of foreign companies, etc.
Thomson ONE	Investments by individuals
	Unknown stake
	Misinformation e.g. transactions conducted by non-mainland Chinese firms, such as those from Hong Kong, Macao, Taiwan, Chinese subsidiaries of foreign companies, etc.

All projects and transactions were filtered and verified to form CNFDI-Europe database (Table 3.10). It consists of two parts: 1) Greenfield database (CNFDI-Europe-GF), which mainly transformed from the FDI Markets database while assimilated information from the China Global Investment Tracker (CGIT) database; and 2) M&As database (CNFDI-Europe-M&A), which is the combination of BvD Zephyr and Thomson ONE, meanwhile refers to the information from the

CGIT and verified by looking into Juchao database. The two types of databases were analyzed separately by using quantitative descriptive analysis.

Table 3.10 Chinese investment projects in Europe (CNFDI-Europe): final data for analysis

Database	Date source	Results
CNFDI-Europe-GF	FDI Markets	2076 projects
	CGIT	
CNFDI-Europe-M&A	BvD Zephyr	412 transactions
	Thomson ONE	
	CGIT	
	Juchao database	

3.4.2 Semi-structured interview

Conducting interviews allows researchers to gain a rich variety of insights into the interviewees' personal histories, experiences, opinions, values, aspirations, attitudes and feelings (May, 2011: 131). Interviews are often regarded as the optimum source for gathering primary data, especially when research comprises multiple cases and moves from the daily phenomena of company operations to strategic phenomena such as acquisitions and strategic decision-making (Eisenhardt and Graebner, 2007: 28). In this study, the research questions and aims require that the interviewees in the case companies be individuals familiar with the company's financial status, or who have personally participated in corporate investment projects. The interviewees are therefore financial executives, CEOs, and/or senior accountants at company headquarters in China, European regional headquarters, or country subsidiaries. This method of data collection, which consists essentially of elite interviews, has many advantages. Firstly, the interviewees often possess valuable information, not only specific to the research questions but also relating to the companies' overall histories, policies, and plans, not to mention having a wider perspective on domestic and international economic conditions. The resulting interviews should therefore generate useful information or illuminating perspectives on the overall research topic under

study (Marshall and Rossman, 2016: 160). Secondly, one of the major advantages of elite interviews is that they allow researchers to access materials and participants at first-hand and to obtain accounts directly from witnesses to the processes or events under research. This overshadows other methods, such as documentation, which generally provide anodyne 'official' versions while ignoring (or avoiding) valuable underlying information and contextual material (Tansey, 2007: 767).

This method, however, is not a panacea; it also has its own risks and challenges. One of these is data bias which arises from 'impression management and retrospective sensemaking' by interviewees in relation to past events in which they were personally involved. However, this can be mitigated by inviting multiple, and more highly knowledgeable, informants in order to have a more diverse range of perspectives (Eisenhardt and Graebner, 2007: 28). In this study, to avert such pitfalls, I invited informants from multiple sources, including one or more from each of the case firms, from relevant regulatory institutions, and also from professional service companies. Such 'perspective triangulation' helps to ensure the validity of data for analysis. Apart from this, other issues—such as interviewee inaccessibility, the risk of interviewees dominating the process, as well as difficulties in arranging follow-up conversations (Marshall and Rossman, 2016: 160; Welch et al., 2002; Yin, 2012: 56)—may also present challenges during the research. To address these issues, I used recommendations (snowball sampling), personal introductions for assistance, and thorough basic preparation to minimise risks and avoid potential failures.

The first concern, in proceeding with the interviews in this study, was gaining access. Since the interviewees are mostly key management personnel in each of the case companies, a number of approaches were utilised during the process. First, and foremost, I tried to simply contact the interviewees directly via email or phone, based on desk research by consulting firms' official websites, corporate reports, and social networks (such as LinkedIn). Second, I leveraged my personal networks as far as possible, including relatives, friends, and their connections, in reaching out to potential interviewees. Third, I attended academic conferences and events that potential interviewees were also likely to attend and participate in and undertook internship as a research assistant in studies close to my research topic, in order to enhance my understanding in this area but also to try to establish contacts for interviews. Apart from the horizontal contact

process, I also tried vertical multi-level contacts, i.e., contacts were made in a top-down process, from China headquarters to European regional headquarters, and then to subsidiaries elsewhere in and outside China. This facilitated access even where other attempts within the same company had not been successful. However, due to the uncertainties of this process, not all the desired contacts from the first-tier targeted companies were successfully reached, and trade-offs had to be made during the process. For example, a backup plan (a second tier of target companies), was prepared to ensure the acquisition of sufficient data for analysis.

In addition to the issue of access, several other issues were involved when conducting the interviews. 1) The format of the interviews. I adopted the format of semi-structured interviews for the purpose of this study. The rationale of the semi-structured interview is that it allows interviewees to transcend a standardised format and to have more latitude to answer on their own terms for clarification and elaboration. This also permits interviewers more latitude in asking probing questions and provides greater opportunities for comparison over other forms such as unstructured or focused interview (May, 2011: 134-135). 2) The language for interviews. As Chinese investments encompass a variety of European countries, diversity of internationalities amongst the interviewees meant that both English and Chinese were used in the process. The choice in each case was largely dependent on the researcher and interviewees' preferences and language capabilities, as well as on the context of the interview. 3) Interview questions. The questions designed for data collection in this study mainly centre on answering the research questions with the specific aim of probing into the financing sources of each case company in previous investments to enable comparison. The general interview questions used for each of the case companies are attached in Appendix in the form of interview protocol. 4) Data recording. The interviews were recorded in their entirety for transcription and analysis at a later stage. High-quality digital recording devices were used during the interview process. Comprehensive written notes were taken, and follow-up interviews were requested to ensure correct understanding and interpretation of the ideas expressed by the interviewees. 5) Data analysis. All interviews were fully transcribed for further analysis and the data collected carefully recorded. Interviews carried out in a language other than English (i.e., Chinese), were first transcribed and then translated into English. The interview data (together with data collected from documentation) were then

analysed using an abductive process. 6) Ethical issues. Confidentiality and anonymity are the main ethical issues arising from this study.¹⁹ All interviewees were assured of confidentiality for the interviews, in terms of both the interview process and data storage, and their data was fully anonymised unless they specifically agreed to be identifiable either by name or by attributable information.

The interviews were conducted in two phases: a pilot interview and the core interviews. Since piloting allows for familiarity with the interview form as well as the feasibility of the interview questions, I began with a pilot telephone interview with the CEO of Titan Wind (Europe) in January 2020. It consisted of a 30-minute communication which helped to clarify the questions and evaluate the time required and how it should be allocated. After that, core interviews were arranged and carried out. However, as one of the main challenges for elite interviews is gaining access, I often had to try several ways to make contact with interview targets and it turned out to be a long and arduous process to identify and reach sufficient contacts to proceed with the fieldwork interview program. The Covid-19 pandemic, which coincided with the schedule for my fieldwork, presented the research with even more challenges, especially as various travel restrictions and security measures have been in place throughout the entire cycle of the project. In the end, a total of 20 interviews²⁰ were conducted, as shown below.

Table 3.11 Personal interviews (PIN) conducted between Jan 2020 to May 2022

No.	Code	Interviewee	Time	Interview info
1	PIN-TW-00	CEO, Taitan Wind (Europe) (Pilot)	24 Jan 2020	Telephone interview Varde, Denmark/Bristol, UK 30 minutes
2	PIN-LGH-00	Anonymous, C-level executive	30 Mar 2020	Telephone interview Beijing, China/Bristol, UK

¹⁹ While informed consent is one important part in social research especially in interviews, it is not applicable to this study; as these are elite interviews, the interviewees are in fact giving consent by participating in the interview (ESRC, 2010: 41-42). Formal written informed consent will therefore be deemed unnecessary in this research.

²⁰ Those with the same interviewee but follow-up interviews are counted as one interview.

		Legend Holdings	15 Dec 2020	60 minutes In person (follow-up) Beijing, China 45 minutes
3	PIN-SASAC-00	Anonymous, mid-level official The State-owned Assets Supervision and Administration Commission of the State Council, People's Republic of China	16 Nov 2020	In person Beijing, China 45 minutes
4	PIN-SG-00	Anonymous, department head State Grid International Development	19 Nov 2020	Telephone interview Beijing, China/Beijing, China 40 minutes
5	PIN-FS-01	Anonymous M&A professional and expert	28 Nov 2020	Telephone interview Beijing, China/Beijing, China 30 minutes
6	PIN-TC-00	Anonymous, financial department Tencent	2 Dec 2020	Telephone interview Shenzhen, China/Beijing, China 30 minutes

7	PIN-WH-00	Anonymous, C-level executive Wanhua-BorsodChem	21 Dec 2020	Email interview Hungary/Beijing, China
8	PIN-JS-01	Anonymous, former employee (financial department management staff) Joyson	28 Dec 2020	Email interview Ningbo, China/Beijing, China
9	PIN-HW-01	Anonymous, head of investment department Huawei	15 Jan 2022	Telephone interview Shenzhen, China/Beijing, China 25 minutes
10	PIN-HW-02	Anonymous, mid-level management based in Western Europe Huawei	18 Jan 2022	Telephone interview Western Europe/Beijing, China 20 minutes
11	PIN-ZL-00	Anonymous, senior staff Zoomlion	19 Jan 2022	Telephone interview Changsha, China/Beijing, China
12	PIN-HW-03	Anonymous, mid-level management based in Eastern Europe Huawei	20 Jan 2022	Email interview Eastern Europe/Beijing, China
13	PIN-HE-00	Anonymous, high-level management	22 Jan 2022	Telephone interview Qingdao, China/Beijing, China

		Haier		15 minutes
14	PIN-CSC-01	Anonymous, senior staff COSCO	8 Feb 2022	Telephone interview Qingdao, China/Beijing, China 30 minutes
15	PIN-FT-00	Anonymous, board secretary Foton of BAIC	8 Feb 2022	Telephone interview Beijing, China/Beijing, China 30 minutes
16	PIN-CSC-02	Anonymous, mid-level management staff in financial department COSCO	10 Feb 2022	Telephone interview Western Europe/Beijing, China 60 minutes
17	PIN-WC-00	Anonymous, senior staff Weichai	12 Mar 2022	Telephone interview Weifang, China/Beijing, China 40 minutes
18	PIN-JS-02	Anonymous, board secretary Joyson	19 Mar 2022	Telephone interview Ningbo, China/Beijing, China 60 minutes
19	PIN-FS-02	Anonymous M&A professional and expert	19 May 2022	Telephone interview Beijing, China/Beijing, China 30 minutes

20	PIN-FS-03	Anonymous M&A professional and expert	22 May 2022	Telephone interview Beijing, China/Beijing, China 60 minutes
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Notes:

- 1) All Interviewees contacted or selected are either the high-level management or staff working over at least 10 years in specific firm, for they are more familiar with certain company and warrant the quality of the data gathered;
- 2) Most of the interviews are phone-based because of the sustaining pandemic.

3.4.3 Documentation

Diverse documentary data were collected from the case study firms. Documentation is one of the main data sources used in carrying out case studies and the most important function of this method is to corroborate evidence collected from other sources (Yin, 2018: 115). The method has many advantages, for example: data can be accessed at any time that is convenient for the researcher, they can be reviewed repeatedly, and they can cover a greater time span across events and settings, all of which saves considerable time and expense compared with other methods such as interview or survey (Creswell and Creswell, 2018: 188; Yin, 2018: 114). The method has been of particular value and utility in this study, especially when COVID-19 restrictions made carrying out on-site fieldwork to collect primary data difficult or even impractical. In this study, a considerable range of materials were consulted (Table 3.12), including, but not limited to, minutes of meetings, announcements of events, academic journals and books that relate to the case firms, company administrative documents such as annual and financial reports, selected media sources such as relevant elite interviews, and news clippings. Both Chinese and English language materials were collected and reviewed for analysis. All documentary data were collected and processed based on four criteria: authenticity; credibility; representativeness, and meaning (Scott, 1990). As different sources might be inconsistent with each other, data and information were constantly cross-checked (e.g., data from multiple

second-hand sources, as well as data from primary sources and secondary sources) to ensure the reliability and accuracy of the analysis.

Table 3.12 A brief summary of documentation sources

Public sources	<ul style="list-style-type: none"> • Academic books and journals that relevant to each case firm • Relevant databases or reports from third parties, such as think tanks • Statistics from official sources, e.g.: <ul style="list-style-type: none"> - MOFCOM: http://fec.mofcom.gov.cn/ - SASAC: http://www.sasac.gov.cn/ - NBS: http://www.stats.gov.cn/ - PBC: http://www.pbc.gov.cn/ - SAFE: http://m.safe.gov.cn/ - EU Commission: https://ec.europa.eu/info/statistics_en - Eurostat: https://ec.europa.eu/eurostat - World Bank: https://data.worldbank.org/country/china - UNCTAD: https://unctad.org/en/Pages/Home.aspx • Authoritative media sources of relevant articles, reports, elite interviews, or news clippings, e.g.: Reuters, The Economist, Xinhua, etc. • Organizations' websites, communications, corporate archives such as corporate annual reports, filings, minutes, or reports by policy banks such as China Development Bank, China EXIM Bank. • Radio, audio recordings, video recordings, online conferences, and workshops recordings <p style="margin-left: 40px;">Access: these data can be accessed from the Internet and are generally available as publications</p>
Internal/private sources	<ul style="list-style-type: none"> • Internal distribution (not available in open market)

Access: obtained during fieldwork direct from the case companies or via network sources

3.5 Ethical issues

Correct treatment of ethical considerations in social sciences is indispensable for good and responsible research. The primary ethical concern is to maximise the benefits while minimising the risks of actual or potential harm arising from the research. Specifically, ethical procedures should be put in place to protect all stakeholders involved (e.g., researchers, participants, sponsors, and non-academic collaborators) throughout the entire research process, from proposal initiation to knowledge exchange and impact activities, and in relation to dissemination, archiving, future use, sharing and linking of data (ESRC, 2015: 2). The present research strictly follows the ESRC's and Bristol University's Ethics of Research Policy and Procedures (UoB, 2019), and the fieldwork program was fully reviewed and approved by the University's Research Ethics Committee. For this study, confidentiality of interviews and anonymity of interviewees are the main related ethical issues. All interviewees were assured of full confidentiality for the interviews, and the data gathered is fully anonymised unless participants agree to allow themselves to be identifiable either by name or by way of attributable information. The data collected are encrypted, with no personal identifiers or tags, and are stored only in the University's secure cloud to avoid any unintended incidents.

Chapter summary

This chapter is concerned principally with the methodology for this thesis. Firstly, I reviewed the philosophical foundation (primarily from the ontological and epistemological perspectives) and identified pragmatism as the appropriate underpinning philosophy for this study. Secondly, an abductive approach for theory development as well as a mixed-method research design was determined to be appropriate to address the research questions. Thirdly, the research strategy, based on case studies, for the collection and analysis of data was explained, as well as the adoption of a process-tracing technique and comparative case study approach to enable discovery and further exploration of the causal relationships, and similarities and differences, between and across cases. Ten firms (cases) were selected based on criteria of ownership, firm size, financing source, and industry in order to achieve a wide distribution and a representative set of suitable cases. The principal data collection methods and data sources were presented, including both primary and secondary data collected from commercial databases, fieldwork interviews, and documentation sources. This provides an exhaustive overview of the research design, which guides the empirical analysis set out in the following three chapters.

Chapter 4 China's outward FDI: an overview

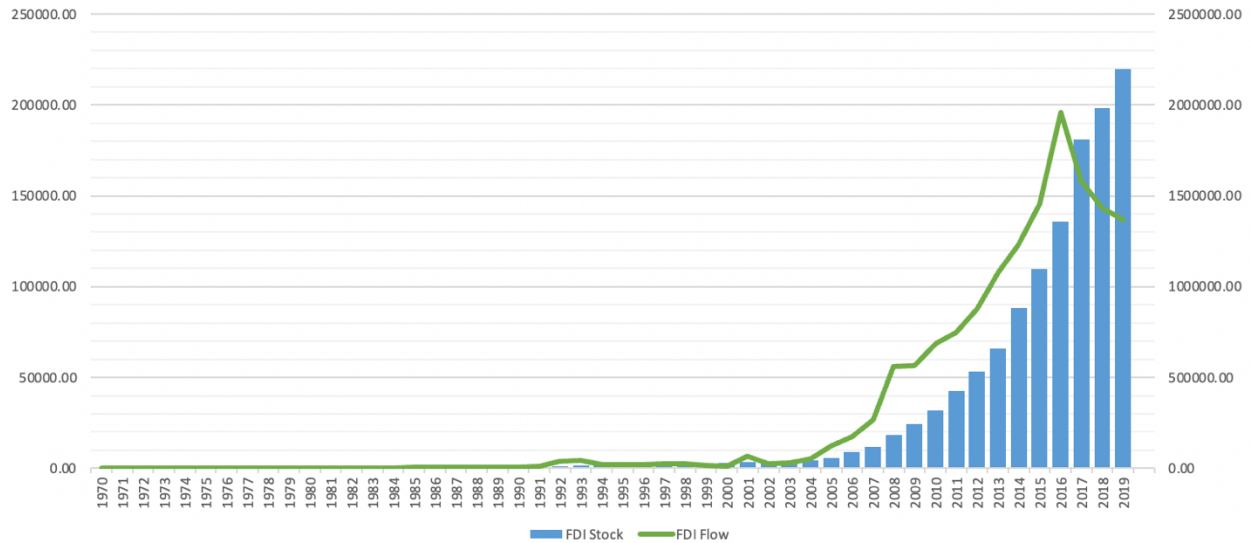
This chapter begins by sketching an outline of the development of outward investment in China. Based on this background it goes on to examine Chinese investment with a specific geographic focus on Europe. Accordingly, it consists of two parts. The first part gives an historic overview of China's outward FDI over the forty years since the Reform and Opening up. The second part offers an explanation of the rationale of this phenomenon from a political economy perspective by surveying the promotional and monitoring policies that have shaped the trends and flows of Chinese OFDI. In doing so, the chapter lays a sound foundation for positioning Chinese FDI in Europe and the further analysis of financing details contained in the following chapters.

4.1 China's outward FDI: a historical view

By the end of 2019, China's outward FDI flows and accumulated stock had reached nearly US\$ 137 billion and US\$2,2 trillion respectively, accounting for 10.4 and 6.4 percent of the world's total while ranking 2nd and 3rd globally (MOFCOM, 2020: 4; UNCTAD, 2020).²¹ Looking back over the four decades since its reform and opening-up, China's outward FDI has grown exponentially (Figure 4.1). Specifically, it has unfolded through four key stages: the initial trial period (1979-1991), adjustment and further exploration (1992-1999), "Go Global" and exponential growth (2000-2016), and rationalisation and optimization (2017-present).

Figure 4.1: Trends in China's outward FDI (1970-2019, million USD)

²¹ In 2020, China's outward FDI flow and stock were US\$153.70 billion and US\$2580.70 billion respectively, accounting for 20.2 percent and 6.6 percent of the world's total and ranking 1st and 3rd among all other economies (MOFCOM, 2021: 4). This study did not consider data from beyond 2020 because of the Covid-19 Pandemic.



Source: graph constructed by the author based on UNCTAD data.

4.1.1 The opening-up and initial trial: 1979-1991

Since China's reform and opening-up in 1978, its overall strategy for outward FDI has transitioned from extremely restricted to initial trial and exploration. Between 1979 and 1991, China's outward FDI flow grew from almost zero to US\$913 million in 1991 (Figure 4.2), with an average annual growth rate of 64.41 percent over those 13 years and a global share of 0.42 percent,²² which set a preliminary base for later developments. However, due to macroeconomic and foreign exchange constraints, the scale of Chinese outward investment was inconsequential during this period.

Figure 4.2a: Trends in China's outward FDI (1979-1991, million USD)

²² Figures calculated based on the data from UNCTAD FDI database on flows and stock, via: <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740>, accessed on 30 Mar 2022.

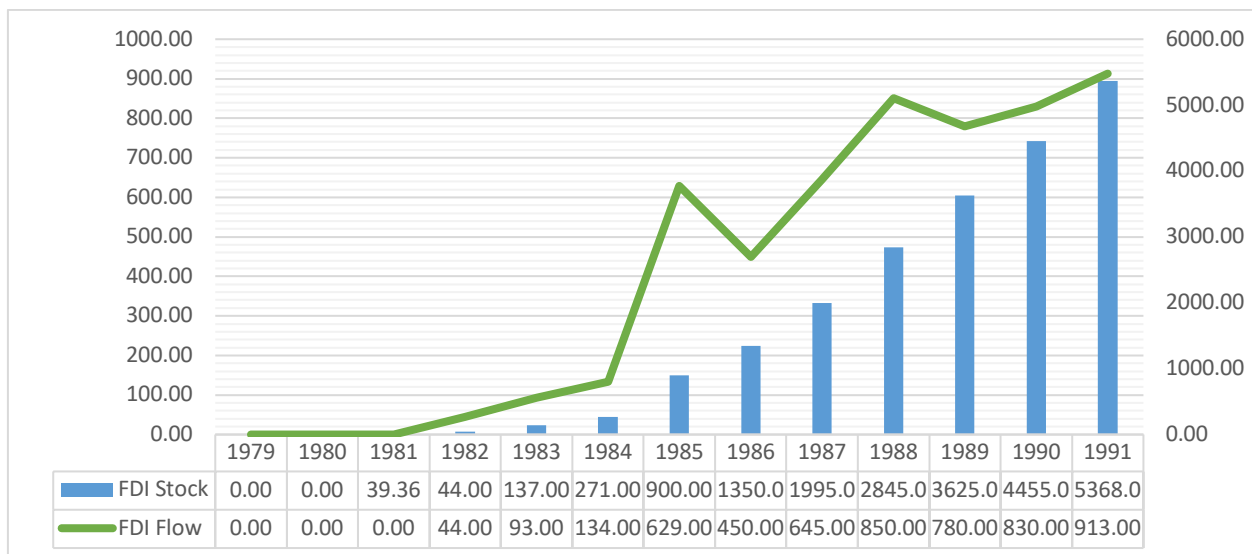
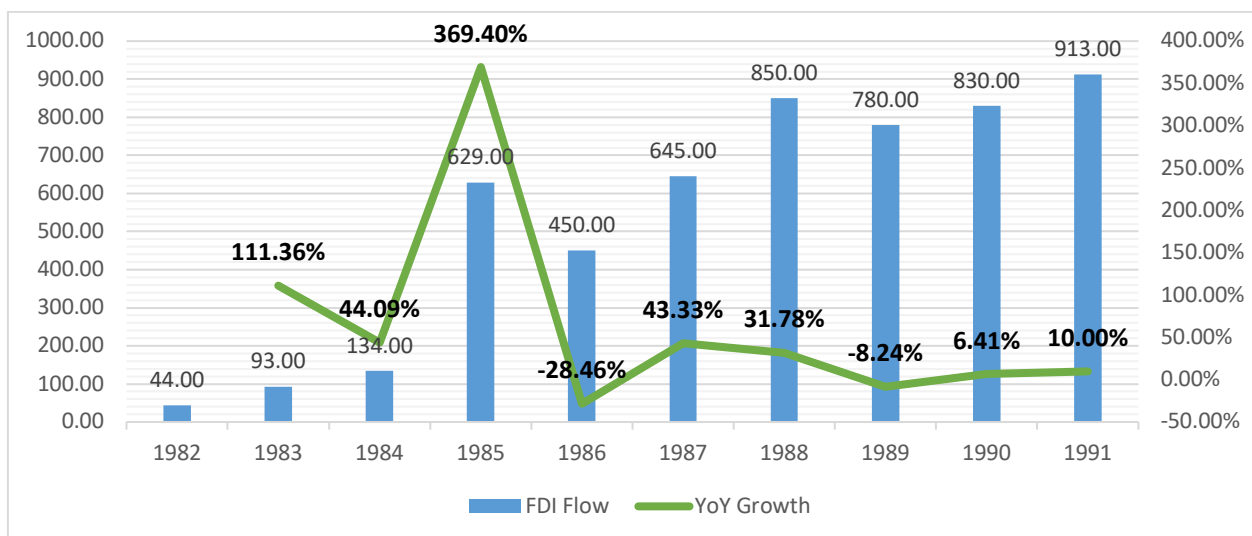


Figure 4.2b: China's outward FDI flow and year-over-year growth (1982-1991, million USD)



Source: graph constructed by the author based on UNCTAD data.

In the early stages of opening-up, the focus was on expanding exports and attracting foreign investment; a small number of foreign trade companies started to set up “window or liaison companies” abroad, whose main purpose was to serve their trade businesses overseas (Wang, 2008: 38). In August 1979, the State Council of China promulgated the *Fifteen Measures on Economic Reform* which explicitly encouraged Chinese firms and economic entities to go abroad “to set up enterprises”. This provided policy guarantee for overseas investment for the very first time. In November of the same year, Beijing Friendship Commercial Service Company invested

US\$0.22 million in a joint venture with a Japanese company, Maruichi Corporation, to establish the Kyoho Corporation in Tokyo, which is deemed China's first attempt at FDI after reform and opening up (Yang and Ke, 2019: 3). Since then, enterprises with overseas business experience and channels, such as China National Shipbuilding Industry Corporation (CSIC), Bank of China (BoC), China National Chemical Import and Export Corporation (SinoChem), and China International Trust and Investment Corporation (CITIC), have set up subsidiaries or representative offices overseas (Gao, Xin, and Sun, 2019: 3).

From 1979 to 1984, China's outward investment was still embryonic, with singular investing entities, narrow investing fields, and on quite a small scale (Table 4.1). Overseas investment projects were carried out by only a few SOEs, as well as economic and technical cooperation enterprises affiliated with the Ministry of Foreign Trade and Economic Cooperation (MOFTEC, predecessor of MOFCOM) and the State Planning Commission (SPC). These investments were mainly directed to Hong Kong and Macau, supplemented by some developing countries, and engaged in construction contracting, consulting services, catering and some other industries (CIPPT, 2018: 2). During this period, China had not yet formed a unified management system for foreign investment, all transactions were approved on a case-by-case basis. In 1984, MOFTEC issued two documents: *Circulars on the Approval Authority and Principles for Holding Non-trade Joint Ventures in Foreign Countries, Hong Kong and Macao* and the *Trial Provisions on the Approval Procedures and Management Measures for Starting Non-trade Enterprises Abroad*. These marked the official launch of a normative approval system for outward FDI.

Table 4.1 China's outward investment projects and value, 1979-1991 (million USD)

Year	Number of projects	Investment value	Average investment value	Total investment value
1979	4	0.53	0.13	1.2
1980	13	31.87	2.45	68
1981	13	2.6	0.20	6.8
1982	13	2	0.15	6

1983	33	13	0.39	10
1984	37	100	2.70	118
1985	76	47	0.62	88
1986	88	33	0.38	109
1987	108	410	3.80	1373
1988	141	75	0.53	118
1989	119	236	1.98	325
1990	156	77	0.49	167
1991	207	367	1.77	759

Source: data collected based on the Almanac of China's Foreign Economic Relations and Trade (1980-1992)

In 1985, the Chinese government issued *Approval Procedures and Management Measures for Starting Non-trade Enterprises Abroad*, which represented a partial decentralization of the outward FDI approval and supervision system. Specifically, it stated that any economic entity with sufficient funds, a certain level of business expertise and technology and a business partner could apply to set up a joint venture overseas; investment projects of this type of less than US\$1 million could be directly approved by the people's governments of provinces, municipalities, and autonomous regions together with the ministries and commissions of the State Council. As a response, Chinese outward FDI flow saw a sharp rise that year, reaching a historically high level at US\$629 million, with a 369.40 percent increase from 1984. In the following year (1986), however, the investment flow showed a reduction of 28.43 percent, due mainly to the overheating of OFDI in 1985 and rational adjustment by companies in response to policy deregulation. Since then, Chinese OFDI flow has shown a steady increase, rising from US\$645 million in 1987 to US\$ 913 million in 1991, with an average annual growth rate of 16.66 percent. In general, Chinese outward investment displayed three main features between 1979 and 1991. First and foremost was that the lack of a clear incentive policy led to a slow start and development

for outward FDI. Secondly, the investing entities were all SOEs, which was due to the belated development of private enterprises as well as the scale advantages of large SOEs. Thirdly, the investment destination has been highly concentrated in Hong Kong. This is because investments in Hong Kong were presented in the form of “window companies”, set up by mainland enterprises, that operated as a focal point of connection with the global market with the aim of promoting exports for greater foreign exchange. In a nutshell, although Chinese outward FDI experienced a slow start on a negligible scale during this period, it marked a period of initial exploration after China’s long isolation and the stagnation of its economy.

4.1.2 Adjustment and further exploration: 1992-1999

Between 1992 and 1999, China’s outbound investment generally displayed a downward trend following two consecutive years of phenomenal growth (Figure 4.3a). The investment flow rose to a high point and peaked at US\$4.4 billion in 1993 before falling to a low point at US\$2 billion the following year, with extremely slow growth since then (Figure 4.3b). The average annual growth rate over these eight years was 36.33 percent, less than half of the earlier period; and although the average global share remained at 0.84, it dropped to a record low at 0.16 percent during 1999 (Figure 4.3c).

The severe fluctuation in the outbound investment flow is mainly attributable to the constantly changing Chinese domestic and international environment. In 1992, China’s economic reform and the implementation of opening-up policy was driven further by Deng Xiaoping’s “Southern Tour Speech”.²³ This directly contributed to the sharp rise in investment flow in 1992 and 1993, when the average investment reached US\$42 billion and accounted for 1.90 percent of the world’s total. Yet from 1994 to 1996, as the greatest investment flow went to the real estate and capital market (CIPPIT, 2018: 4), and the issue of loss from haphazard investment and capital flight emerged (Gao, Xin, and Sun, 2019: 3), the Chinese government then tightened outbound investment through strict project approval measures and strengthened regulation by reviewing the already invested projects (Yang and Ke, 2019: 7). As a result, the investment flow experienced

²³ This speech by the former president of China is widely seen as a landmark for the development of China’s reform and opening-up (or even for the modern history of China). Some of his notable remarks include: “*it doesn’t matter if a cat is black or white so long as it catches mice*”, “*development is of overriding importance*”.

a three-year period of sluggishness, decreasing from a peak of 44 billion in 1993 to 21.14 billion in 1996 and a global share of 1.85 percent to 0.54 percent, a year-over-year contraction of 9.71 percent. In 1999, investment flow experienced a second dip, due to the outbreak and impact of the Asian financial crisis, contracting to US\$17.74 billion and accounting for a mere 0.16 of the global total.

Figure 4.3a Trends in China’s outward FDI (1992-1999, million USD)

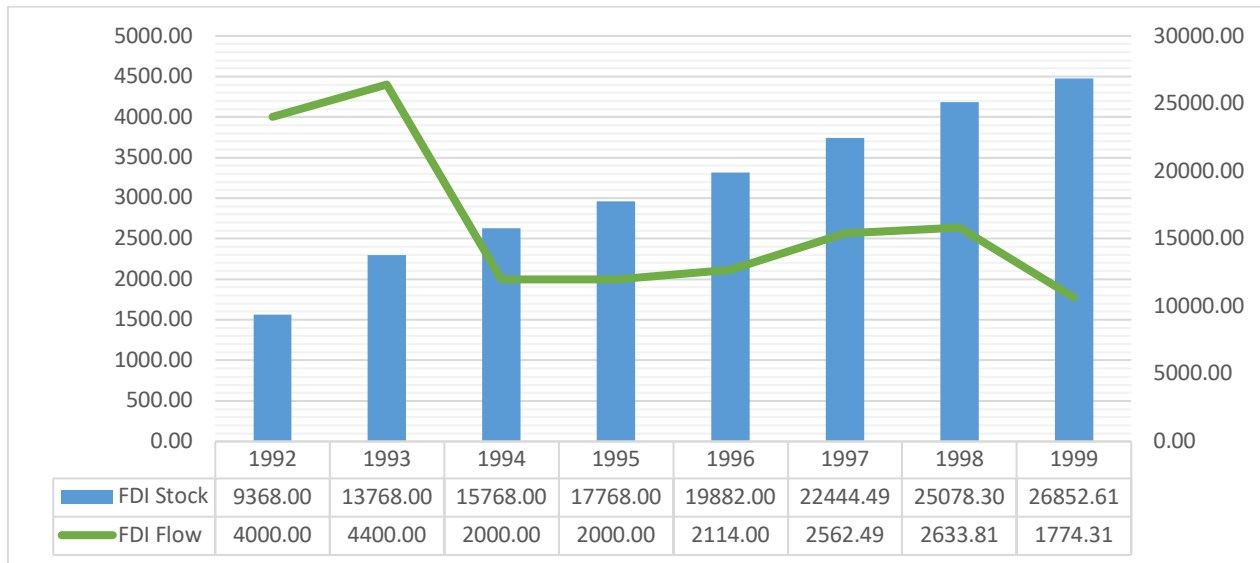


Figure 4.3b China’s outward FDI flow and year-over-year growth (1992-1999, million USD)

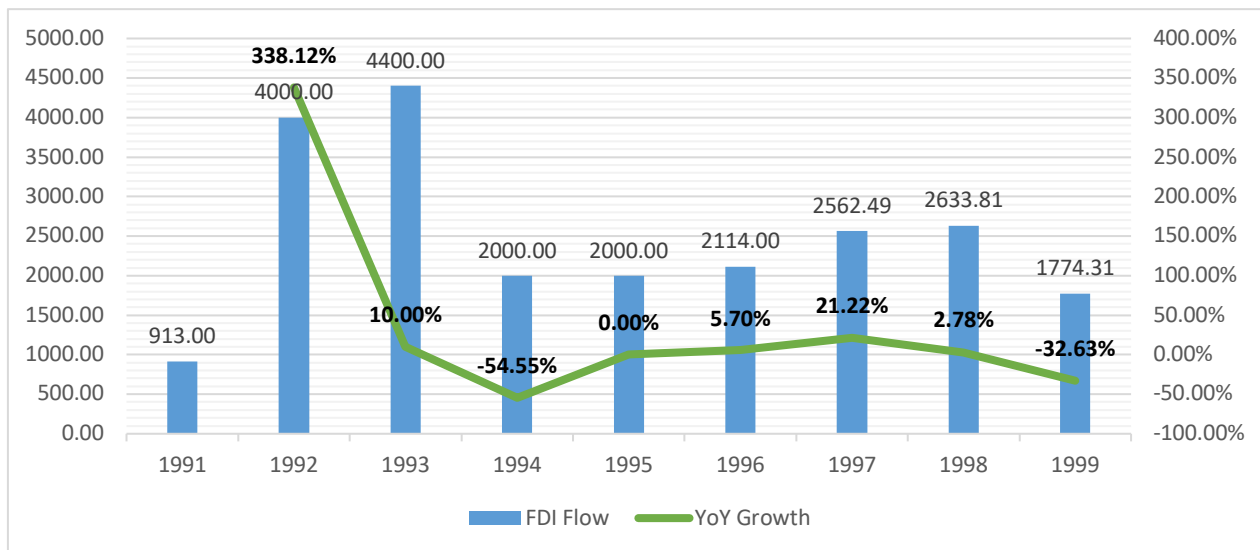
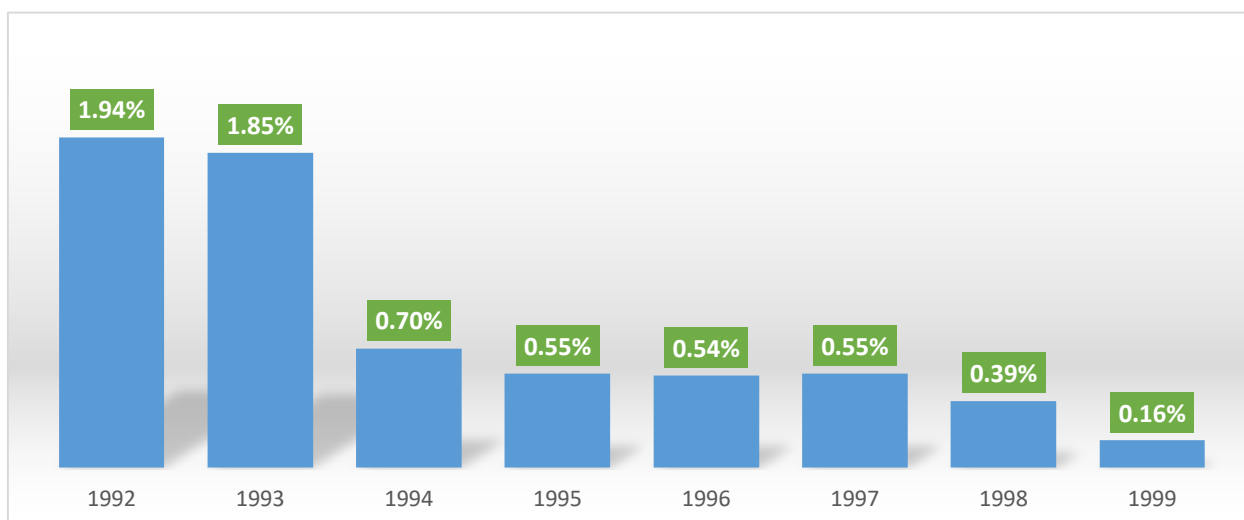


Figure 4.3c: China’s global share of outward FDI (1992-1999)



Source: graph constructed by the author based on UNCTAD data.

4.1.3 “Go Global” and exponential growth: 2000 – 2016

The fast-growing Chinese economy and accumulating foreign exchange reserves have laid good foundations for the steady and continuous development of Chinese outward FDI. Since the beginning of the new century, Chinese investment flow has experienced rapid growth (Figure 4.4a), with an average annual growth of 65.47 percent over 17 years (Figure 4.4b), peaking at US\$123.12 billion in 2016, and accounting for 12.14 percent of the global total (Figure 4.4c). On the one hand, the attempt to establish a modern enterprise system across China²⁴ has prompted Chinese enterprises to incorporate overseas markets into their corporate strategy, and internationalization especially by investing overseas has become an effective way to gain competitiveness while also strengthening and enlarging firms. On the other hand, and perhaps more notably, this can be attributed to a series of promotion policies, known as the “Go Global” strategy, promulgated by the Chinese government, which have made profound and far-reaching contributions to the rapid growth of China’s outward FDI during this period.

²⁴ In 1993, the Third Plenary Session of the 14th Central Committee passed *CPC Central Committee's Decisions on a number of Problems Regarding the Establishment of a Socialist Market*, which decided to establish a modern enterprise system with clear property rights, clear powers and responsibilities, the separation of government from enterprises and scientific management measures that meet the requirements of a market economy.

Figure 4.4a: Trends in China's outward FDI (2000-2016, million USD)

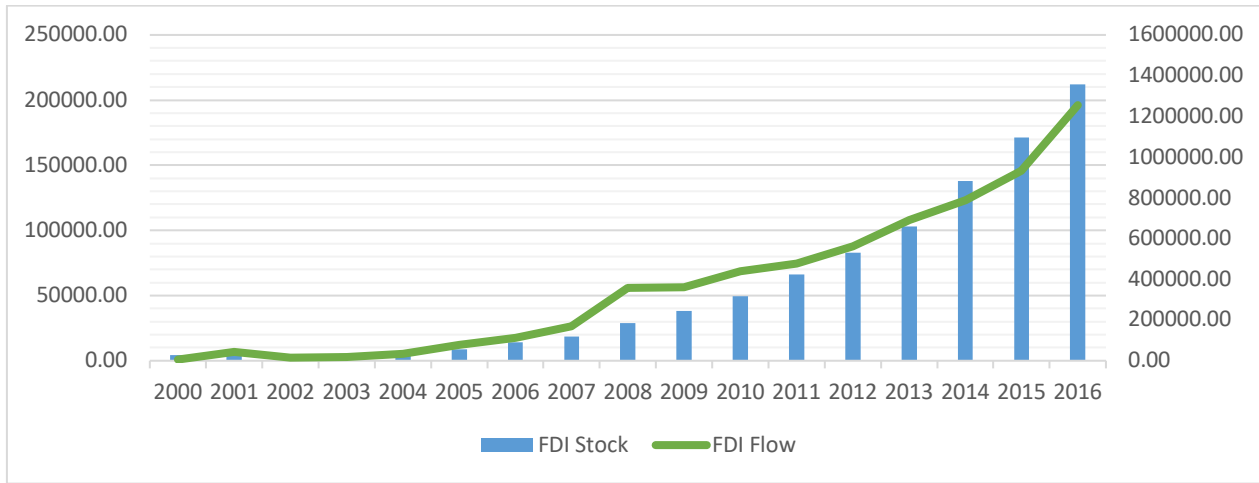


Figure 4.4b: China's outward FDI flow and year-over-year growth (2000-2016, million USD)

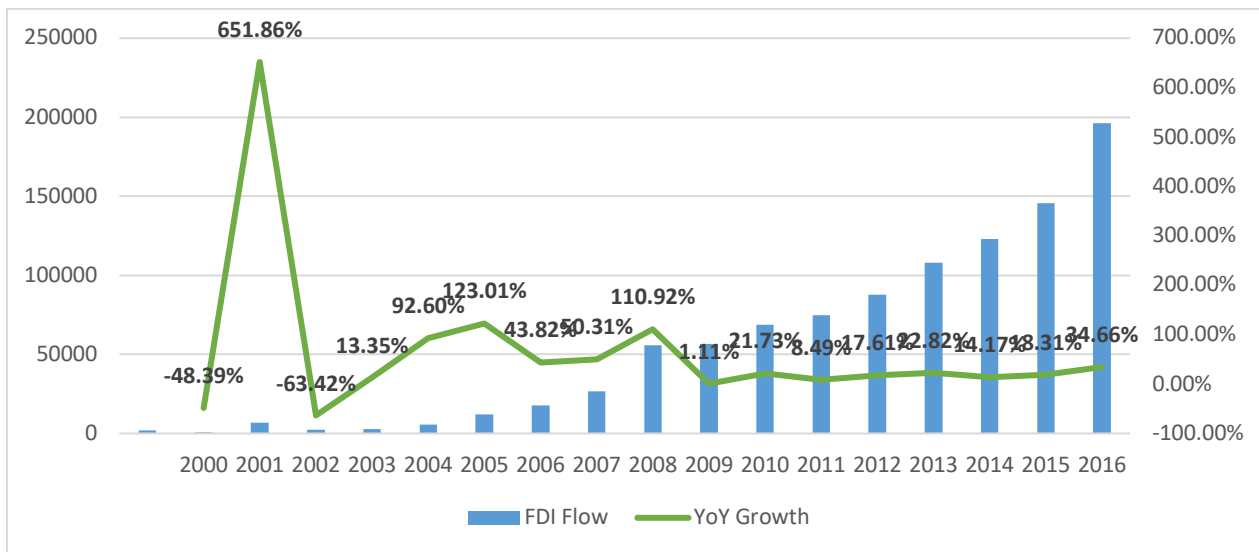
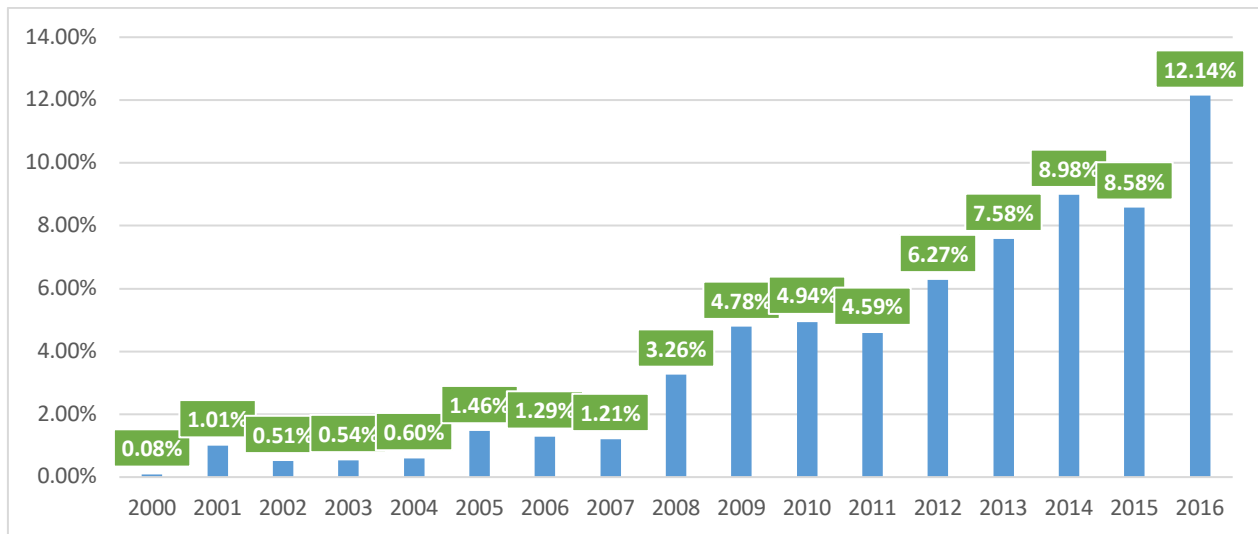


Figure 4.4c: China's global share of outward FDI (2000-2016)



Source: graph constructed by the author based on UNCTAD data.

In 2000, the Chinese government formally initiated the “Go Global” policy. This was proposed in the *Recommendations of the Central Committee of the Communist Party of China on Formulating the Tenth Five-Year Plan for National Economic and Social Development*, which was passed at The Fifth Plenary Session of the 15th Central Committee of the Party. For the first time, the “Go Global” strategy was proposed and listed as one of four new national strategies to guide socio-economic development.²⁵ This provided a strong, institutional endorsement for the development of outward FDI. In the years since, a series of regulations have been announced and extensive regulatory repositories developed. In general, these lie in four major areas - including streamlining the approval procedures and decentralising the approval authority (for example, *Notice of Pilot Work Relating to the Examination and Approval of Overseas Investments* by MOFCOM in 2003); relaxing foreign exchange controls and ensuring freedom of foreign exchange for investing enterprises (for example, *Notice on Simplifying Foreign Exchange Administration Relating to OFDI* by SAFE in 2003); providing support and encourage outbound direct investment activities (for example, *Measures of Capital Support for Small and Medium Enterprises to Develop International Markets* by MOFTEC and MOF (Ministry of Finance) in 2000); as well as monitoring and evaluating the effectiveness of outbound investment and strengthening the macro management of such investment (for example, the *Measures for Comprehensive Assessment of*

²⁵ The other three are: western development strategy, urbanization strategy, and talent strategy.

Outward FDI Performance by MOFTEC in 2002). These have created a more liberal environment and have largely accelerated the growth of outbound investment.

Such policy incentives have become more efficacious especially with China's accession into the World Trade Organisation (WTO) in 2001. Consequently, investment flow in 2001 showed a marked rise, reaching US\$68.15 billion, a 651.86 percent increase compared with the year before. Since then, China's outward FDI has entered a golden age with investment flow experiencing consecutive years of rapid growth. In 2015, outbound investment flow exceeded inbound flow for the first time; China has become a net capital exporter (MOFCOM, 2016 :7). Meanwhile, investment entities have become more versatile, with the proportion of SOE investors significantly reduced while non-SOEs increased their share of investment. In 2015, non-SOEs accounted for 49.6 percent (50.4 percent for SOEs), almost half of the total (MOFCOM, 2018: 27).²⁶ Booming outbound investment can be attributed to several factors, among which, apart from external factors such as the global financial crisis that has provided Chinese capital with opportunities to enter global markets, is the "Belt and Road Initiative" (BRI), which has facilitated growth; meanwhile, the accumulated investment experiences of Chinese companies and their continual willingness to expand overseas have also effectively promoted the development of overseas investment. By the end of 2016, FDI flows reached US\$196.15 billion, second only to the United States (MOFCOM, 2017: 6).

4.1.4 Rationalization and optimization: 2017 onwards

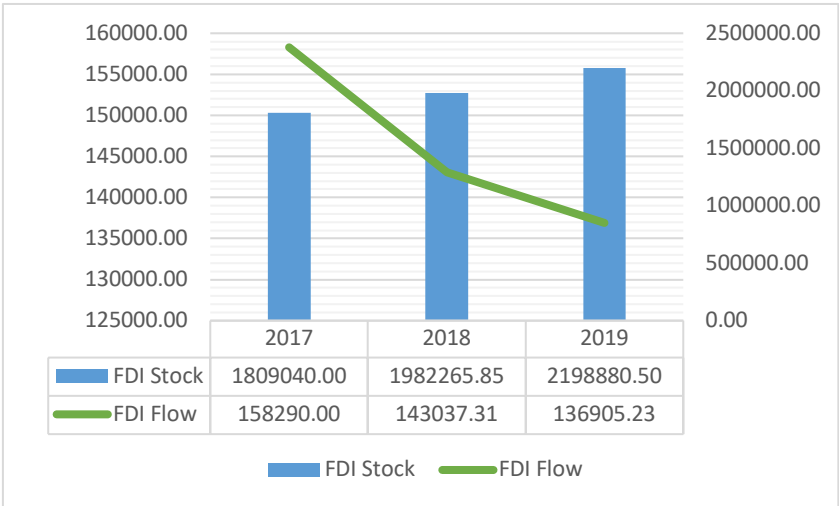
Starting from 2017, Chinese outbound investment has returned to normal from the overheats and irrationality of previous years²⁷. Investment flow has experienced a gradual fall, with an average annual contraction of 11.07 percent (Figure 4.5). In 2017, investment flow was US\$158.29 billion, a year-over-year reduction of 19.3 percent. This is the first time since 2001 that Chinese outbound investment has experienced a reduction. While this can be attributed largely to the additional restrictions (Table 4.2) imposed by the Chinese government in a formal

²⁶ This figure has reached to 50.9 percent in 2017, for the first time, non-SOEs exceed SOEs and become the major force to conduct outward FDI. What worth noting is the fact that Chinese private enterprises are only allowed to conduct outward FDI since 2003.

²⁷ i.e., a natural and organic growth before the financial crisis.

and informal crackdown on irrational capital outflows (usually those with poor assets, low returns and high levels of debt) that were depleting China’s foreign exchange reserves, it has also been affected by greater political scrutiny by regulators from Europe and North America. For instance, the average size of announced transactions is declining, with US\$282 million for North America in 2017 compared to US\$626 million in 2016, and US\$162 million for Europe in 2017 compared to US\$346 million in 2016, excluding the Syngenta case (Baker Mckenzie, 2018: 23). However, Chinese investment along the “Belt and Road” countries has continued to grow, and flow reached US\$20.1 billion in 2017, a 31.5 percent increase compared with that of 2016 (MOFCOM et al., 2018: 15).

Figure 4.5: Trends in China’s outward FDI (2017-2019, million USD)



Source: graph constructed by the author based on UNCTAD data.

Table 4.2 Selected Chinese investment policies in 2017

Time	Enunciator	Regulations/Guidelines
7 Jan 2017	The State-owned Assets Supervision and Administration Commission (SASAC)	<i>Measures for the Supervision and Administration of Overseas Investments by Central Enterprises</i>

25 Jan 2017	China Banking and Insurance Regulatory Commission (CBIRC)	<i>Guiding Opinions on Regulating Banking Enterprises to Go Global and Strengthening Risk Prevention and Control</i>
12 Jun 2017	National Development and Reform Commission (NDRC)	<i>Notice of the National Development and Reform Commission, the Ministry of Commerce, and the People's Bank of China, et al on Issuing the Code of Conduct for the Operation of Overseas Investments by Private Enterprises</i>
18 Aug 2017	National Development and Reform Commission (NDRC)	<i>Notice of the General Office of the State Council on Forwarding the Guiding Opinions of the National Development and Reform Commission, the Ministry of Commerce, the People's Bank of China and the Ministry of Foreign Affairs on Further Directing and Regulating the Direction of Overseas Investments</i>
26 Dec 2017	National Development and Reform Commission (NDRC)	<i>Measures for the Administration of Overseas Investment of Enterprises</i>

Source: collected by the author from public sources

In retrospect, China has grown from a net capital importer to a major global investor. During the past four decades, since the reform and opening-up in 1978, outward investment flows have developed from almost nothing to a certain level. The government policies of OFDI have been gradually liberalised and demonstrated variations in response to the constantly changing domestic and international contexts, which contributes to a versatile pattern of investment flows along the main development stages (Table 4.3).

Table 4.3 An overview of Chinese outward investment (1979-2019)

Development phase	Government policy orientation	Investment flow (million USD)	Average annual growth rate	Average global share
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Initial trial and exploration 1979-1991	Relaxed restrictions on outward investment to allow more companies setting up offices overseas.	0.00 - 9.13	64.41%	0.42%
Adjustment and further exploration 1992-1999	Tightening and consolidating outward investment through strict project approval and reform of foreign exchange regulation system.	40.00 – 17.74	36.33%	0.84%
“Go Global” and exponential growth 2000-2016	Expand the “Go Out” strategy to national level and introduce a series of investment facilitation policies.	9.16 – 196.15	65.47%	4.02%
Rationalisation and optimization 2017 - 2019	Place additional restrictions on outward investment to ease the balance of payments, and to address perceived risks to the financial system induced by excessive growth in outward investment.	158.29 – 136.91	11.07%	12.50%

Source: graph constructed by the author based on MOFCOM data

4.2 China’s outward FDI: what was driving it?

While the literature and perspectives on Chinese outward FDI vary, one common feature, arguably, is that they all emphasise the role of the Chinese government as a key factor in the process (e.g., Hong and Sun, 2006; Deng, 2007; Voss, Buckley, and Cross, 2010; Luo, Xue, and Han, 2010). Indeed, government has been constantly mentioned as a main non-economic factor that has influenced production in international business, for “international firms, those as exporters, importers, licensors, foreign direct investors, overwhelmingly operate under a great variety of evolving political regimes that have an impact on these firms’ entry, operation, and exit” (Boddewyn and Brewer, 1994: 119). In particular, government policies are deemed to have had a causal effect on firms and their FDI, and such causal connections are mainly intervened by

market imperfections created by various policies; firms, therefore, choose FDI as a result of rational economic strategic alternatives, and different patterns of FDI reflect the efficacy of government policies across time and scope (Brewer, 1993). In the context of China, the role of the government and the impact of its policies on FDI are mainly demonstrated in two dimensions: that is, strategic direction and rational regulation, or more specifically through its various promotion policies as well as monitoring mechanisms.

4.2.1 National strategy and promotional policies

Before 2000, China's outbound investment policies were focused on utilising international resources, technology and markets to supplement domestic shortages, which have, to some extent, hindered the scale and volume of its outbound direct investment. Since the beginning of the new century, however, China has adopted a proactive stance to encourage Chinese firms to invest abroad and explore the global market, mainly demonstrated by a series of promotional policies guided by the “Go Global” strategy, the “Belt and Road Initiative”, and “Made in China 2025”.

4.2.1.1 Go Global policy

Since the reform and opening up of 1978, China’s overall strategy of outward FDI has transitioned from one that was strictly restricted to a relaxed and encouraging mode. Although the first official policy on FDI, announced in 1979²⁸ marked a breakthrough and provided institutional direction to guide firms investing overseas, a shortage of domestic resources and foreign exchanges meant that China's foreign investment policies during that period were mainly oriented towards attracting foreign investment rather than promoting investment overseas. This was reflected in the *Opinion on Strengthening the Regulation of Overseas Investment Projects*²⁹ as well as *Regulation on the Compilation and Approval of Investment Proposals and Feasibility Reports for*

²⁸ i.e., the *Fifteen Measures on Economic Reform*, promulgated in 1979 by the State Council of China.

²⁹ It suggests that China did not yet have the conditions for large-scale overseas investment. This Opinion became the guiding principle of China's outbound investment at that time, and restriction of outbound investment became the main tone of China's outbound direct investment.

*Overseas Investment Projects*³⁰, both submitted and issued by SPC in 1991, which set the tone for restricted or limited permission for foreign investment (Li, 2016: 89).

With the gradual increase in China's overall economic strength and the deepening of reform and opening up, the policy of restricting outbound investment began to change. In May 1997, MOFTEC issued the *Provisional Regulations on the Establishment of Foreign Trade Companies and Trade Representative Offices Overseas*, which stipulated that Chinese enterprises may establish trade companies in overseas regions other than Hong Kong, Macao, and Taiwan. In September the same year, at the fifteenth Party Congress, foreign investment was further emphasised and encouraged, especially for those firms who could make full use of their comparative advantages. In 1999, Go Global was first mentioned in the *Opinions on Encouraging Enterprises to Carry Out Processing and Assembling Products with Imported Materials*, and it was officially raised to the national level as a grand strategy at the Third Session of the Ninth National People's Congress in 2000 (Table 4.4). The introduction and implementation of the "Go Global" strategy involved China in global markets, and enabled Chinese enterprises to achieve leapfrog development during internationalisation.

Table 4.4 The evolution of China's "Go Global" strategy

Phase	Year	Document
Formation	Sept 1997	The 15th National Congress of the Communist Party of China (CPC) <i>"Hold high the great banner of Deng Xiaoping's Theory, and comprehensively push the cause of building socialism with Chinese characteristics to the 21st century"</i> <i>"To actively explore the international market"</i> , for the first time clearly stated that <i>"to encourage foreign investment that can give full play to China's comparative advantages"</i> , <i>"to make full use of two (domestic and international) markets and two resources"</i> .

³⁰ The document said that Chinese companies or other economic organizations were allowed to invest or purchase shares in Hong Kong, Macao, the Soviet Union, and Eastern European countries for non-trade projects, yet they were not allowed to make overseas investments in other countries and regions.

		(By Jiang Zemin)
	Feb 1998	<p>The Second Plenary Session of the 15th Central Committee of the CPC</p> <p><i>"While expanding export businesses, we must identify and support a group of advantageous state-owned enterprises to go abroad, mainly in Africa, Central Asia, the Middle East, Central Europe, South America, to invest and set up factories."</i></p> <p>(By Jiang Zemin)</p>
	Feb 1999	<p><i>"Opinions on Encouraging Enterprises to Carry Out Processing and Assembling Products with Imported Materials"</i></p> <p>The document states clear policies and measures in supporting Chinese enterprises to "go global" through overseas processing trade from five aspects, i.e., guiding principles, work priorities, incentive policies, approval procedures, and implementation measures.</p>
Institutionalization	Mar 2000	<p>The Third Session of the Ninth National People's Congress</p> <p>The "Going Global" strategy was formally proposed by Jiang Zemin, who pointed out that <i>"we must actively participate in international economic competition and strive to seize the initiative. It is necessary to implement the "going out" strategy, closely combining "bringing in" and "going out" and making better use of two (domestic and international) markets and resources."</i></p>
	Oct 2000	<p>The Fifth Plenary Session of the 15th Central Committee of the Party</p> <p>The plenary meeting reviewed and passed the "Recommendations of the Central Committee of the Communist Party of China on Formulating the Tenth Five-Year Plan for National Economic and Social Development." The "Proposal" put forward the "going out" strategy for the first time and regarded it as one of the four new</p>

		national strategies (i.e., western development strategy, urbanization strategy, talent strategy and "going out" strategy).
	Mar 2001	<p>The Fourth Session of the Ninth National People's Congress</p> <p>"Report on the Outline of the Tenth Five-Year Plan for National Economic and Social Development"</p> <p><i>"Adapt to globalization and further deepen the level of opening up", "further develop export trade", "implement the 'going out' strategy", "encourage companies with comparative advantages to invest overseas, develop processing trade, cooperate in resource development, develop international project contracting, expand labour export", "establish support mechanisms to create favourable conditions for companies to invest overseas."</i></p> <p>(By Premier Zhu Rongji)</p>
Implementation	Oct 2005	<p>The Fifth Plenary Session of the 16th Central Committee of the CPC</p> <p>"Proposal of the Central Committee of the CPC on Formulating the Eleventh Five-Year Plan for National Economic and Social Development"</p> <p><i>"Support qualified enterprises to 'go global', invest overseas in accordance with internationally recognized rules, encourage overseas project contracting and labor export, and expand mutually beneficial cooperation and common development."</i></p>
	Jan 2006	<p>National Business Working Conference</p> <p><i>"Supporting enterprises 'going out' to carry out foreign investment and transnational operations."</i></p>
	Dec 2006	<p>Central Economic Work Conference</p> <p>The strategy of "going out" was reiterated and reemphasized.</p>

	2007	The 17th National Congress of the CPC Proposed a better combination of “going out” and “coming in”, further emphasis the strategic importance of “Going global” policy.
	2012	The 18th National Congress of the CPC To establish an innovation-driven development strategy to promote independent innovation, while speed up the pace of going global, and cultivate a number of world-class multinationals.
	2013	The Third Plenary Session of the 18th Central Committee of the CPC Proposed to promote a better combination of “going out” and “coming in” strategy.
	2016	The 13th Five-Year Plan Emphasises the importance of both “going out” and “coming in” to achieve a higher level of open economy.

Source: collated by author from public sources

4.2.1.2 The Belt and Road Initiative (BRI)

BRI (or “One Belt One Road”, “*Yi Dai Yi Lu Chang Yi*”) is a long-term programme proposed in 2013 by the Chinese government that seeks to improve connectivity and cooperation on a transcontinental scale encompassing the vast area of Asia, the Middle East, Europe and Africa mainly through significant infrastructure investments and projects (MOFCOM et al., 2015; World Bank, 2019: 3).³¹ Specifically, it prioritises seven areas of cooperation (OLG, 2017: Chapter 3), which are: 1) promoting the connectivity of infrastructure and facilities via docking projects, enhanced transport, energy facilities and the information network; 2) enhancing economic and trade cooperation via building that BRI free trade zone network and further cementing economic ties and facilitating trade; 3) expanding production capacity and equipment manufacturing,

³¹ The BRI has received both optimism and anxiety: while some sees opportunities and potential benefits, others argue for concerns and risks. For the debates, see e.g., Fallon (2015); Callahan (2016a; 2016b); Andornino (2017); Zhang (2018); Maliszewska and Mensbrugge (2019), Li, Liu, and Qian (2019); Li, 2019; Jones (2020).

coupled with mutual investment cooperation through a series of cooperation platforms and investment promoting policies; 4) promoting financial cooperation, by facilitating existing financial cooperation mechanisms, building new types of cooperation platforms and financing mechanisms (e.g., Silk Road Fund, SRF; Asian Infrastructure Investment Bank, AIIB), deepening cooperation between financial institutions and financial markets, expanding the scale of currency swaps and cross-border settlements and strengthening cooperation in financial supervision; 5) strengthening cooperation on ecological and environmental protection such as on water conservancy, forests and wildlife protection, and climate change; 6) promoting orderly maritime cooperation such as on connectivity, the maritime economy, and maritime law enforcement safety; and 7) strengthening cooperation and exchanges in culture and society, including education, healthcare, tourism, science and technology, poverty reduction and people-to-people exchanges.

The BRI is particularly relevant in facilitating China's outward investment, which can be demonstrated in five main ways (CCPIT, 2018: 31-32). Firstly, as Chinese enterprises have the advantages of talent, technology, experience and equipment in infrastructure design and construction, and one of the aims of BRI is to achieve the interconnection of infrastructure in Eurasian maritime and land corridors, this gives Chinese enterprises an opportunity to operate overseas. Secondly, Chinese enterprises are relatively lacking in capabilities in the areas of outbound investment project evaluation and feasibility studies, and the SRF and AIIB promoted by the BRI are actively evaluating the proposed projects and participating in and supporting those approved by inspection, and this alleviates the pressures and risks of outbound investment, thus stimulating the initiative of Chinese enterprises going abroad. Thirdly, China has rich experience in industrial development park construction, green development, industrial capacity cooperation, and balanced regional development, and BRI provides a platform for their overseas application, which can effectively promote investment in and construction of industrial and innovation parks along the route. Fourthly, BRI has not only brought about demand for infrastructure investment, but has also accelerated international exchange and cooperation in trade, talent, policy and capital, which creates a favourable business environment and conditions for Chinese enterprises to go out. Lastly, BRI has been presented as an inclusive and open arrangement, in which all

countries are welcome to participate. As construction and cooperation progresses, coverage will gradually expand and will no longer be limited to countries and regions along the route, which will further strengthen the demand for Chinese outward investment.

The BRI has been further elevated to a national level strategy. In 2017, the 19th National Congress of the Communist Party of China proposed to strengthen the opening-up efforts, focusing on the construction of BRI, and further implementing high-level investment liberalisation and facilitation policies on both "going out" and "coming in". From 2013 to 2020, China’s outward FDI flows to countries along the BRI route have increased from US\$12.63 billion to US\$22.54 billion, with an investment stock of US\$139.85 billion in total (MOFCOM et al., 2021: 18). In brief, following the Go Global Strategy, BRI is another big move that drives China’s outward investment still further.

4.2.1.3 Made in China 2025

A third relevant programme (or industrial policy) is *Made in China 2025*, issued in May 2015 by China’s State Council. This is the action plan for the first decade of China’s grand strategy to further develop its manufacturing sector to become a manufacturing powerhouse (Table 4.5). The background of this policy is based on the consensus that manufacturing is the mainstay of the national economy, an instrument of rejuvenation and the basis of a strong nation, as well as on the fact that China’s current industrial system is large yet not strong and there is still a certain distance between it and the world’s advanced industrialisers in terms of independent innovation capability, resource utilization efficiency, industrial structure, and quality and efficiency.

Table 4.5 Three steps towards making China a manufacturing powerhouse

Step 1:	Strive to become one of the manufacturing powerhouses in ten years’ time:
2015 -2025	<ul style="list-style-type: none"> ○ By 2020, to achieve basic industrialisation, and further consolidate China’s status as a manufacturing industrial power, along with a significantly enhanced level of manufacturing informatisation. ○ By 2025, to significantly improve the overall quality of manufacturing industry, greatly enhance innovation capacity, significantly increase the

productivity of the whole workforce, and bring the integration of industrialisation and informatisation) to reach a new level.

Step 2: By 2035, China's manufacturing industry as a whole should be in the middle ranks of the world's manufacturing powerhouses.

2026 - 2035

- Innovation capacity must be significantly improved, with major breakthroughs in the development of key areas; overall competitiveness must be significantly strengthened, with well-positioned industries to form a global innovation leadership, and to achieve full industrialization.

Step 3: At the centennial anniversary of the founding of New China, its status as a major manufacturing industry power must be further consolidated, and its comprehensive strength must be at the level of the world's first-tier manufacturing powerhouses.

2036 - 2049

- The major fields of manufacturing industry must have the ability to lead in innovation with obvious competitive advantages.
- A global leading technology system and industrial system should be built.

Source: "Made in China 2025", State Council (2015)

According to the plan, the tasks are mainly in nine areas, including: improving national manufacturing innovation capability, promoting the integration of industrialisation and informatisation, strengthening industrial infrastructure capacity, strengthening quality brand building, fully implementing green manufacturing, promoting breakthrough developments in key areas, deepening the restructuring of the manufacturing industry, developing service-oriented manufacturing and productive service sectors, and improving the international development level of manufacturing industry. The focus is on developing ten key areas covering new generation information technology industry, high-end CNC machines and robots, aviation and aerospace equipment, marine engineering equipment and high technology vessels, advanced railway equipment, energy saving and new energy vehicles, electrical equipment, agricultural equipment, new materials, and biomedical and high-performance medical devices.

Although positioned as a national industrial policy implemented through a series of domestic measures, *Made in China 2025* has revealed itself as an accelerator in China's promotion of

industrial innovation particularly through its active outward investments (Henderson, Feldmann, and de Graaff, 2021: 1054). Similar to other developing country MNCs that go overseas motivated by access to strategic assets, resources and leading technologies (e.g., Liu and Buck, 2009; Ramamurti and Singh, 2009), Chinese firms have fully demonstrated an ability to facilitate innovation via a combination of internal learning in the form of R&D and external acquisition through exports and foreign investments (Fu, Hou, and Liu, 2018). In other words, such industrial policy has unintentionally nurtured and promoted Chinese outward investment particularly via acquisitions in those developed countries.

4.2.2 Regulation and monitoring mechanisms

China's system of monitoring OFDI has undergone major changes, which developed from an examination-approval system to an approval and registration and recording system. Specifically, from the 1990s to the turn of the new century, China has adopted a strict approval system for OFDI, which was fully demonstrated by two major regulations. In March 1991, the SPC announced *Opinions on Strengthening the Management of Overseas Investment Projects*, which said that project proposals and feasibility studies for projects with Chinese investments of US\$30 million or more (including US\$30 million) should be submitted to the State Council for approval after preliminary examination by the SPC in conjunction with relevant departments. Then, in May 1997, MOFTEC issued the *Provisional Regulations on the Establishment of Foreign Trade Companies and Representative Offices*, which stipulated that applications for the establishment of trading companies in countries without diplomatic relations or sensitive countries/regions shall be submitted to MOFTEC for approval.

Since 2003, China's OFDI management system has gradually changed to an approval and registration and recording system. In 2003, MOFCOM issued the *Notice of the Ministry of Commerce on the Pilot Work Relating to the Examination and Approval of Overseas Investments*, which proposed to carry out a pilot reform, decentralising the approval authority for overseas investment and streamlining approval procedures. In July 2004, the State Council promulgated the *Decision of the State Council on Reforming the Investment System*, which clarified that the management of overseas investments would change from an approval system to an approval and

registration and recording system, and that the NDRC would be responsible for approving overseas investment projects, while MOFCOM would be responsible for approving the establishment of enterprises abroad.

In March 2009, MOFCOM issued the *Measures for the Administration of Overseas Investment of Enterprises*, which proposed to continue to promote and improve the facilitation of outbound investment and to delegate the approval authority for overseas investment of less than US\$100 million to provincial-level commercial departments. The *Catalogue of Investment Projects Subject to Government Confirmation*, published by the State Council in 2013, further decentralised the approval authority for outbound investments of less than US\$1 billion, so that neither SOEs nor POEs need to submit forms to the National Development and Reform Commission (NDRC) for approval as long as they do not involve sensitive areas or regions. In September 2014, the newly revised *Measures for the Administration of Overseas Investment of Enterprises* established the management mode of registration and recording as the primary and approval as the secondary system. The measure has gone through several versions, with the most recent being that effective in March 2018, which further simplifies procedures and narrows down the range of those that need approval by adopting a negative list system.

In a nutshell, China's regulation and monitoring system on OFDI has undergone a liberalisation process, mainly demonstrated by the simplification of procedures for approval, and the expansion of the scope for investment, while also strengthening post-investment supervision and management.

Chapter summary

This chapter bridges the research question and methodology proposed in previous chapters with answers and further analysis by providing the general background to China's outward FDI. It began by reviewing the development of FDI over the past four decades since China's reform and opening up in 1978, emphasising its four main phases, including initial exploration from 1979 to 1991, adjustment and further exploration from 1992 to 1999, the period of exponential growth from 2000 to 2016, and the further optimisation of its investment structure from 2017 onwards. The second half of the chapter briefly touched on the rationale for this changing phenomenon from a political economy perspective. Specifically, it argued that the three major promotional policies (i.e., the Go Global policy, Belt and Road Initiative, and Made in China 2025) and the liberalisation of the monitoring mechanism are the main contributors to the development and fluctuations in China's outward FDI at different times.

Chapter 5 Chinese multinationals and their investment in Europe: trends, patterns, and financing sources

This chapter focuses on Chinese investments in Europe by examining its development trends, patterns, and the sources of finance of various Chinese multinationals engaged in this process. Specifically, it first maps out the general investment trends between 2003 and 2019 and briefly states the rationale behind them; it then goes further to examine the two main types of Chinese FDI, greenfield investment and M&As, by exploring the distributions and characteristics at country level (macro), industry level (meso) and individual firm level (micro). That is followed by a general description of the financing sources and common financing modes adopted by Chinese firms investing in Europe. The major findings suggest that: 1) Chinese investment (both greenfield and M&As) has covered most of the European countries with a wide range of industries; 2) compared with Chinese investment in the form of greenfield, which experienced organic growth, M&As are surging, especially after the financial crisis; 3) Chinese firms are financed in four main ways: by internal funds, by internal funds with debt financing, by internal funds with equity financing, and by hybrid financing; of these, fully internal funds, internal funds with bank loans (via onshore guarantees for offshore loans service), and internal funds with stock issuance (for bank loan substitution) are the most commonly used modes. This chapter contributes to the empirical study by using quantitative (database) data to answer the first research question concerning the financing patterns of Chinese outward FDI on the one hand, while laying the foundations for further case study analysis in the following chapters on the other hand.

5.1 Chinese outward FDI in Europe: trends and patterns

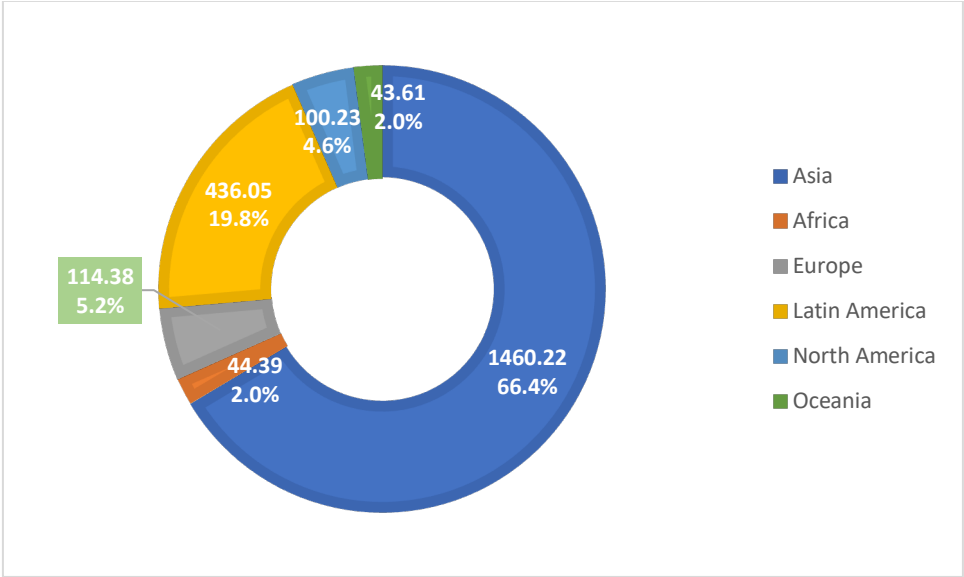
Historically, China and Europe, have had millennia-long commercial interactions dating back to the ancient Silk Road, yet it has not been until recent years that such efforts have begun to redouble (Le Corre, 2018: 162). This section, therefore, tries to make sense of the trends by first providing a general map of Chinese investment in the European region and briefly explaining the rationale behind it, then analysing the FDI patterns in more detail by examining greenfield

investment and M&As respectively, aiming to set the ground before focusing on the financing details of Chinese firms and their OFDI in the following section.

5.1.1 Chinese outward FDI in Europe: an overview

While Chinese outward FDI has covered 188 countries with a total stock of nearly US\$2.2 trillion by the end of 2019 (MOFCOM et al., 2020: 4), most of the investments are concentrated in developing regions, represented by Asia and Latin America (Figure 5.1). Of the two, Asia has accommodated the vast majority of stock, accounting for 66.4 percent, and Hong Kong, Singapore, Malaysia are the top host economies. What is worth noting is that Hong Kong, *inter alia*, holds 87.3 percent of the Asian total (MOFCOM et al., 2020: 22). Hong Kong has long been regarded as the transit hub or springboard for Chinese domestic investors going abroad for its benefit of being a free trade port and international financial centre. Although Latin America accounts for nearly one fifth of the Chinese investment stock, 95.8 percent of that flows into the Cayman Islands and Virgin Islands (*ibid.*), because those countries are major tax havens for global investors.

Figure 5.1 Regional distribution of China’s outward FDI stock, by the end of 2019 (billion USD)



Source: figure constructed by author based on the data from MOFCOM et al. (2020: 55-60)

Compared with the developing regions, Chinese investment in developed areas appears to be less noticeable, with the investment stock accounting for a mere 11.4 percent of the total. However, Europe, surpassed all other advanced regions, has become the top destination for Chinese outward FDI, accounting for 40.4 percent (Table 5.1). Chinese investors have shown ever-increasing interest in investing Europe; by the end of 2019, Chinese OFDI stock in the wider European countries³² had reached US\$101.095 billion, approximately 238 times as much as in 2003 (Figure 5.2). Although FDI outflows fluctuate dramatically year by year, they began to accelerate from 2006, experiencing a sharp rise in 2007, when investment flows exceeded 1 billion for the first time. However, they decreased again in 2008, before starting to rise again since then, with an average annual increase of 96.31 percent over the following 11 years from 2009. In general, from 2003 till 2019, Chinese investment flows in Europe have grown from a modest start. Although the stock accounts for only around 4 percent of the world’s total, it has demonstrated a fast-growing trend.

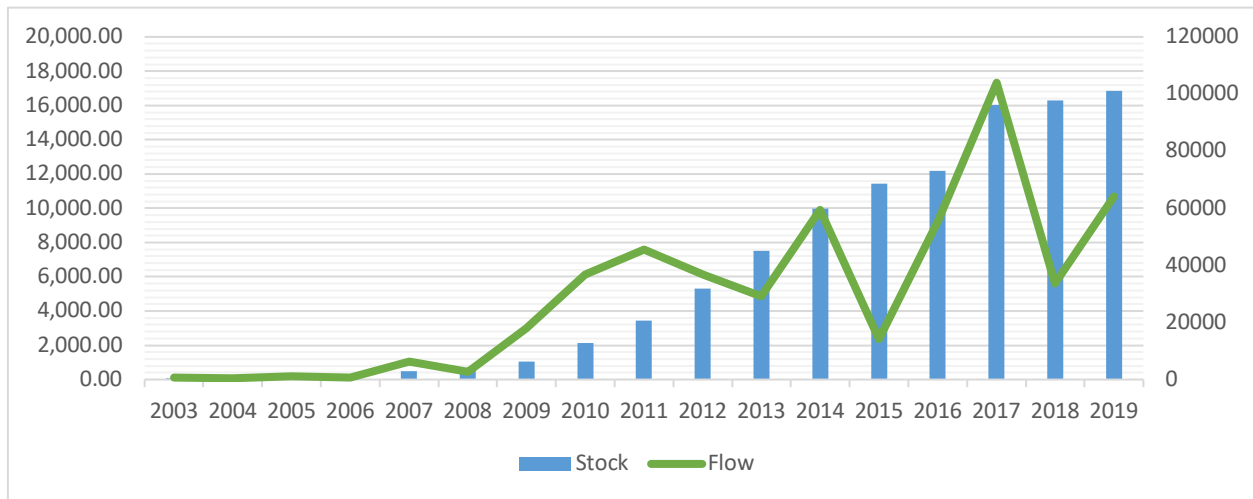
Table 5.1 China’s outward FDI stock in developed countries/regions, by the end of 2019 (billion USD)

<i>ECONOMY</i>	<i>OFDI STOCK</i>	<i>SHARE</i>
<i>EUROPEAN UNION (EU 28)</i>	93.91	37.6%
<i>UNITED STATES</i>	77.80	31.2%
<i>AUSTRALIA</i>	38.07	15.3%
<i>CANADA</i>	14.09	5.7%
<i>BERMUDA</i>	8.34	3.3%
<i>SWITZERLAND</i>	5.66	2.3%
<i>JAPAN</i>	4.10	1.6%
<i>ISRAEL</i>	3.78	1.5%
<i>NEW ZEALAND</i>	2.46	1.0%
<i>NORWAY</i>	1.25	0.5%
<i>IN TOTAL</i>	249.46	100%

Source: MOFCOM et al. (2020: 23)

³² As shown in the Methodology Chapter (Section 3.4.1), Europe, or the wider European countries, refer to the 37 European countries encompassing not only the traditional European countries i.e., EEA countries but also more peripheral countries such as the Balkans.

Figure 5.2 China's OFDI flows and stock in wider European countries, 2006-2019 (million USD)



Source: graph constructed by author based on the data from MOFCOM et al (2004-2020)

The rationale for such growth, which can be partly attributed to the strategic direction (liberalisation) and promotional policies (encouragement) adopted by the Chinese government since the beginning of the new century (Chapter 4, Section 4.2). It can also be ascribed to additional push and pull factors, which include:³³ (i) Europe as an ideal destination that has a relatively sound legal framework, stable political climate, comprehensive industrial system, high-quality labour force, economic freedom, and more importantly, a relatively friendly business environment for foreign investors (compared with others such as the US);³⁴ (ii) Chinese enterprises that go overseas are compelled by a saturated domestic market to achieve their market seeking and strategic asset seeking goals; (iii) the euro-debt crisis has accelerated and facilitated Chinese investors to target those financially distressed European assets while taking advantage of the lower exchange rate for the euro between 2008-2016. All these have been fully reflected in the trends of investment flows, beginning from the early 2000s, growing rapidly since 2008 and especially between 2009 and 2012 during the financial and debt crisis, before levelling off since 2018, when the measures were tightened on FDI from both the European and Chinese domestic side.

³³ for more details, see, e.g.: Nicholas (2014: 109-113); Ma and Overbeek (2015).

³⁴ Though the EU foreign investment screening mechanism has been adopted in March 2019 and has been fully in operation since 11 October 2020, Europe remains a relatively open market.

5.1.2 Greenfield investment

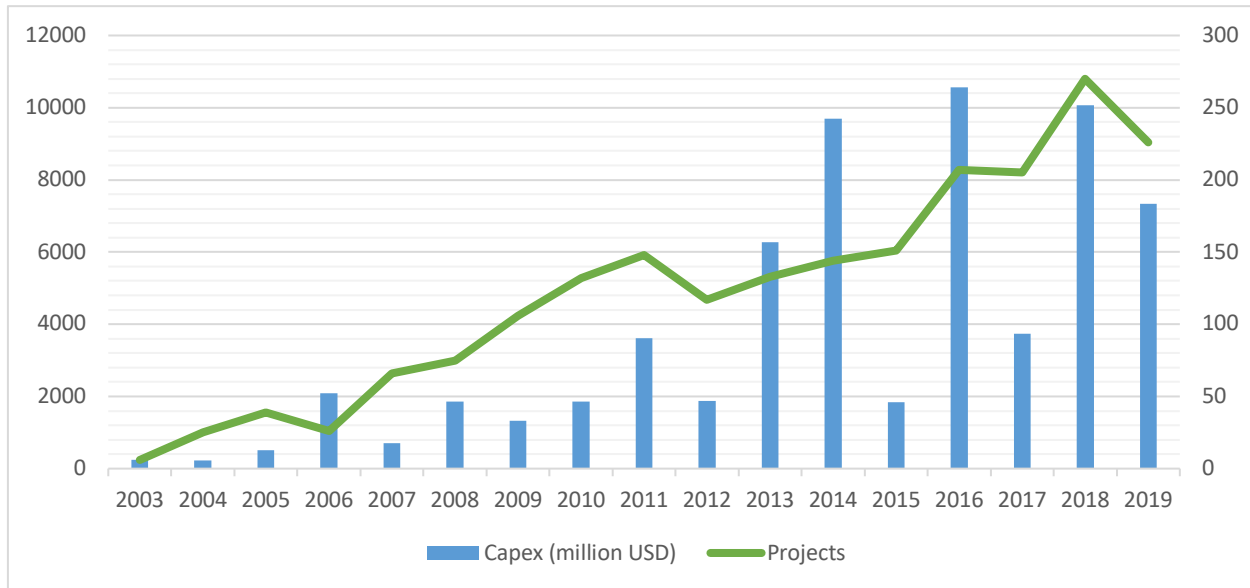
China's greenfield investment in Europe has shown an upward trend (Figure 5.3). It began with just 6 projects in 2003, then rose to over 100 for the first time during the global financial crisis in 2009. The figure then continued to grow, and in 2016 it reached 200 before culminating in 2018 at 270 projects. By the end of 2019, Chinese firms had implemented 2076 projects, an average year-on-year growth of 40 percent over the 17 years, with capital expenditure of US\$63,815.77 million in total, creating around 166 thousand jobs in European countries (Table 5.2).

Table 5.2 China's greenfield investment in Europe (2003-2019)

YEAR	PROJECTS	CAPEX (MILLION USD)	JOBS
2019	226	7,336.27	20,655
2018	270	10,072.71	25,445
2017	205	3,729.79	15,240
2016	207	10,567.90	20,402
2015	151	1,834.91	5,643
2014	144	9,695.13	20,037
2013	133	6,268.64	11,478
2012	117	1,880.76	5,358
2011	148	3,615.57	10,696
2010	132	1,854.87	7,338
2009	106	1,316.98	5,075
2008	75	1,866.03	6,493
2007	66	701.52	3,221
2006	26	2,090.85	2,253
2005	39	514.24	2,290
2004	25	218.30	1,497

2003	6	251.30	3133
TOTAL	2076	63,815.77	166,254

Figure 5.3 Trends of Chinese greenfield investment in Europe (2003-2019)



Source: graph constructed by author based on the data from FDI Markets

Such investment has a wide geographical distribution and covers almost all European countries (34 in total) (Figure 5.4a and 5.4b). By project numbers, the top recipient countries are Germany, United Kingdom (UK), France, Netherlands, and Spain. By investment capital, they are concentrated in the UK, Germany, France, Serbia (construction of industrial parks and manufacturing plants), and Finland (R&D and renewable energy manufacturing). Three features, particularly, are revealed by the distribution patterns. The first is that, despite differentiated typologies, Chinese greenfield favours the traditional core European countries represented by the UK, Germany and France; these account for approximately 52 percent of the total investment capital. Secondly, the main Central and Eastern Europe (CEE) countries such as Bulgaria, Serbia, Romania and Hungary also receive significant greenfield investment. They closely follow the ‘Big Three’ and are among the top 10 recipients, which combined account for around 16 percent of the total by value. Thirdly, those peripheral countries have gradually become new and popular destinations among Chinese greenfield investors. They include but are not limited to Bosnia-Herzegovina (business service and manufacturing, since 2012), Malta (manufacturing and

business service, since 2016), Moldova (manufacturing, since 2011), and North Macedonia (Textile, since 2014).

Figure 5.4a Geographic distribution of China’s greenfield investment (2003-2019), by number of projects

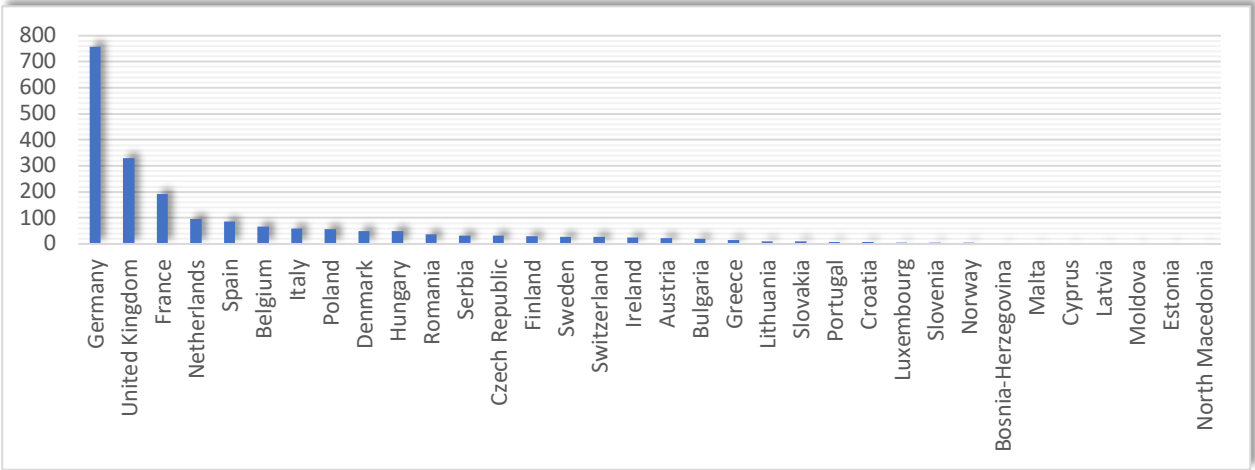
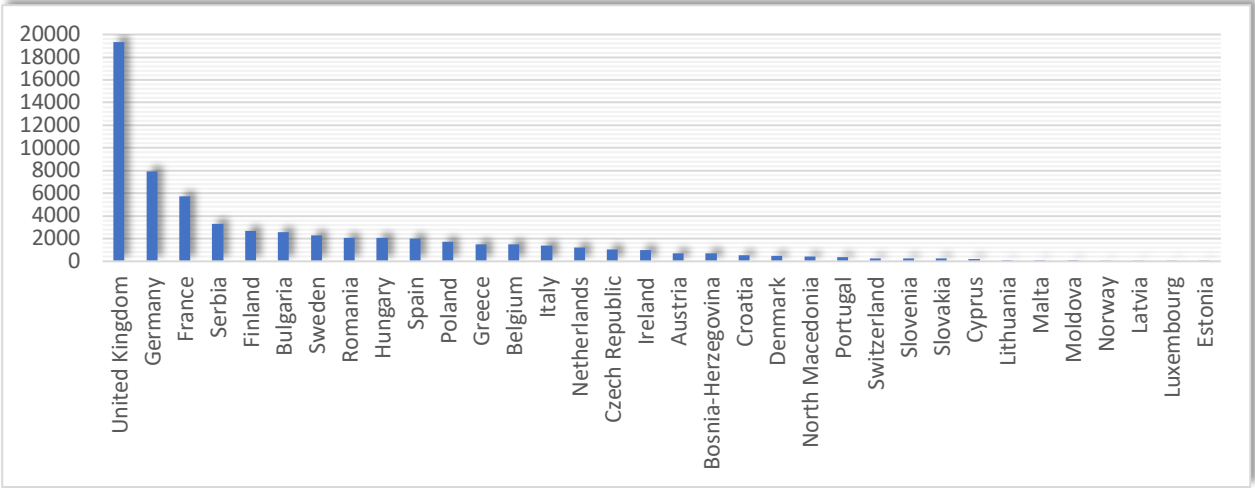


Figure 5.4b Geographic distribution of China’s greenfield investment by investing volume 2003-2019, (USD million).

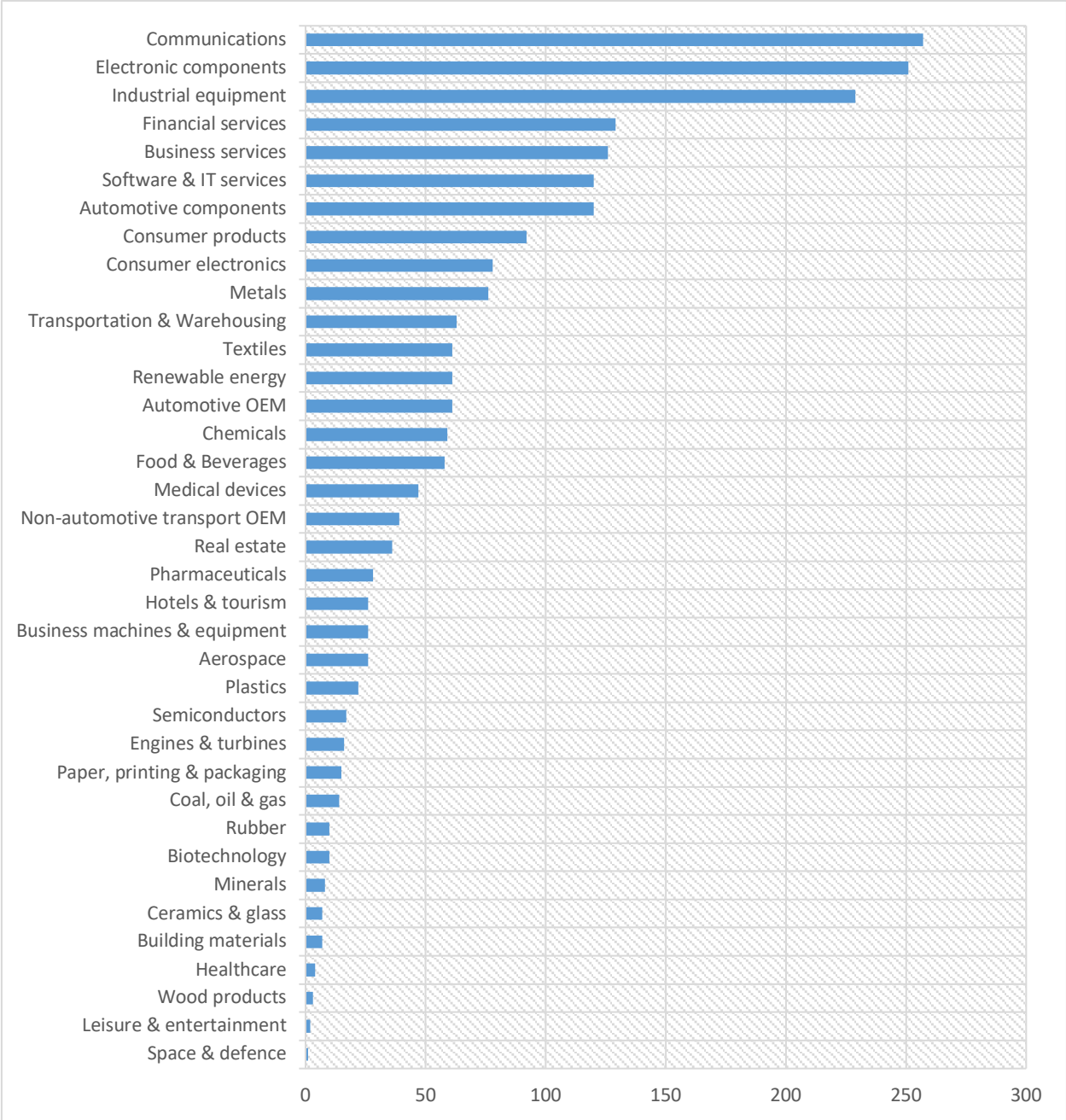


Source: graph constructed by author based on the data from FDI Markets

In terms of industrial distribution, China’s greenfield investment spans all major economic sectors. Of these, communications, electronic components and industrial equipment top the league table (Figure 5.5); in other words, around one third (33 percent) of the deals falls into these three categories. Despite this, however, it is the real estate, renewable energy and electronic

components sectors that have attracted the lion's share of investment funds, which account for around 42 percent of the total. Relatedly, the main reasons for Chinese greenfield investment are: 1) to set up sales, marketing and support hubs to create a more visible presence in the local market whilst trying to further expand the business for a global reach; 2) to set up manufacturing branches in the hope of benefiting from the spillover of know-how from local industrial clusters; 3) to set up R&D centres to access technology and quality labour, with most of them located in advanced economies such as the UK, Denmark, Sweden, Italy, France and Germany.

Figure 5.5 Industrial distribution of China's greenfield investment in Europe (2003-2019), by number of projects



Source: graph constructed by author based on the data from FDI Markets

As for specific investors, a range of Chinese enterprises is investing in Europe, including SOEs, POEs, private equity (PE) funds, sovereign wealth funds (SWF). Yet, among the top greenfield investors (Table 5.3), seven out of ten are POEs, and four are real estate companies, i.e., Wanda, Greenland, ABP, and Country Garden. In terms of number of projects, however, the company that conducts the most deals is undoubtedly Huawei, with 132 projects, which is way more than

the others. It has set up branches in almost all European countries (37 in total), with the UK, Germany and Belgium accommodating the greatest amount of investment capital; among 18 R&D centres in Europe, half of them are in those three countries. The automobile manufacturer Geely and its acquired subsidiary, Volvo Cars, is second to Huawei; it has carried out 34 projects between 2003 and 2019, most of which are related to R&D and auto manufacturing activities. By comparison, fewer SOEs are present in the list below. There are only two of them, i.e., COSCO and CNOOC, and they invested in no more than 10 projects over the time period.

Table 5.3 Top Chinese companies making greenfield investments in Europe (2003-2019)

Company name	No. of projects	Ownership	Total capex (million USD)	Total jobs created	Primary sector
Huawei	132	POE	4,380.94	12585	Communications
Zhejiang Geely Holding Group (Geely Holding Group)	22	POE	2,779.61	6260	Automotive OEM
Volvo Automotive (Volvo Cars)	12	POE	2,057.50	4303	Automotive OEM
China Ocean Shipping Company (COSCO)	10	SOE	1,292.94	2960	Transportation and Warehousing
Dalian Wanda	4	POE	5,106.50	6457	Real estate
China National Offshore Oil (CNOOC)	4	SOE	1,621.40	307	Coal, oil and gas
Contemporary Amperex Technology (CATL)	3	POE	2,172.40	2024	Electronic components
Greenland Holdings (Greenland Group)	3	HOE	1,970.60	6018	Real estate
ABP China Holding Group	2	POE	1,604.00	3037	Real estate
Country Garden Holdings	2	POE	1,105.74	2460	Real estate

Source: graph constructed by author based on the data from FDI Markets

5.1.3 M&As

In line with its general FDI pattern, China's M&A in Europe has shown a similar trend (Figure 5.6). It started from just 2 transactions in 2003, with gentle growth throughout the 2000s. From 2010, it began to accelerate. This is particularly true between 2014 and 2017, with the number of deals reaching a record high of 79 in 2016 before undergoing a sharp decline since then. In general, during the period 2003 – 2019, Chinese firms conducted a total of 412 transactions, with a much greater number of transactions in the post financial crisis era than in the years before.

Figure 5.6 Trends of Chinese M&As in Europe (2003-2019), by number of deals³⁵



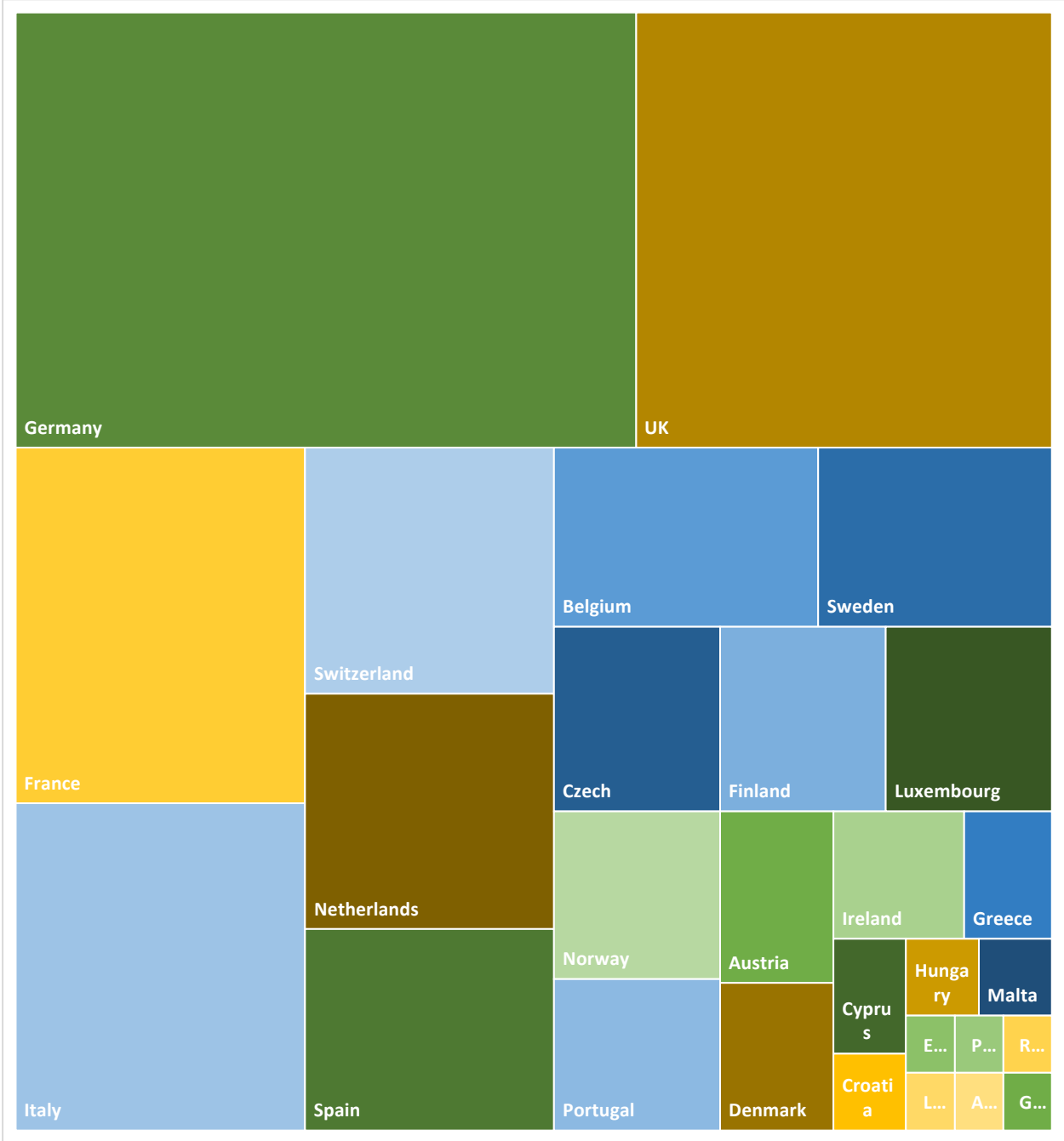
Source: based on the data collected from BvD-Zephyr, China Investment Tracker, and Thomson One.

In terms of geographical distribution, Chinese M&A investments have covered 28 European countries (Figure 5.7). Unlike greenfield investment, which covers a much wider geographical range, M&A investors favour the traditional advanced industrialisers, of which many are located in Western and Central Europe. The top destinations are Germany (97), UK (65), France (37), Italy (34), Switzerland (22) and the Netherlands (21), which combined constitute around 67 percent of all projects. Coming after that, countries where there have been more than 10 transactions, include Spain (18), Belgium (17), Sweden (15), Czech (11), Finland (11), Luxembourg (11) and Norway (10), which account for about a 23 percent share. In other words, the 13 economies above have accumulated 90 percent of all Chinese M&As. Although the other 15 countries, have

³⁵ Calculated by number of deals, because some M&A values are undisclosed for commercial confidentiality reasons.

only taken a 10 percent share, the M&As there do extend to some peripheral countries with industries that benefit from local advantages, represented by Albania (financial infrastructure), Croatia (tourism assets and bicycle manufacturing), Georgia (infrastructure), Poland (machinery manufacturing), and Romania (chemical manufacturing). In brief, while Chinese investors prefer the vast core industrialised region, they do value quality assets in less developed areas for M&As.

Figure 5.7 Geographic distribution of China’s M&As in Europe (2003-2019), by number of deals



Notes: The six countries with the smallest M&A investment flows were: Estonia, Poland, Romania, Lithuania, Albania, and Georgia (these are presented in the right-hand corner).

Source: based on the data collected from BvD-Zephyr, China Investment Tracker, and Thomson One.

As for sectoral distribution, Chinese M&As currently cover most industries and 17 out of 21 industrial sectors (Figure 5.8).³⁶ Yet the vast majority of M&As, around 57 percent, have been in manufacturing. Of these, 23 percent fall involve the manufacturing of machinery and equipment, which mainly located in Germany (51 percent), Italy (15 percent), UK (13 percent), but also scattered in Netherlands, France, and Poland. Next is the manufacturing of auto parts and accessories, with Germany accounting for more than half of the total (56 percent), and the other countries overwhelmingly located in the traditional Western European area including Austria, Belgium, Luxembourg, Sweden and UK. A third major category of M&A in manufacturing is electrical equipment, including domestic appliances, batteries, electric motors and generators, with most located in Italy, Netherlands and UK. Apart from the three main categories, manufacturing of chemicals and chemical products (6 percent), pharmaceuticals, medicinal chemical, and botanical products (6 percent), automobile (5 percent) and other transport equipment including railway, shipping and flight (5 percent), also account for a certain portion.

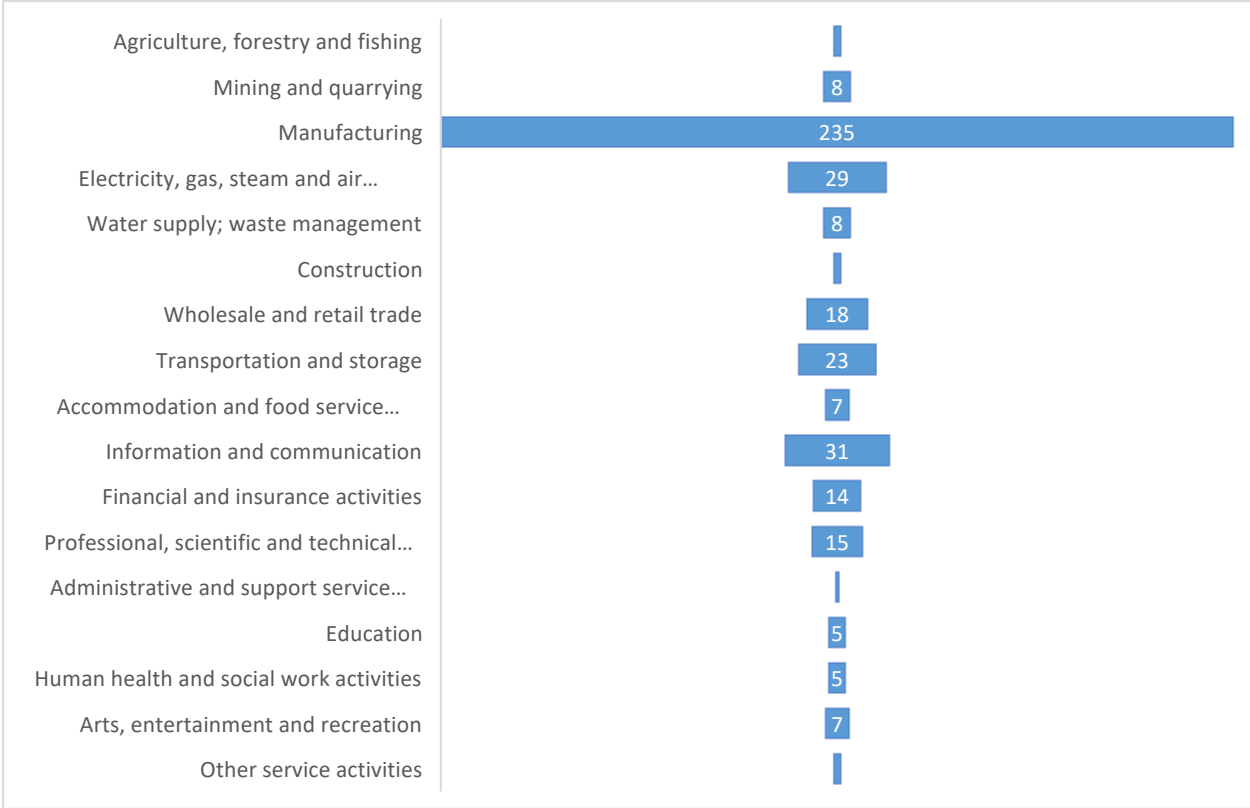
Besides manufacturing, the second largest cluster of Chinese M&As is in the information and communication field. Of these, around 28 percent have taken place in the UK and 14 percent in Scandinavian countries (i.e., Finland, Norway and Denmark). The subfields are mainly in telecommunications, software and the gaming industry. Huawei is the most active investor and conducted 5 transactions spread across the UK and Belgium. In terms of other most-invested-in sectors, Energy – such as electricity and gas generation and supply – have taken a major share, among which they are highlighted by wind farms elsewhere in Belgium, Germany and Denmark, as well as utility companies that are the result of post-crisis privatization in the Southern European countries.³⁷ Aside from that, transport infrastructure and warehousing were the most sought-after areas, with a certain portion of them related to air freight (France, Georgia) and

³⁶ By referring to the International Standard Industrial Classification of All Economic Activities Rev.4 (UNDESA, 2008: 43).

³⁷ For example, EDP Energias in Portugal (in 2011), Public Power Corporation in Greece (in 2013), CDP Reti in Italy (in 2013).

shipping terminal ports (Belgium, Greece, Netherlands and Spain). Although other sectors, including wholesale and retail, financial and professional services were among the most invested fields, it is the emerging fields represented by education, arts and entertainment, and the personal care industry that are becoming popular in recent years.

Figure 5.8 Sectoral distribution of China’s M&As in Europe (2003-2019), by number of deals

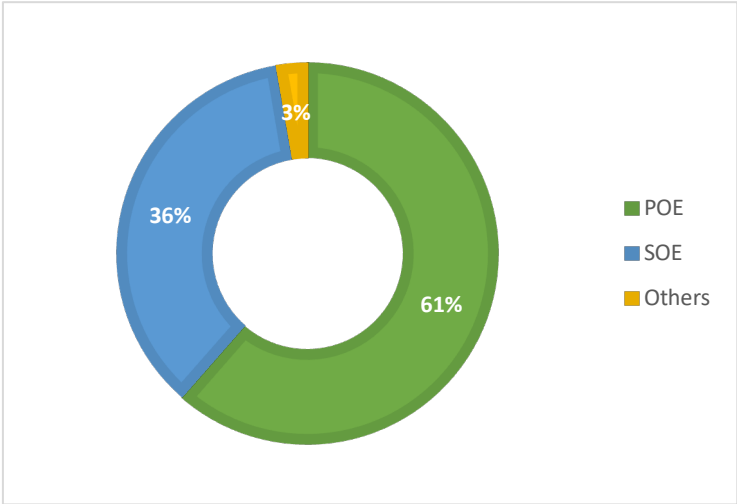


Source: based on data collected from BvD-Zephyr, China Investment Tracker, and Thomson One.

The investors conducting M&As in Europe include SOEs, POEs and other entities such as investment funds, asset management companies and Sino-foreign joint-ventures (Figure 5.9). While the vast majority of investors in M&As were POEs (61 percent of all transactions), it is only recently that they have become active. In the 2000s, SOEs took the lead. Among the 45 M&As between 2003 and 2009, 58 percent (26 transactions) were conducted by SOEs. With the development of Chinese POEs, however, the situation has reversed. Among the 367 transactions over the ten years during 2010 and 2019, 235 (or 64 percent) were conducted by POEs. This is especially true in the years between 2015 and 2017 when the twice as many deals were done by

POEs as by SOEs. As for SOEs, while they vary by level of regulation, the SOEs under the control of central government (that is, Mega SOEs or ‘Yangqi’), made the majority of M&As, which accounted for 55 percent of the total. Municipal SOEs³⁸ conducted slightly more M&As than provincial SOEs (23 percent and 15 percent, respectively). In terms of listed status, the vast majority (83 percent) are listed companies, which include subsidiary companies that are not listed themselves, but belong to certain business groups that have one or more listed companies.

Figure 5.9 Distribution of Investors in China’s M&As in Europe (2003-2019), by number of deals



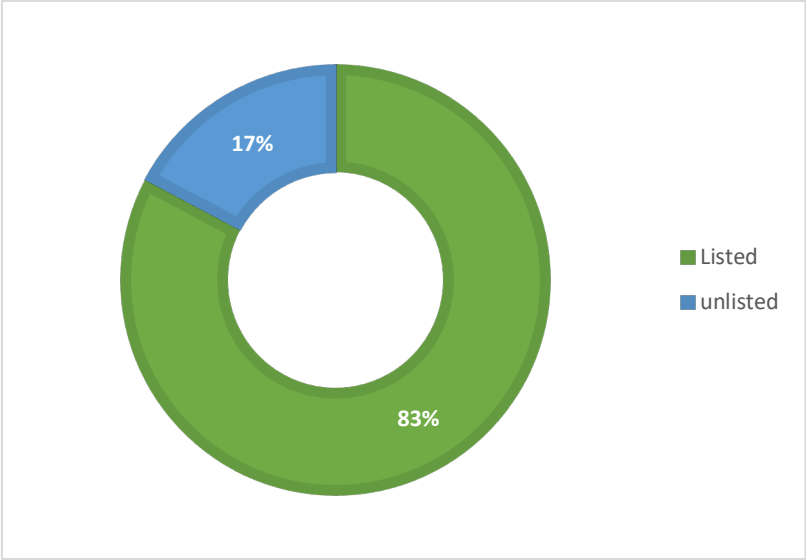
Notes:

POE: Privately-owned companies (i.e., ‘Minqi’, owned by individuals or family owned).

SOE: State-owned companies (‘Guoqi’ include central government SOEs, provincial SOEs, municipal SOEs, and other state-controlled enterprises with a state share larger than 50 percent, or those with less than 50 percent but where the government is the largest shareholder).

Others: includes government investment funds, asset management companies, etc.

³⁸ i.e., municipal or county level, including the four directly controlled municipality (Shanghai, Chongqing, Shenzhen, and Tianjin) under the Central Government.



Notes:

Listed: publicly traded companies floated on stock exchanges in Shanghai, Shenzhen, Hong Kong, and/or overseas (e.g., NASDAQ). This includes delisted companies, i.e., they were listed when they conduct the investment, yet delisted afterwards due to mismanagement or other reasons.

Unlisted: mainly POEs, but some SOEs as well.

Among the various Chinese investors, the most active ones include ChemChina, which conducted the largest ever Chinese cross-border M&A in the acquisition of the Swiss agro-giant Syngenta in 2016, for a total of US\$46 billion; COSCO, which acquired a stake in the much-debated Pireaus port in Greece; Wanhua, who has done the largest Chinese M&A in CEE region via the Borsodchem case (Table 5.4). Other aggressive companies that have done multiple transactions in Europe are represented by Fosun, Huawei (case study, see Chapter 6, Section 6.1.1), Geely, and Weichai (case study, see Chapter 6, Section 6.1.5), in both their core businesses and new areas.

Table 5.4 Most active Chinese investors by M&A projects

Investor	Ownership	M&A Transaction (year, percent, country)
ChemChina	Mega SOE	<ul style="list-style-type: none"> ○ Rhodia ○ Adisseo ○ Nutriad (by Adisseo) ○ Kraussmaffe (Germany)

		<ul style="list-style-type: none"> ○ Agricover (by Isreal subsidiary Adama) ○ Fibres Worldwide ○ Elkem (Norway) ○ REC Solar (acquired by Elkem) (Norway) ○ Syngenta (2016, Swizerland) ○ Pirellie (2015, 65%, Italy)
<p>COSCO</p> <p>China Ocean Shipping</p> <p>(Case study, see Chapter 6, Section 6.1.9)</p>	Mega SOE	<ul style="list-style-type: none"> ○ Pireaus (2016, 67%, Greece) ○ Burg (80%, Netherlands) ○ Noatum Ports (51%, Spain) ○ Zeebruegee (2014, 40%, Belgium)
<p>Zoomlion</p> <p>(Case study, see Chapter 6, Section 6.1.7)</p>	<p>HOE</p> <p>(Former Hunan Provincial SOE)</p>	<ul style="list-style-type: none"> ○ CIFA (Italy) ○ Ladurner (Italy) ○ M-Tec (Italy) ○ Raxtar ○ Wilbert (Germany)
<p>Weichai</p> <p>(Case study, see Chapter 6, Section 6.1.5)</p>	Shandong provincial SOE	<ul style="list-style-type: none"> ○ Moteurs Baudoin ○ Kion ○ Linde Hydraulics ○ Aradex ○ Ferretti (Italy) ○ DH Services ○ Ceres Power ○ Aim Altitude
Fosun	POE	<ul style="list-style-type: none"> ○ Folli Follie (16.37%, Greece) ○ Club Med (98%, France) ○ Lloyds Chambers ○ Fidelidade of Caixa Geral (the insurance arm of state bank Caixa Geral de Depositos) ○ BHF (19.18%)

		<ul style="list-style-type: none"> ○ Espirito Santo Saude ○ Thomas Cook Group (5%) ○ Hauck & Aufhaeuser (99.91%, Germany) ○ Palazzo Broggi ○ Banco Comercial Portugues (7%+16.67%, Portugal) ○ Lamda ○ St Hubert ○ Lanvin ○ International Gemological Institute (80%) ○ FFT (held by Aton) ○ Miacom diagnostics (37%, Germany)
<p>Huawei (Case study, see Chapter 6, Section 6.1.1)</p>	POE	<ul style="list-style-type: none"> ○ M4S (2010, Belgium) ○ Centre for Integrated Photonics (2012, UK) ○ Caliopa (2013, Belgium) ○ Neul (2014, UK) ○ Amartus's software-defined networking division (2015, Ireland)
<p>State Grid (Case study, see Chapter 6, Section 6.1.6)</p>	Mega SOE	<ul style="list-style-type: none"> ○ Redes Energeticas Nacionais (REN) (25%, Portugal) ○ Independent Power Transmission Operator SA (2014, 24%, Greece) ○ CDP Reti SRL (35%, Italy)
<p>Wanhua (Case study, see Chapter 6, Section 6.1.4)</p>	Yantai municipal SOE	<ul style="list-style-type: none"> ○ BorsodChem (2011, Hungary) ○ Chematur (Switzerland)
<p>Joyson (Case study, see Chapter 6, Section 6.1.3)</p>	POE	<ul style="list-style-type: none"> ○ Quin (Germany) ○ Preh (Germany) ○ TechniSat
<p>Geely</p>	POE	<ul style="list-style-type: none"> ○ Saxo Bank (51.5%, Denmark) ○ Volvo Trucks/AB Volvo 8.2% (Sweden)

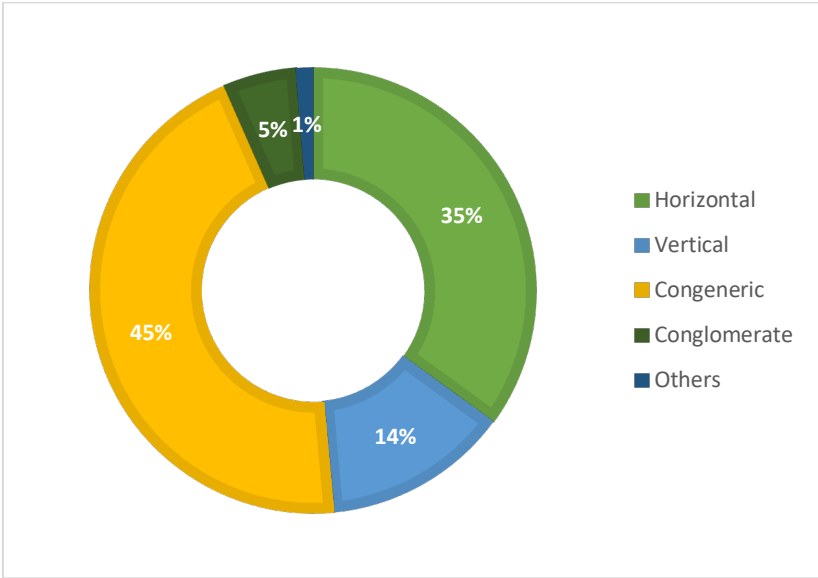
- Volvo Car 100% (Sweden)
- Manganese Bronze (UK)
- Emerald (UK)
- Daimler 9.69% (Germany)

As for the types (or main aims) of Chinese M&As,³⁹ the vast majority (94 percent) fall into the core businesses (horizontal, vertical, and congeneric) of specific investors, with just 5 percent belonging to the completely non-core (conglomerate) category, and 1 percent being other kinds of investors (such as investment funds and investment companies) searching for financial profits (Figure 5.10). This revealed two important facts. Firstly, most companies conducting M&As aim to strengthen their main businesses by seeking synergies or enhancing competitiveness. Of those, 45 percent (186 deals) are congeneric, that is, they involve Chinese investors acquiring European firms aim at pursuing complementary (non-competing) quality products or services, and/or seeking to enter the local European market (or to expand through it to a third one such as North America and Latin America), with the acquired European counterparts benefiting from accessing Chinese or Asian markets; 35 percent are horizontal, of which Chinese firms attempt to achieve a greater global market share, reducing cost, mobilising global resources by acquiring direct competitors, sometimes via a reverse takeover (such as Geely's taking Volvo, ChemChina's taking Syngenta and Zhengjiang Feierkang's taking Firecomms); 13 percent are vertical, where the acquiring firms usually keep an eye on the stakeholders scattered along the supply chain, either for backward integration to buy a supplier or forward integration for a customer. Secondly, among the 412 transactions, 22 (or 5 percent) acquired firms completely unrelated in either product-markets or supply chains to the acquiring firms. Worthy of note is that these investors are overwhelmingly POEs. In other words, compared with SOEs, POEs tend to have a more versatile business distribution; that is, while POEs are focusing on their main businesses, they are

³⁹ Though the classification of M&As varies, the most established is the one used by US Federal Trade Commission (Angwin, 2012: 47), which indicates five types: horizontal (combining direct competitors that have the same products and markets); vertical (combining firms with possible buyer-seller relationships); product extension (combining firms with non-competing products but functionally related in production and distribution); market extension (combining firms with the same products but in different geographic markets); and conglomerate (combining firms with unrelated products, markets, and no buyer-seller relationships). In this study, this typology has been transformed into four main categories: horizontal, vertical, congeneric (product and market extension), and conglomerate. This, to some extent, reflects the different aims of Chinese companies investing in Europe.

trying to explore new areas by acquiring facilities in dissimilar fields. Examples include the financialisation of firms in recent years, especially industrial firms going overseas and acquiring financial assets.⁴⁰ A second example is that individual companies (usually in traditional industries) seek industrial transformation or restructuring, during which they expand their main business by starting a completely new and usually promising field to achieve organic growth.⁴¹ Apart from the natural reason of embracing emerging industries that have been nurtured by advances in technology, one important reason could be attributed to the unique Chinese political economy system; i.e. the state-dominant environment has nurtured groups of self-reliant POEs which have to compete with both global competitors and domestic SOEs. In order to survive the much-compressed business conditions, rather than focusing solely on their specific industry, POEs try to diversify their businesses - reducing risks on one hand and searching for greater profits on the other - by acquiring overseas assets to secure the existing advantages and move up further the value chain.

Figure 5.10 Types of Chinese M&A in Europe (2003-2019), by number of deals



⁴⁰ There are many examples of investment holding companies trying to diversify their assets, for instance, the acquisition of JSC Basis Bank by Hualing industry and Trade (2012, Georgia), Legend Holding’s acquiring BIL (2018, Luxembourg), Fosun’s acquiring Hauck & Aufhuser (2018, Germany), Geely’s acquiring Saxo (2018, Denmark).

⁴¹ For instance, in 2015, the argo-business company Nanjing Red Sun’s investment in the UK (Coventry-based) auto components company Cad Cam Automotive; in 2019, the real estate company Evergrand’s acquisition of UK-based auto company Protean Electric.

Notes:

Horizontal: The acquirer and target companies are in direct competition, and they offer the same goods or services and share the same markets. This kind of investment eliminates competition, which helps the acquirer to increase market share, revenues and profits.

Vertical: The acquirer and target companies may not compete with each other but exist in the same supply chain, i.e., they are involved in the production of a good or delivery of service at different stages of the production process. The benefit is to improve efficiency, have better control of the manufacturing process and reduce costs.

Congeneric: The acquirer and target companies are in the same or related industries or markets but do not offer the same products; in other words, they serve the same customer base in different ways. The benefit is that both companies can extend their product line and expand their market. It is more strategic driven compared with conglomerate investment.

Conglomerate: The acquirer and target companies have no common business areas.

5.2 Chinese outward FDI in Europe: main financing modes⁴²

From the available sources of finance,⁴³ I have generalised four main modes often used by Chinese firms conducting FDI (more specifically M&As) in Europe. They include singular source financing and hybrid financing; specifically, they are: 1) internal corporate funds; 2) internal corporate funds and bank loans; 3) internal corporate funds and stock offering; 4) multi-source financing.

5.2.1 Internal corporate funds

Financing from internal corporate funds includes funding generated within the business, such as the owner's capital, retained profits and selling assets (including stock); it is a process of converting internal retained capital (assets) and undistributed profits into new investments. Yet this only covers part of it. In a broader sense, it also includes self-raised funds obtained for specific purposes, be it bank loans, bonds, funds raised via stock markets, industrial funds, informal loans from personal networks, before conducting investment. For Chinese firms investing via M&As in

⁴² Since greenfield investments are relatively small in volume compared with M&As, the majority contain a simple funding solution (usually by internal funds) and are less likely to involve large-volume external financing as with multiple stakeholders. This study mainly explores the financing patterns of Chinese M&As in Europe.

⁴³ Due to the sensitive nature of financing information, the database has shown very limited information, most of the data on financing source are based on the author's desk research (mostly via official corporate sources, e.g., acquisition reports, annual reports, announcement, etc.) as well as those collected via fieldwork interviews. The analysis, therefore, is based on the financing information of 156 transactions in total.

Europe, internal sources of both kinds are commonly used, accounting for around 45 percent of the total.

Specifically, for transactions financed from purely internal rather than external sources, examples include GEM's acquisition of a 30 percent stake of German-based metal waste recycling service company Bameta in 2016 for about US\$5.15 million; Dynavolt Renewable Power Technology's acquisition of 55 percent shares of Durion Energy (Switzerland) for EUR 6 million in 2016; and GoerTek's investment of US\$50 million in Danish loudspeaker company Dynaudio in 2018, of which 41.5 million was used for acquiring an 83 per cent share of Dynaudio, with the other 17 percent (8.5 million) sold to the senior management team in order to motivate Dynaudio's core management to simplify the transaction procedures caused by foreign exchanges.

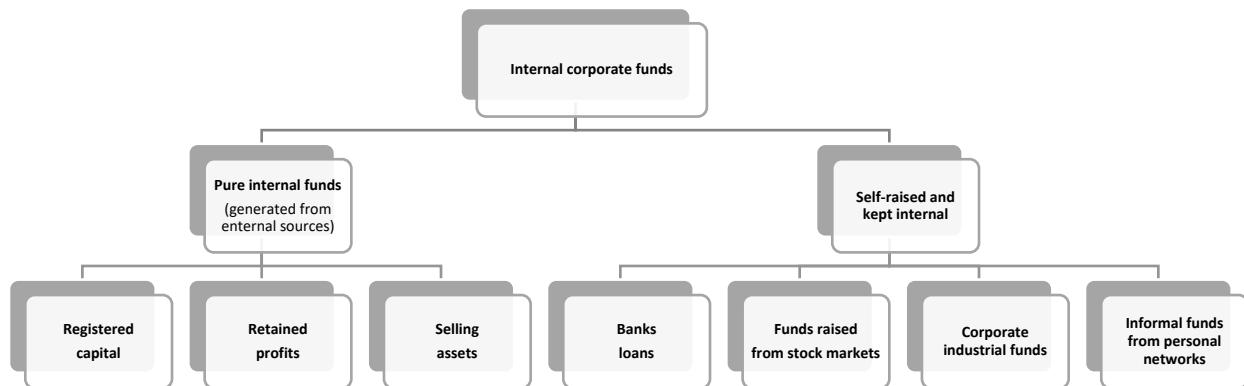
Examples of M&As financed by internal funds yet raised by external sources, include Legend Holding's takeover of Luxembourgish BIL (Banque Internationale a Luxembourg) in 2018 for 14.8 billion Euro, where the internal funds came from retained capital raised by IPO on the Hong Kong Stock Exchange in 2014 (PIN-LHG-00, 2020; see Chapter 6 case study, Section 6.1.2); and the similar case of Navinfo's full acquisition of Netherlands-based automobile GPS products Mapscape for Euro 7 million in cash in 2011, where the internal funds were sourced from the company's IPO overfunding by floating on the Shenzhen Stock Exchange in 2010.

Two prominent features of this mode of financing were revealed. On the one hand, transactions financed from internal sources, if from purely internal sources rather than raised from external, are mostly small or sometimes medium-volume,⁴⁴ either for the whole stake or for a certain share. They are usually for about several million Euros, though there are occasionally mega-deals, such as the aforementioned BIL case. This is for the obvious reason that internal sources are sufficient for small-medium individual transactions. On the other hand, most of the Chinese firms using this model are POEs, and most of them are niche market industrial leaders. Although there are occasionally some state-controlled companies, they are highly marketised (competitive) and the transaction volume is rather small, with such cases exemplified by Accenlink Technologies' (a

⁴⁴ For cross-border M&As, those less than US\$10 million are deemed small transactions, those between 10 million and 1 billion are medium-volume, those over US\$1 billion are large volume transaction (PIN-FS-02, 2022).

Wuhan-headquartered leading manufacturer of optoelectronic devices) acquisition of the Danish planar light wave circuit company Ignis Photonix for about US\$8 million (of which US\$2.6 million for the assets and an additional US\$5.4 million for equipment purchasing, technology upgrading, and working capital replenishment afterwards) in 2012.

Figure 5.11 Mode 1: Internal corporate fund financing



5.2.2 Internal funds and bank credit

The second commonly used financing mode for Chinese companies conduct M&As in Europe is via internal funds with additional bank loans (around 29 percent).⁴⁵ The main advantage of bank loans is that they are efficient (as the application for credit can be negotiated directly), with relatively simple procedures, low financing costs and more flexibility. Most importantly, they share the same traits with other debt financing methods (such as corporate bonds) of preserving firm ownership, which means the borrower is not losing their ownership stake in the business. This mode of financing could be further divided into two main sub-categories, i.e., internal funds with additional loans from a single bank (a Chinese domestic bank, or a Chinese bank overseas subsidiary, or a non-Chinese bank which is usually an international bank or a local bank), together with internal funds plus bank syndicate, which usually involves a diverse range of banks including both Chinese domestic and international banks (Figure 5.11).

⁴⁵ In the Chinese law, bank loans only allow for 60 percent maximum in M&A transaction.

The vast majority of Chinese firms using bank loans as part of their financing for M&As in Europe resort to Chinese domestic banks. Specifically, this includes policy banks such as EXIM Bank, as exemplified by the case of Harbin Boao Environmental Technology's full acquisition of P&P Industrietechnik (an Austria-based waste gas treatment systems engineering services provider) for about EUR 10 million in cash, of which the bank loans were from EXIM Bank Heilongjiang Branch.⁴⁶ It also includes loans from CDB (China Development Bank), represented by the case of Blue Star's (subsidiary of ChemChina) acquisition of French animal feed additive manufacturer Adisseo for about Euro 400 million, for which CDB provided most of the funds,⁴⁷ and Jiangsu Jinsheng's acquisition of Swiss textile manufacturer Oerlikon. Apart from policy banks, most bank loans are issued by multi-level commercial banks, in cases such as Shanghai Safbon's acquisition of KWI Corporate Verwaltungs (an Austria-based water and waste-water treatment services holding company) in 2016 for Euro 38.82 million, of which 40 percent funds were from stakeholders' loans and 60 percent from ICBC (Industrial and Construction Bank of China) Shanghai Qingpu Branch.

A second and related type of loan is financed through Chinese banks overseas subsidiaries, usually via the onshore guarantees for offshore loans service (*'Neibao Waidai'*).⁴⁸ A case in point is Hangxin Aviation's full acquisition of Magnetic MRO (an Estonia-based aircraft maintenance services provider) in 2019 for Euro 8.95 million, of which 40 percent funds were financed through corporate internal funds and 60 percent were via onshore guarantees for offshore loans service. Similar cases include Xianju Parma's full acquisition of the Italian steroid and lipid manufacturer Newchem and its commercialization platform Effechem in 2017 for EUR 110 million, and Midea's acquisition of German-based machinery manufacturer Kuka in 2016, with the loans from the ICBC (Europe) Paris branch and Frankfurt Branch. This method of financing contains three main

⁴⁶ According to the Annual Report of Boshi, the EXIM Bank Heilongjiang Branch provided 45 million CNY (approximately Euro 6.4 million) for the transaction.

⁴⁷ Refer to *'ChemChina's acquisition of Adisseo, the largest Chinese M&A in France'*, accessed via http://www.gov.cn/jrzq/2006-01/14/content_158385.htm, 25 April 2022.

⁴⁸ i.e., the guarantor is registered within China while those of the debtor and the creditor are outside China. Specifically, the guarantor (domestic bank or non-bank financial institution) issues a letter of guarantee or credit letter to a creditor (overseas bank) domiciled outside China, stating the guarantor's relevant obligations and responsibility for the payment of funds for cross-border transfer; in doing so, the overseas creditor releases the loan in foreign currency to the M&A entity established by Chinese firms outside China.

advantages: 1) the Chinese regulator (SAFE, State Administration of Foreign Exchanges) adopts a registration-based management scheme for this kind of financing, which has greatly simplified the entire M&A process; 2) it reduces foreign exchange risks and costs since the loans are from local banks with local currency; 3) it carries the lowest risks for the local creditor because of the domestic guarantor. This way of financing is quite popular among Chinese investors for cross-border M&As.

Besides the above two, Chinese firms occasionally seek bank loans directly from international or local banks. A prominent case is ChemChina's partial acquisition of Italian tyre giant Pirelli in 2015, of which JP Morgan claimed to provide the financing via bridging loan.⁴⁹ Yet this is a rare case, since Chinese firms are generally in the infancy of their internationalisation, and limited foreign assets and relatively less overseas experiences have impeded the way of financing via loans directly from local banks.

For some large volume transactions, bank syndicates are sought and mobilised to raise funds. For instance, Hainan Airlines's acquisition of Swissport was financed by a Chinese bank syndicate led by CDB in 2018 for a loan of US\$1.1 billion.⁵⁰ This way of financing not only allows investing companies to raise a large amount of money within a limited time, it also benefits the banks within the group for risk management and diversification purposes.

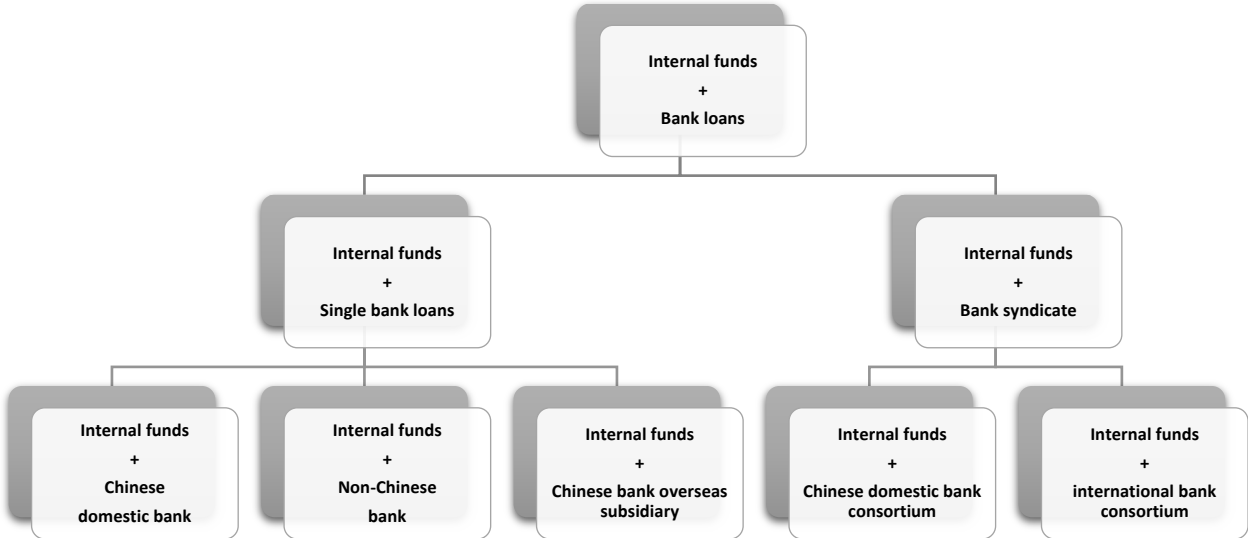
While it is the classic and most-adopted way of financing, one eminent feature of this model is that among firms of various ownerships and listed status, whether privately-owned, state-owned, hybrid-owned, and both listed and unlisted, most investors using this model are SOEs. In other words, while banks issue loans by referring to a series of index (e.g., the purpose, business or financial performance, collateral, credit history), the inheritable predilection for SOEs and prejudice against POEs, cultivate more SOEs while confining POEs to using bank loans. Though a few POEs are financed by loans either from policy banks or various commercial banks, most of

⁴⁹ Refer to *J.P.Morgan fuels China Inc's Global Ambitions with Pirelli buy* via: <https://www.wsj.com/amp/articles/j-p-morgan-fuels-china-incs-global-ambitions-with-pirelli-buy-1427096818>, accessed 25 April 2022; also see: <http://www.cgthinktank.com/2015-04-09/100073787.html>.

⁵⁰ Included: CDB, EXIM Bank, ICBC, ABC, CCB, BOC, and PSBC (Postal Savings Bank of China), according to: <https://www.cargoforwarder.eu/2018/12/01/hainan-airlines-to-borrow-us-1-1-billion-from-bank-syndicate/>.

them are those niche market industrial leaders, or those that fall into the strategic industries or industries promoted by the state. Small and medium POEs, either in terms of the scale of the business or their social impact, seldom received bank loans for cross border M&As.

Figure 5.12 Mode 2: Financing via Internal funds with bank loans



5.2.3 Internal funds and stock offering

A third mode of financing Chinese M&As is via internal funds plus equity financing (making up around 12 percent of transactions). Unlike debt financing (such as bank loans), equity financing carries no repayment obligation and provides extra working capital for the business, yet it also involves giving up a certain share of the company’s ownership. In China, because of the strictly regulation and lengthy process,⁵¹ it is usually not the first choice for firms financing cross-border investment. Among the Chinese M&A transactions in Europe, a few use this method of financing. They take three main forms (Figure 5.12): internal funds plus stock offering (a substitute for bank loans), internal funds with stock offering (by introducing a buying agent), internal funds with stock offering (for a stock swap).

⁵¹ Relevant laws including but not limited to: *Company Law of the People’s Republic of China, Securities Law of People’s Republic of China, Measures for the Administration of the Listed Company Issuing New Shares.*

The most common equity financing mode is that the investor company acquires the target company immediately, firstly by internal funds and/or self-raised funds (usually bank loans). The company then issues stocks to substitute or pay for the bank loans. Specifically, the company announces the M&A plan and potential means of financing (via stock issuance), then uses bank loans to pay for the transaction, meanwhile issuing stocks when the transaction is complete. This is because stock issuance requires the approval of the China Securities Regulatory Commission (CSRC), and the approval and issuing process usually takes a few months. Once approved, the listed company will then raise the funds and pay for the loan. This way secures the timing for specific deals while ensuring the successful transfer of assets. One example is Shenyang Blue Silver Industry's partial (85 percent) acquisition of Durr Ecoclean (a Germany-based industrial cleaning systems manufacturer) in 2016 for about 98 million Euros, where the investor used internal funds and bank loans first and then issued stock via private placement to substitute the prepaid bank loans.⁵² Another prominent case is Ningbo Joyson's acquisitions of Preh, Quin and TechniSat, which all use this type of financing (see Chapter 6 case study, Section 6.1.3).

Another common method is using internal funds and stock issuance, but introducing a buying agent (purchasing agent), which could be a major shareholder of the acquiror (listed company), various types of funds, or banks. Usually, the transaction is so large in volume that the listed company may find it difficult to pay for the entire stake in such a short time; in this case, external investor(s) or buying agent(s) are introduced to buy the whole or partial stake, with the aim of exiting the deal and transferring it to the listed company in one to three years. This leaves the listed company enough time to issue stock and raise money to buy back the asset. One advantage of this mode is that the buying agent purchases overseas assets on behalf of the listed company, which allows them to respond quickly to the transaction if the seller has a tight timetable and to secure the deal. Among the Chinese firms investing in Europe, Dare Auto, for instance, adopted this form of financing in its first international takeover of the German automotive supplier Carcoustics in 2017 for CNY 1.94 billion. The financing was from Dare's internal funds and bank loans (CNY 1.21 billion in total available), coupled with an external investor (CNY 0.94 billion).⁵³

⁵² Refer to the *Major Assets Acquisition Report of Shenyang Blue Silver Industry* (2017: 9).

⁵³ Refer to the *Major Assets Acquisition Report of Dare Auto* (2017: 32).

It should be mentioned that the external investor, China Merchant Bank (the limited partner) was the buying agent (seeking financial returns), who aimed to exit from the deal within 24 months; Dare Auto would then buy back the partial assets by raising funds from issuing stocks. This enabled Dare to respond quickly and make the transaction, meanwhile solving its cash shortfall.

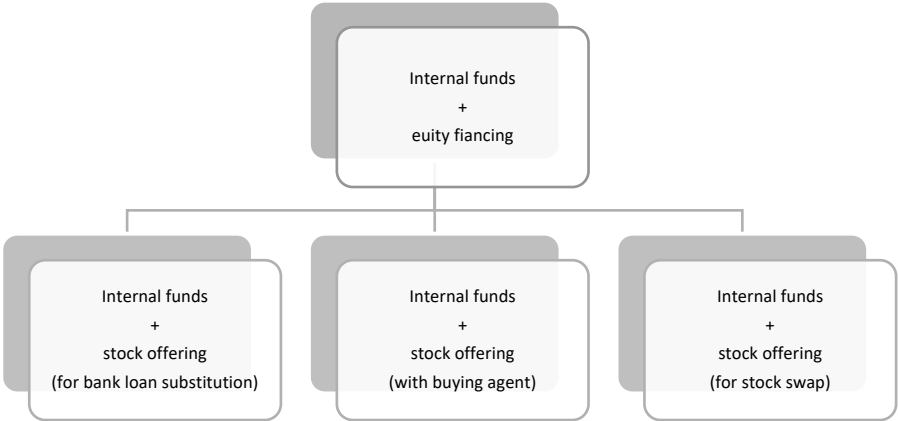
Apart from the above two, a third method is stock swap (or share exchange, stock-for-stock). This refers specifically to a situation where the two parties, the acquiring company and the target company, agree to exchange the equity-based asset of one with that of another, rather than pay in extra ways such as by cash or loans. During certain transactions, the acquiror offers its own shares to the shareholders of the target company at a pre-determined swap ratio. The benefits of stock swap include fewer foreign exchange risks and costs, lower tax liabilities due to its no or low cash nature, the ability to respond to a potential purchase immediately without having to raise additional funds, etc. Yet in the Chinese context, this form is strictly regulated (partly because of the lower circulation and recognition of Chinese listed companies and their stock value among international investors). It is therefore much less commonly used by Chinese firms investing overseas. However, there are exceptions. The Chinese state-owned Aerospace Hi-Tech, for instance, has used this method, though in a nuanced way. In the acquisition of three Luxembourg-based companies - IEE (97 percent), Hiwinglux (100 percent) and Navilight (100 percent) - Aerospace Hi-Tech used internal funds and issued stocks via private placement to the owners of the three targets (Easunlux, Yisheng International, and Guoxin International), which are also SPVs⁵⁴ of Ascend Capital Partners (AC) which is held by the parent company of Aerospace Hi-Tech. Although, in this transaction, the stock swap occurs across national borders, the transaction parties are parallel companies within the business group.

In a nutshell, compared with the two former types, equity financing is less used by Chinese companies. This is partly because of the limitations of a developing Chinese stock market and a listed company only rule, which gives listed firms more financing resources compared with unlisted. Apart from the various stocks issued by public and non-public means, listed companies

⁵⁴ Special purpose vehicle refers to an independent legal entity (subsidiary) created by an organisation (parent company) for specific purpose. The benefits of SPVs include that they are easy to set up, tax-saving, free from pre-existing obligations and debts, etc.

could also resort to other means such as convertible bonds (either issued by the company or by major shareholders) to fund their cross-border investments.

Figure 5.13 Mode 3: Internal funds and stock offering



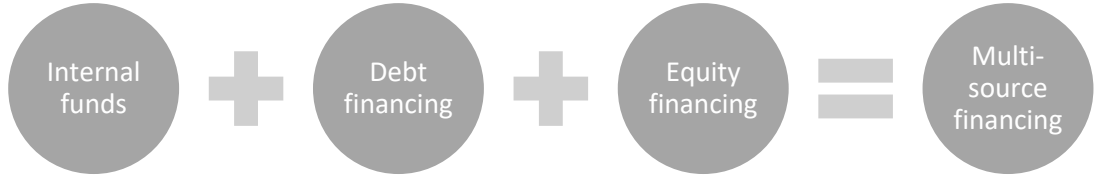
5.2.4 Multi-source financing

A fourth model is a hybrid that covers all the aforementioned three types of financing (around 3 percent). It means that the project or transaction is financed from more than two different financing sources; that is, internal funds, bank loans and stock issuance. It is often used for medium to large volume transactions. Many POEs adopt this method, because it enables greater mobilisation of capital, reductions in cost and trading efficiency, and is a multi-win situation. Cases of Chinese firms investing in Europe taking this form include Guangdong Dongfang Precision’s first overseas investment in 2013, its acquisition of 60 percent of Italian-based corrugated board machines manufacturer Fosber for EUR 60.04 million. The financing was raised in three major parts: internal funds of Euro 10.14 million in total, of which 10.14 million was from the acquiring company and 0.004 million from its Hong Kong subsidiary; IPO overfunding for around Euro 7.9 million, and bank loans for Euro 42 million.

Apart from that, this mode is also used for financing mega-transactions. A case in point is ChemChina’s full acquisition of the Swiss agrichemical company Syngenta in 2016 for US\$43 billion. This is the biggest-ever cross-border acquisition by Chinese companies. Being a mega-volume deal, external financing was thus necessary. Besides 5 billion internal capital, ChemChina sought multiple external sources to finance the deal, including 20 billion capital from perpetual

bonds and convertible preferred shares, of which 10 billion were from the Bank of China (BOC), 7 billion from Chinese state-owned asset manager China Reform Holdings Corp Ltd, and 1 billion from China Industrial Bank, with all these funds raised through perpetual bonds. The other 2 billion was financed by convertible preferred shares from Morgan Stanley (Zhong and Zhu, 2017; PIN-FS-02, 2022; PIN-FS-03, 2022).

Figure 5.14 Mode 4: Multi-source financing



Chapter summary

Based on data extracted mainly from BvD-Zephyr, Thomson One, and FDI Markets, this chapter has examined the general trends, types, patterns, and financing sources of Chinese multinationals and their FDI in Europe. To begin with, it shows that Chinese investment was starting to grow from the early 2000s, it then experienced a sharp increase, especially in the years after the financial crisis, before it slowed down since 2016. Investment has taken place in most European countries, a wide range of economic sectors and by companies of various scales and ownerships. While both greenfield investment and M&As prefer the traditional industrialised countries represented by the UK, Germany and France, greenfield also values those CEE countries with quality assets. Although project-wise, the number of greenfield transactions are much greater than the number of M&As, the M&As account for the vast majority of investment capital.

In terms of financing, four general financing modes are commonly adopted by Chinese firms to support their FDI in Europe. These are by raising internal corporate funds, by raising internal funds with additional bank loans, raising internal funds with additional stock offering, and multi-mode financing that covers all three. While each mode seems to have some advantages depending on firm ownership, scale, aims, listed status, as well as the volume of the transaction and parties to it, a preliminary finding shows that financing to some extent determines the efficiency and results of certain transactions. Put another way, for Chinese investors, listed companies have more financing sources than unlisted; SOEs prefer bank loans to stock offerings, even if listed; POEs, if large scale, have more choices, either from bank loans or via stock markets, and both domestic or international, yet for smaller POEs, internal funds or the stock market are the common method of financing; for medium and large volume transactions, syndicate bank loans and multi-source financing are the most possible and efficient means.

In sum, this chapter has discussed the commonly used financing patterns for Chinese firms investing in Europe, while investigating the apparent connections between different types of investment financing and firm strategies, to which the data collected from the database appears to point. Using case studies, the next chapter will explore the nature of these connections in further detail.

Chapter 6 Chinese multinationals and their investment in Europe: case study analysis

This chapter aims to explore in greater depth the fabric of Chinese companies and their investment in Europe, by consulting first-hand data collected from 20 personal interviews conducted between 2020 and 2022. The data benefit from triangulation, both between different interviewees within the same corporation, and cross-reviewed with other sources, such as corporate archive data. This chapter has two main parts: the first section presents 10 individual case studies, while the second is a cross-case comparative analysis. This chapter thus complements Chapter 5 by presenting more primary data while also providing an analytical foundation for an integrated analysis in Chapter 7.

6.1. Single case analysis

Cases were selected based on access and data availability, and the need to accommodate and balance a wide range of industries, firm scales, ownership of firms, landmark transactions, and most importantly financing sources (Chapter 3, Section 3.3.2). Each case has elements of the company's corporate profile (ownership advantage), Europe as the destination (location advantage), internationalisation motives via greenfield or M&A (internalisation), and source of financing.

6.1.1 Huawei

Huawei is the largest Chinese greenfield investor in Europe, and it is one of the few Chinese companies that are true global operators. Given the technology-intensive nature of the ICT industry, Europe's state-of-the-art know-how appeals to Huawei, which invests in a number of areas including greenfield, M&As and strategic cooperation with local telecommunications giants. It is a typical case for studying how Chinese companies operate in Europe.

Corporate profile

Founded in 1987 with headquarters in the southern China hub of Shenzhen, Huawei is one of China's largest telecommunications companies. Starting from humble beginnings by reselling

telephone switches imported from Hong Kong, Huawei has grown into one of the world's leading Information and Communication Technologies (ICT) solution multinationals, with products covering telecom infrastructure, network equipment and smartphone devices. It has overtaken Samsung as the biggest seller of mobile phones (Kirton, 2020), and sits among the top three telecom network suppliers (along with Nokia and Ericsson) in setting technical standards for, and leading the rollout of, 'fifth-generation' (5G) cellular networks.

Huawei's internationalisation strategy was proposed in the mid 1990s, and it officially started its overseas journey by entering Hong Kong in 1996, Russia in 1997 and India in 1998, from where it expanded to the Middle East and Africa in 2000, before spreading into 40 countries in Southeast Asia and Europe in 2001 and the US in 2002. Its reasons for operating overseas and for internationalisation were mainly twofold: on one hand, Huawei was stymied by technological roadblocks in the home market, which forced it to seek markets and growth abroad;⁵⁵ on the other hand, and perhaps more imperative, is that it took the initiative to internationalise (Huawei, 2020a). This was explained by Huawei's senior investment manager, who has been working with Huawei for over 22 years, stating that:

The reason that Huawei chose to internationalise during that time is threefold: 1) The highland of technology remains in developed countries such as North America and Europe, and it is necessary for us to go overseas and engage with new and advanced technologies. 2) The term technology has two connotations: R&D is one important part; the other one, perhaps more important, is customer demands. "Advanced" customers usually bring "advanced" demands, which always direct us on a right and more innovative way. Thus, it is necessary to go overseas to approach more customers to avoid lagging behind. 3) The nature of the ICT industry is highly interconnected and interwoven, both the providers and customers need to follow the same standard (i.e., a countable few international

⁵⁵ During that time, Huawei faced major setbacks due to the challenging Chinese domestic market, where all big cities (i.e., Beijing, Shanghai, Guangzhou) in China are dominated by the world's top telecoms brands, including 9 international communications equipment manufacturers together with over 400 Chinese telecom manufacturers (Huawei, 2020b).

standards), such features determine that ICT companies have natural advantages and needs to go overseas, to try to be the pacesetter and for market expansion.”

(PIN-HW-01, 2022)

Two more decades of internationalisation have resulted in a fully globalised Huawei with 197,000 employees, operating in over 170 countries and regions (Huawei, 2021: 1). For quite a long time, its overseas revenue accounted for most of the total revenue, it was not until very recent years that the revenue generated in the Chinese domestic market surpassed that from overseas, due to global political turbulence (PIN-HW-01, 2022). In retrospect, Huawei has experienced three main stages during the internationalisation process, from the initial start-up phase of introducing and establishing its brand, to market expansion in other developing countries before marching into the advanced regions with incrementally accumulated ownership advantages along the way (Table 6.1).

Table 6.1 Huawei’s three-step internationalisation process

Step 1 Starting up	A very difficult time for Huawei, as very few people knew about Huawei, and even fewer people knew about China. People have stereotypes against a poor and backward China, and it is not easy for them to accept the fact that high technologies could be developed in such an underdeveloped country. Thus, the first step for Huawei in going overseas, is to introduce its products and build branding for overseas customers. Thus, during this stage, introduction and having conversations with overseas customers were the main business, while selling products and doing real business was not a priority. Costs were very high, and the aim was to foster a true impression of Huawei.
Step 2 Developing country market expansion	Huawei adopted a traditional Chinese method of market expansion during this stage. After breaking into the overseas markets and gaining its customers’ initial trust - when they found that the Huawei products were not that bad and looked ok and usable...at this stage, Huawei had gained a foothold in overseas markets, but mainly through having low prices with fair quality. This is the traditional way for Chinese companies to develop overseas markets.

Step 3	During this stage, Huawei is trying to establish strategic alliances with world's top service providers, marked by cooperation with Vodaphone. Together, they work to push the technological border forward and develop more innovative products. This event signifies that Huawei has gained certain advantages and started to have a say in technology leadership within the ICT industry.
Developed country market expansion	

Source: (PIN-HW-01, 2022)

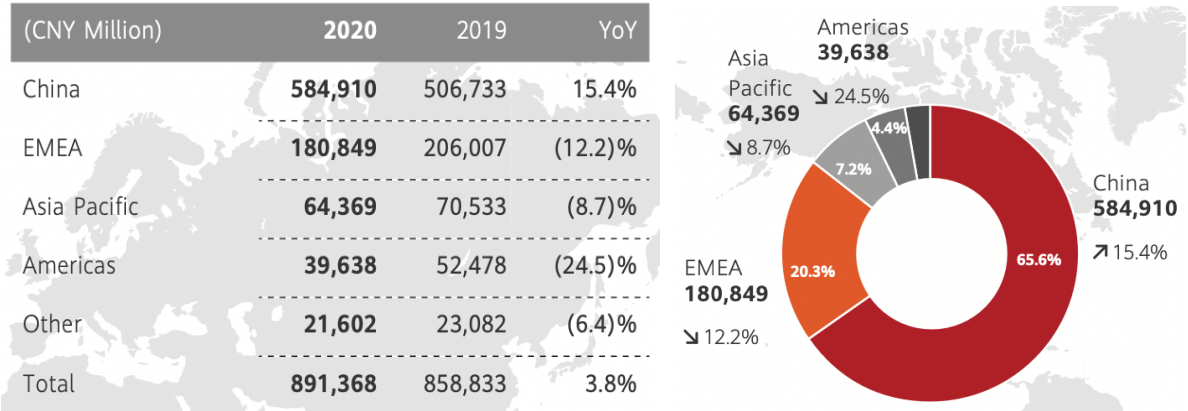
Huawei's comparative advantage (or core competence) lies in three main areas⁵⁶: 1) The customer as the top priority. Customer needs have been engraved in Huawei's genes from the very beginning. In the early days, faced with the competing domestic market, Huawei tried to penetrate saturated markets by encouraging its salesforce to go rural and peripheral areas by customizing its products and after-sale services for the unique local market. This approach has also been followed during internationalisation. The reason why Huawei has set up so many institutions (e.g., representatives offices, customer service centres), both domestically and globally, is to stay closer to customers, knowing what they want and solving their problems. Huawei is respected and trusted not because of how advanced the product is or because the quality is good, but for its customer service: where there is a problem, there are Huawei people and solutions. 2) R&D input. Since the beginning, when Huawei was still a sales agent, its emphasis was on technology and developing original products. Huawei invests more than 10 percent of its revenues into R&D annually, and it is among the top companies that patents. This ensures Huawei is always in front. 3) Global talent. Ultimately, the products and services of Huawei are the people that create them. Huawei have established cooperation with universities, and source the best talent worldwide, which means that it does not have to rely on others and ensures it can stay ahead of the others. These three areas are interlinked, and they form what could be said to be Huawei's ownership advantages for development and internationalising.

Europe, on Huawei's global map

⁵⁶ Refer to: personal interviews (PIN-HW-01, 2022; PIN-HW-02, 2022; PIN-HW-03, 2022); Tian (2021); De Cremer and Tao (2015).

Huawei started its European journey in 2000 with the opening of the R&D centre in Stockholm, Sweden. Its main business in Europe is in customer-centric innovation and partnership and in cooperation with the main European Carriers. It currently has 2 regional offices in 33 European countries, more than 10,000 employees with 1570 in R&D, across 18 R&D centres.⁵⁷ Among all the overseas markets on Huawei’s global map, Europe is the most important, for its strategic role in global branding and networking. Not only does it hold most of Huawei’s innovation (R&D) centres, it is also deemed to be Huawei’s second global headquarters; for Huawei, Europe is treated and operated as if it is of equal importance to the Chinese domestic market (PIN-HW-01, 2022). Accordingly, Europe contributes Huawei’s largest overseas market in terms of revenue (Figure 6.1).

Figure 6.1 Huawei’s 2020 Business Revenue



Source: Huawei Annual Report 2020, p.17

Huawei’s FDI in Europe

Huawei’s ownership advantages, and the importance of Europe, has prompted it to internationalise via direct investment. It tops the Chinese firms investing in Europe, with 132 greenfield projects and 4 M&As conducted between the year 2003 and 2019 (Table 6.2 and Table 6.3). Of these, the greenfield investments cover three business clusters, including ICT and electronics (129 projects), environmental technology (2 projects), and consumer goods (1

⁵⁷ i.e., Belgium (Gent, Leuven, Louvaine-la-Neuve), Finland (Helsinki), France (Paris, Nice), Germany (Nuremberg, Munich, Berlin), Ireland (Cork, Dublin), Italy (Milano), Sweden (Stockholm, Gothenburg, Lund), UK (Ipswich, Cambridge, Bristol⁵⁷), with its European headquarters in Dusseldorf, Germany.

project); out of a total of 10 business activities, R&D (with 65 projects) accounts for almost half (Table 2). The top host countries are UK (where there are 20 projects), France (15 projects), Germany (14 projects), Italy (13 projects), Hungary (9 projects), and Netherlands (9 projects), which account for 60 percent of the total number of projects. In contrast, there is a relatively small volume of M&As, with all of them located in Western Europe, encompassing Belgium, Ireland, and the UK.

Table 6.2 Huawei's greenfield investment in Europe, by business activity (2003-2019)

Business activity	No of projects	Jobs Created		Capital investment	
		Total	Average	Total (USD m)	Average (USD m)
Research & Development	65	4,176	64	3,063.30	47.10
Sales, Marketing & Support	29	2,434	83	445.60	15.40
Headquarters	9	867	96	219.90	24.40
Education & Training	6	568	94	40.70	6.80
Customer Contact Centre	4	418	104	15.20	3.80
Logistics, Distribution & Transportation	4	461	115	173.80	43.50
Manufacturing	4	3,005	751	141.50	35.40
Shared Services Centre	4	274	68	46.90	11.70
Technical Support Centre	4	144	36	28.20	7.00
ICT & Internet Infrastructure	3	238	79	205.90	68.60
Total	132	12,585	95	4,380.90	33.20

Source: FDI Markets

Table 6.3 Huawei's M&A transactions in Europe (2003-2019)

Acquired company	Country	Volume
Caliopa	Belgium	-
Amartus's software-defined networking division	Ireland	Euro 25 million
Neul	UK	USD 25 million

Centre for Integrated Photonics	UK	-
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Financing Huawei for overseas investment

Huawei has rather simple financing sources, which include retained profits from business, investment returns on employee stock, bank loans and (since 2019) corporate bonds (PIN-HW-01, 2022). In terms of financing overseas investment, interviewees indicated (PIN-HW-01, 2022; PIN-HW-02, 2022; PIN-HW-03, 2022), that almost all the projects are financed via internal funds. This is because Huawei has sufficient cashflow (as shown in the financial reports); meanwhile, since the investment projects are relatively small in volume, there is no need to raise external funds. Huawei do seek bank loans, usually from EXIM bank or CDB, but they are used to help clients, by providing low interest credit (PIN-HW-02, 2022).

Three core features make Huawei different from other world multinationals: 1) Huawei has been a POE from the very beginning and is owned by its employees. Huawei was established by Mr. Ren Zhengfei and five other individuals, who pooled CNY 21000 (about EUR 4000) in total (each putting in CNY 3500) as working capital. Since inception, it has implemented an Employee Shareholding Scheme (an employee stock ownership plan), of which Mr. Ren holds about 0.9 percent share, with all other employees holding the rest. 2) Huawei is unlisted, which means it was, is, and will not have, external investors (Tian, 2021). One interviewee emphasised that “Huawei has never received any governmental funds, in contrast, it has refused all the government-supported research funds; Huawei publishes its financial report annually with all Big Four accounting firms,⁵⁸ partly in response to doubts raised by outsiders (PIN-HW-03, 2022). 3) All high-level management are trained and have grown up in the company, and Huawei never outsources any of its higher management.

As a truly globalized MNC, Huawei is the only Chinese company where overseas earnings surpass domestic gains. Huawei internationalised firstly due to the saturated and competitive Chinese domestic market, which compelled it to go and expand into international markets; yet it is more

⁵⁸ i.e., Deloitte, Ernst and Young (EY), PricewaterhouseCoopers (PwC), and Klynveld Peat Marwick Goerdeler (KPMG).

because of the need for an ICT company to actively participate in global competition achieving the technological high ground and becoming leaders. For Huawei, Europe is the most important overseas market, and is deemed Huawei's second global headquarters after China. This is because Europe has the world's largest ICT carriers and most advanced technologies. This not only allows Huawei to stay closer to state-of-the-art technologies, but also to the customers who propel its innovation. As a private and non-listed company, although its high creditworthiness allows it to seek external resources, Huawei mainly relies on internal funds.

6.1.2 Legend Holdings

Legend Holdings is one of the oldest and largest business groups in China. It was founded in 1984 by 11 researchers (including Mr. Liu Chuanzhi), with initial capital of RMB 200,000 (around Euro 30,000), sponsored by the Computing Institute of the Chinese Academy of Science.⁵⁹ Between 1984 and 2000, Legend focused on the IT sector, highlighted by the creation of its own PC brand Lenovo in 1990. By 1997, Lenovo Group⁶⁰ had become the largest PC manufacturer in China by market share. By 2000 it ranked No.1 in the Asia Pacific region (excluding Japan). Starting from 2001, Legend carried out a shareholding reform⁶¹ and transformed itself to cultivate more industries that could operate in parallel with the already well-performed IT business; this formed the "two-wheel-drive business model", of which industrial operations (strategic investments) and industrial incubations and investments (financial investments) were the two business themes, with each benefiting from the other by business alignment, funding support and resource-sharing (Figure 6.2). This has not only strengthened Legend's own business and made it one of the top

⁵⁹ According to the interviewee (PIN-LGH-00, 2020), Legend is a 100% state-owned company at first owned by the Chinese Academy of Sciences (CAS). It subsequently underwent a series of reforms. In 2001, CAS reduced its shares to around 65%, with 35% owned by Legend's Employee Stock Ownership Committee. After that, in 2009, China Oceanwide Holdings was introduced, and accounted for about 20% shares. In other words, CAS sold its shares to China Oceanwide and accounted for about around 36% in total, that is, before it was listed in the Hong Kong Stock Exchange in 2015. Currently (after the IPO), the shareholder structure is that CAS owns 29.04%, and is still the largest single shareholder; the others include our employees (the founders, the new key employees, our management, all together around 32 percent), China Oceanwide, and public shareholders (around 16.5%). So Legend now is a private listed company with highly diversified shareholders, and it is classified as the private companies when comes to the official statistics.

⁶⁰ Listed in Hong Kong in 1994, Lenovo is mainly highlighted by its takeover of IBM PC business in 2004.

⁶¹ Legend has been split into three companies, Legend Holdings (the parent), Lenovo (a subsidiary), and Digital China (another subsidiary).

10 POEs in China, it has also trained and nurtured a group of leading Chinese companies including JD Logistics. In 2021, Legend ranked 159 in the Fortune Global 500 (2021) with 10,000 employees globally and revenue of RMB 490 billion (around Euro 70 billion) (Legend Holdings, 2022: 12).

Legend began internationalising by acquiring IBM’s Personal Computing division in 2004. This transaction allowed IBM to divest its loss-suffering PC division to refocus on its corporate and government clients; meanwhile allowing Lenovo to benefit from IBM’s branding, global distribution networks and wide range of customers, and to be one of the world’s top three PC maker.⁶² Yet this was in Legend’s early stages of internationalisation. Since then, it has made several acquisitions globally, including the German-based consumer electronics company Medion (51 percent) in 2011, Google’s Motorola Mobile unit and IBM X86 business in 2014, the Australian distributor KB Seafood in 2016, Luxembourg-based bank BIL in 2018, and Chilean-based food manufacturer Australis Seafood in 2019. The main reason for internationalisation is that as Legend grows, its expanding businesses and increasingly available capital (especially after listing in HK in 2015) enable Legend’s strategy of mobilising resources, both domestically and globally, via M&A, which is deemed to be an important way to integrate global resources and add to its diverse portfolios.

Figure 6.2: Legend Holding’s business model and major cross-border M&As

Legend Holdings	Strategic investments	IT	IBM PC (2004, US) Motorola Mobile (2015, US) Medion (2011, Germany)
		Financial services	BIL (2018, Luxembourg)
		Agriculture and Food	KB Seafood (2016, Australia) Australis Seafood (2019, Chile)
		Advanced manufacturing and professional services	
	Financial investments	Angel investments (Legend Star)	
		Venture capital	
		Investment management	
		Invest property	

⁶² Refers to: <https://news.lenovo.com/pressroom/press-releases/lenovo-to-acquire-ibm-personal-computing-division/>, accessed 6 May 2022.

Source: author's research

Europe has been of strategic importance to Legend because of its obvious advantages, including mature industries and quality assets, and this is especially true due to tense Sino-US relations of recent years (PIN-LGH-00, 2020). In 2014, Legend set up its first European office in Switzerland, since when it has implemented several investment transactions. Among its acquisitions are the acquisition of the majority of shares (89.98 percent) in Luxembourg-based BIL (Banque Internationale a Luxembourg) for around Euro 1.48 billion, which is a flagship transaction as well as the largest and has received most attention. Founded in 1856, BIL is one of the oldest financial institutions in Luxembourg, and is the third largest bank by market share, listed as one of the G-sibs⁶³. Legend is the first Chinese non-financial institution to acquire a European financial institution, and BIL will strengthen Legend's finance sector to make the whole business more balanced. For BIL, becoming a Legend member company also enables it to expand its business into the Chinese market.

As for its source of finance in general, Legend has mainly relied on its retained profits and bank loans. The cooperating banks are the "Big Four" state banks⁶⁴ (Legend Holdings, 2022: 6). In terms of financing investments, the interviewee indicated that:

Although domestic investments and overseas M&As are not quite different, for domestic ones, financing might be easier, as Legend is well-known in China, so the terms might be not that strict, while overseas ones are more specialised and demanding. The financing of the BIL acquisition is quite straightforward. Legend's IPO funds are about HKD 12 billion, and the transaction is valued at around RMB 11 billion, so basically, we took the whole IPO funds to buy BIL. The money was kept in an overseas bank account, we just took it to do the investment. We didn't use external finance. Also, the European Central Bank does

⁶³ i.e., global systemically important bank, refers to those banks whose systemic risk profile is deemed to be so important that the failure of one would trigger a wider financial crisis and threaten the global economy.

⁶⁴ i.e., Industrial and Commercial Bank of China (ICBC), Bank of China (BOC), Agricultural Bank of China (ABC), and China Construction Bank (CCB).

not allow using leverage to buy its financial institutions, i.e., no borrowed money. So the financing is via Legend's IPO funds.

(PIN-LGH-00, 2020)

In sum, as a large-scale POE involved in multiple sectors, internationalisation for Legend is a process of mobilising and integrating its global resources. M&As allow it to strengthen its own businesses by assimilating what it calls “pillar assets”, either from direct competitors (e.g., IBM and Motorola) or from strategically important and complementary partners (e.g., BIL). Europe is the priority for Legend in searching for quality assets, and is deemed to be an alternative to the US, especially against the backdrop of the hostility between China and US in recent years. In terms of financing, apart from using the profit it has made over the years, it relies on external funds such as bank loans as one main source. This is because Legend has wide currency and social capital in China, which has provided endorsement and is convincing in applications for bank credits. Additionally, Legend takes full advantage of its listed status in mobilising capital during internationalisation. What is worthy of note is that, after the acquisition of BIL, the asset itself became a financing source (in the form of a bank syndicate) for funding the Chinese company's investment overseas.

6.1.3 Joyson

Established in 2004, Joyson Electronics is a young and fast-growing automobile component manufacturer. Headquartered in Ningbo, in Zhejiang Province, Joyson operates in 30 countries, with 70 bases and more than 4,000 employees globally. It is mainly engaged in the R&D and manufacture of auto electronics, intelligent driving, E-mobility and auto safety systems. It ranked 29 among the world's top 100 automotive suppliers in 2019, and 125 among China's top 500 POEs in 2020.

Joyson started internationalising in 2010 when it set up a joint venture with the German-based automotive electronics company Preh, before acquiring it during 2011. Since then, Joyson has been actively participating in the global market and has conducted several M&As, which include the acquisition of the robotics company IMA (Germany) in 2014, Quin (Germany) in 2015, KSS

(US) and Evana (US) in 2016, M&R (Australia) in 2017, and Japanese automotive safety parts manufacturer Takata in 2018. The rationale, explained by the senior manager, is that

The automotive industry is a highly mature industry with a long industrial chain and a big supplier system. Usually before the breakthrough of new technologies, the development path of this industry is dominated by small and incremental innovations. If the global production capacity exceeds demand before the emergence of breakthrough technologies, the industry will enter a painful de-capacity cycle. For automotive companies, the way to survive is to scale up and achieve industrial integration.

To achieve this goal, Joyson has adopted a rapid expansion strategy by undertaking a series of overseas acquisitions, as this allows Joyson to learn from the partners meanwhile enlarging its scale by adding more superior products and technology to achieve industrial upgrading. Such a strategy proves to be right and efficient. In 2010, Joyson was still a small and unlisted company with relatively low capacity and an annual revenue less than RMB 1 billion; 8 years' internationalisation has made it the world's second largest automotive safety parts manufacturer and actively competitive in the global markets.

(PIN-JS-01, 2021)

In terms of finance for overseas acquisitions, Joyson has repeatedly adopted the equity financing route in the form of “internal funds + private placement (for bank loan substitution)”, represented by the deals with Preh (Euro 300 million), Quin (Euro 90 million), and TechniSat (US\$920 million) (PIN-JS-01, 2021; PIN-JS-02, 2022). Specifically, it has used internal funds combined with bank loans and paid in cash for the transactions; it has then issued stocks via the Shanghai Stock Exchange to raise capital for the repayment of the loans.

Starting as a small POE with limited capacity, Joyson internationalised to scale up, and to move up the value chain. It is a typical case that takes an asset-augmenting strategy by actively conducting cross-border M&As. Joyson started with Europe, partly because of its cooperation experience (with Preh) and the personal networks of the founder, but also because Europe contains the world's top players in the industry (PIN-JS-02, 2022). As a listed company, Joyson mainly resorts to capital markets for financing.

6.1.4 Wanhua Chemical

Wanhua's history can be traced back to 1978 when a synthetic leather production line was introduced to China, which in 1983 became the fully state-owned Yantai Synthetic Leather Factory. During the 1990s, the factory underwent SOE reform and Wanhua was officially established in 1998; after being listed in 2001, Wanhua has transformed into a (Yantai municipal) state-controlled, hybrid-owned company with businesses covering polyurethanes, petrochemicals, performance chemicals and emerging materials. It now operates in more than ten countries with R&D centres in China, North America and Europe. In 2020, it ranked number 22 among the world's top 100 chemical companies, with an annual sales revenue of approximately US\$11 billion.⁶⁵

Wanhua launched its globalisation strategy in 2003 by setting up sales offices in the US and Europe, but due to the increasing costs triggered by freight and tariffs, together with intensified competition in the Chinese domestic market (the world's No.1 chemical giant, German-based BASF set up a factory in Shanghai in 2005), it then considered establishing overseas production bases in order to compete effectively with the global chemical giants; this plan coincided with the financial crisis, during which one of the world's top chemical manufacturers BorsodChem encountered a liquidity crisis, Wanhua then changed its original idea of greenfield investment and acquired BorsodChem instead (PIN-WH-00, 2020). This transaction cost Euro 1.26 billion, which is not only the largest Chinese acquisition in Central East European region, but also marks a milestone in Wanhua's internationalisation and makes it me a truly international company.

The rationale, explained by my interviewee, is that:

The chemical industry, especially the polyurethane subdivision, is controlled by oligopolies with extremely high technical barriers and capital requirements; only a few companies in the world possess the intellectual property rights and technology for production, and they are mainly distributed in Asia, North America, and Europe where the major markets are located. The polyurethane subfield differs from other chemical products in that its

⁶⁵ Refer to the ICIS top 100 chemical companies list, via: https://s3.eu-west-1.amazonaws.com/icis.ada.website.live/wp-content/uploads/2021/09/13164728/ICB_030921_Top-100-Chemical-Companies-pt-1-1.pdf, accessed 27 Jun, 2022.

development is a process of competition and cooperation, whereas others are competing fiercely and race to the bottom. The targets, therefore, only arise from the existing competitors. BorsodChem is based in Hungary, Europe, and the transaction has changed the landscape of the global polyurethane industry. Prior to the acquisition, Wanhua and BorsodChem were ranked 5 and 6, respectively. After the merger, they became the 2 largest in the industry.

(PIN-WH-00, 2020)

Wanhua represents the most common method among investors, going overseas and acquiring its direct competitors (horizontal acquisition) by exploiting its ownership advantages. As a (municipal level) state-controlled listed company, albeit with listed status, it has made the most of its advantages by using bank loans during the internationalisation process. By acquiring its major competitors, it seeks to enhance its capacity and expand its global market share in order to compete in the monopolistic markets dominated by the world's major chemical groups.

6.1.5 Weichai

Founded in 1946 and headquartered in Weifang, Shandong, Weichai Group is a provincial level state-controlled holding company, specialised in the design, manufacture and sale of diesel engines, with business covering multiple areas including engines and vehicles, automotive parts, construction machinery, intelligent logistics and marine power. It now has over 80 subsidiaries and 100000 employees worldwide, with annual revenue reaching RMB 300 billion (Euro 42 billion) in 2021. The company ranks 77th among China's Top 500 enterprises, 1st among China's Top 100 machinery industry enterprises, as well as 4th in the global Top 100 auto parts companies to be the only Chinese company in the Top 10 list. In particular, Weichai's main subsidiary Weichai Power, ranks 425 on the Fortune Global 500 list, with a net profit of RMB 9.25 billion (Euro 1.3 billion) in 2021.

Weichai started to internationalise as early as the late 1980s, when it began exporting to countries in South and Southeast Asia. Since the late 2000s, it has accelerated its globalisation by conducting multiple M&As (Table 6.4), including the French marine diesel engine manufacturer Moteurs Baudouin, the Italian luxury yacht maker Ferretti, German materials handling

equipment firm KION (and its subsidiary Linde Hydraulics) and electric drivetrain specialist Aradex; meanwhile establishing manufacturing facilities in Germany, India and Belarus. The rationale, explained by the senior manager, is that:

Weichai had encountered a bottleneck development, with a singular, concentrated product line and high dependence on the already saturated domestic market. Internationalisation is the only effective way to mitigate the cyclical fluctuations of the domestic market, by actively joining the sequence of the division of labour in the world industrial value chain to explore the globalised international market.

On Weichai's global map, different regions have their own features, or play their role. The business in Asia-Pacific like Singapore and Vietnam are more comprehensive, from manufacturing to distribution then to after-sales; the Middle East and Africa are more to do with end products due to its relatively low industrialisation; for more advanced areas like Europe and North America, Weichai goes with direct investment, as this could allow us to stay closer to the industrial clusters and benefit from the technologies at the forefront, management personnel and the wider global market. Although some of the acquired assets (e.g., the French Baudouin) are not state-of-the-art and even have problems within the management system, it has now rejuvenated after we've done optimization and upgraded the products (collaboration efforts) and headhunting for experienced managers. In general, Weichai's overseas subsidiaries are all profitable, and overseas revenue accounts for 40 percent of the total since 2018. For Weichai, internationalisation is imperative, and the financial crisis has just put all these ahead of our schedule.

(PIN-WC-01, 2022)

In terms of financing, Weichai may have resorted to bank loans in the early days, yet since the 2000s, especially after being listed in Hong Kong in 2004, the IPO funds together with the accumulated surging profits year-over-year have provided Weichai with abundant capital for overseas expansion. All the investments, including both greenfield and

acquisitions, are funded from our retained profits; until today, we have no external loans, not even a penny.

(PIN-WC-02, 2022)

Table 6.4 Weichai’s major overseas M&A transactions

Transaction Party	Destination	Year	Percent	Volume
Moteurs Baudouin	France	2009	100 percent	Euro 2.99 million
Ferretti	Italy	July 2012	75 percent	Euro 350 million
KION	Germany	Sept 2012	25 percent of KION And 75 percent of KION’s subsidiary Linde Hydraulics	Euro 7380 million
Aradex	Germany	2015	80 percent	Euro 28 million
Dematic	US	2016	100 percent	USD 210 million
Ballard	Canada	2018	19.9 percent	USD 163 million
VDS Holding	Austria	2019	51 percent	-

As a provincial level SOE that leads the niche markets of diesel engines and auto parts, Weichai’s internationalisation is due to exploring for wider markets and the need to upgrade product lines. Europe has a natural advantage of attracting investment for its mature industrial system, the outbreak of the financial crisis resulted in shrinking assets that has accelerated Weichai’s internationalisation. As for financing, unlike other SOEs that rely heavily on bank loans, the affluent and ever-growing profits both because of, and that result in, internationalisation has supported Weichai’s ever-intensive global expansion.

6.1.6 State Grid

Founded in 2002, the State Grid Corporation of China is a mega SOE under the regulation of State-owned Assets Supervision and Administration Commission (SASAC) of the China State Council,

with core business focusing on the investment, construction and operation of power grids. It is the world's largest utility company, ranking at number two on the Fortune Global 500 list since 2016. It owns the most patents among the 97 Chinese central SOEs,⁶⁶ and has been accredited as China's most valuable brand. In 2020, its revenue has reached RMB 2660 billion (with profits of RMB 60 billion), it had 1.52 million employees, and operated in 9 countries worldwide.

State Grid started internationalising in 2007, when it won the bid in the privatisation of the Philippine power grid (NGCP, 40 percent). This transaction marks its first cross-border investment in the form of a M&A. As indicated by the interviewee (PIN-SG-00),⁶⁷ State Grid's investment strategy follows the rule of seeking steady progress. They therefore prefer mature markets with stable polity, a healthy economy of great potential, and well-developed power grid infrastructure; that is to say, Europe, Australia and other developed markets are their first choice, although emerging markets are also promising. Accordingly, in years since 2007, it has conducted several transactions, including the acquisition of Portugal-based REN in 2012 (25 percent), ElectraNet in 2012 (Australia, 46.56 percent), SGSPAA in 2014 (Australia, 60 percent), AusNet in 2014 (Australia, 19.9 percent), CDP Reti in 2014 (Italy, 35 percent), CPFL in 2017 (Brazil, 54.64 percent), IPTO in 2016 (Greece, 24 percent), OETC in 2019 (Oman, 49 percent) and Chilquinta in 2020 (Chile, 100 percent). Meanwhile, it has been actively participating in greenfield power transmission projects, represented by the Belo Monte ±800 kV UHV DC Transmission Project Phase I and Phase II, as well as Teles Pires Transmission Project Phase I and Phase II, both located in Brazil. By mid 2020, its overseas investment had reached US\$23.2 billion, with US\$65 billion offshore assets under management.⁶⁸

The company's European assets are mainly located in Portugal, Italy and Greece (Table 6.5). Four main factors, according to interviewee (PIN-SG-00, 2020), are deemed crucial for these acquisitions: 1) the reputation, expertise and experience that State Grid has gained by multinationality⁶⁹ provide it with certain capabilities to make the acquisitions; 2) the privatisation

⁶⁶ For the full list, see: <http://www.sasac.gov.cn/n2588035/n2641579/n2641645/index.html>.

⁶⁷ Department head at the State Grid International Development Corporation, the wholly owned subsidiary of State Grid, focusing on the Group's cross-border M&As, greenfield investments, and management of overseas assets.

⁶⁸ Refer to: http://www.sgcc.com.cn/html/sgcc_main_en/col2017112817/column_2017112817_1.shtml.

⁶⁹ i.e., after the Philippines and Brazil projects, SGC has formed a complete set of overseas investment schemes.

of government-owned assets by some of the crisis-hit countries provided an opportunity for it to enter European markets; 3) State Grid positioned itself as a strategic investor seeking long-term collaboration and synergy rather than pursuing short-term financial returns; 4) perhaps the most important factor is that it always offers a competitive package in its acquisition bids compared with the other bidders.

Table 6.5 State Grid’s M&As in Europe

Transaction Party	Destination	Year	Percent	Volume
Redes Energeticas Nacionais (REN)	Portugal	2012	25 percent	Euro 387 million
CDP Reti	Italy	2014	35 percent	Euro 2.1 billion
Independent Power Transmission Operator (IPTO)	Greece	2016	24 percent	Euro 320 million

The company generally finances its overseas transactions in a traditional way, with the main sources from internal funds (retained profits), but also bank loans and corporate bonds issued on both domestic and international capital markets (State Grid, 2021: 3). As for its acquisitions in Europe (or more broadly all cross-border M&As), the interviewee (PIN-SG-00, 2020) explained that they were financed via loans from bank syndicate and corporate bonds issued on international capital markets. This is because: 1) the M&As are large in volume, which require funds from multiple sources or parties; 2) State Grid has long been rated the same as China’s sovereign by the “Big Three” credit rating agencies,⁷⁰ which provides credit and endorsement when raising funds from international markets; 3) both ways of financing are efficient with relatively low costs. What is worth noting is that such sources of finance also apply to the acquiree in the post-acquisition era, Greece-based IPTO, for instance, has signed unmortgaged

⁷⁰ Standard & Poor’s A+, Moody’s A1, and Fitch A+.

and unsecured loan agreements with ICBC and BOC for Euro 199 million, which has significantly reduced financing costs and improved shareholder returns (SGID, 2020: 20).

In sum, as a central SOE in the utility sector, its monopoly status has nurtured it as a highly competitive player in the global market. The nature of the industry determines that SGC's internationalisation is mainly in mature and developed regions. As a mega SOE, State Grid makes the most of its credits and global influence by financing from multiple sources, both domestically and internationally, to support its internationalisation.

6.1.7 Zoomlion

Founded in 1992 and headquartered in Changsha, Hunan Province, Zoomlion Heavy Industry Science and Technology Corporation is a provincial-level SOE with businesses focusing on developing and manufacturing construction machinery and agricultural machinery.⁷¹ It is the first dual-listed Chinese construction machinery company, on both the Shenzhen (in 2000) and Hong Kong Stock Exchanges (in 2010). With subsidiaries in more than 20 countries with 30 thousand employees, it is the world's fifth largest construction equipment manufacturer.

Due to the mature and saturated domestic market, Zoomlion started to go overseas in search of greater market share and growth (PIN-ZL-00, 2022). Since the early 2000s, it has made several acquisitions, all based in Europe (Table 6.6). They include the British construction equipment manufacturer Powermole, the Italian concrete machinery giant CIFA, environmental sanitation manufacturer Ladurner, Netherlands-based construction hoist maker Raxar, German construction site equipment maker M-tec, Tower crane manufacturer Wilbert and agricultural equipment maker Rabe. Meanwhile, Zoomlion also engages in greenfield investment by setting up manufacturing bases worldwide, encompassing Asia (India), Europe (Belarus, Italy and Germany) and Latin America (Brazil).

⁷¹ Zoomlion grew out of the former Changsha Construction Machinery Research Institute of Ministry of Construction. After several rounds of reform and listed and traded on capital markets, today's Zoomlion is a public (hybrid) ownership company with state share of 14.49 percent owned by the SASAC of Hunan Province (the largest shareholder, by March of 2022).

Table 6.6 Zoomlion’s major M&As

Transaction Party	Destination	Year	Percent	Volume
Powermole	UK	2001	percent	
CIFA	Italy	2008	60 percent	
M-tec	Germany	2013	percent	
Raxtar	Netherlands	2014	percent	
Ladurner	Italy		100 percent	
Wilbert	Germany	2018	100 percent	Horizontal
Rabe	Germany	2020		

Of all its cross-border investments, the acquisition of CIFA is a landmark for Zoomlion’s development, as this has changed the industry landscape and created the global market leader for the niche industry of concrete machinery.⁷² The business was traded for Euro 271 million (US\$425 million).⁷³ What is worth noting is that the transaction was made by Zoomlion in alliance with three other parties, including Hony Capital, Mandarin Capital Partners and Goldman Sachs.⁷⁴ Of these, Zoomlion accounted for 60 percent (Euro 162.6 million) with the other three making up the remaining 40 percent (Euro 108.4 million). This collaboration was for financing purposes. More specifically, the three co-investors agree to sell and exit the deal within three years from

⁷² Later it has overtaken by SANY for the acquisition of Putzmeister, see the next section for a case study of SANY.

⁷³ The whole transaction is Euro 511 million in total, including the CIFA business of Euro 271 million and its loan of Euro 240 million. The loans are financed by San Paolo IMI, Italian’s largest bank group and also one shareholder of Mandarin Capital.

⁷⁴ 1) Of the three parties, Hony is controlled by Legend Holdings, which is also the second largest shareholder of Zoomlion; Mandarin Capital is one of the largest Sino-European PEs registered in Luxembourg and initiated by China Development Bank, China EXIM Bank and San Paolo IMI; Goldman Sachs is the world’s top investment bank. The collaboration has provided full endorsement not only for the transaction itself but also for the post-acquisition integration. 2) Zoomlion’s largest competitor, SANY, was one of the bidders, but Zoomlion was the first to get the “lutiao” for the transaction. “Lutiao”, literally meaning “road permit”, is the project confirmation letter issued by China’s National Development and Reform Commission (one of the key regulation agencies for China’s overseas investment) in response to the report on the investment project that the Chinese entities have to submit before bidding or acquisitions (e.g., signing at legally binding agreement). The volume bar of “lutiao” used to be US\$300 million (i.e., transactions over 300 million were subject to state permission and confirmation, otherwise only registration was needed), but this has been changing over the years. The purpose of “lutiao” is to control and prevent potential risks and malicious competition among domestic enterprises to avoid loss of state assets.

the transaction, and Zoomlion has the option to buy back their shares. In other words, due to a shortage of funds, Zoomlion gave the co-investors 40 percent of shares in exchange for 3 years of full financial support. In terms of the financing for its own 60 percent, 80 percent of that (Euro 130.08 million) was raised via bank loans from China EXIM Bank Hunan Branch and 20 percent (Euro 32.52 million) from Zoomlion's internal funds.

As one of the largest heavy equipment manufacturers in China as well as the world, Zoomlion internationalised to search for other markets and growth. Compared with the organic growth they might have got from starting with greenfield investment, Zoomlion has opted for a rapid expansion strategy by conducting multiple M&As. Europe holds the world's most heavy equipment giants and enjoys access to vast global markets. This, together with the financial crisis, has reaffirmed Zoomlion's globalisation strategy and provided gateway for its capital. As a state-controlled public company, albeit with dual-listed status, Zoomlion does not commonly use the stock market to finance overseas investment. By contrast, it makes the most of its state-owned background during the process – particularly as reflected in the case of CIFA – by mobilising state banks as well as intergovernmental PE in securing the deal from other competitive bidders.

6.1.8 SANY

Founded in 1986, SANY's predecessor, Hunan Lianyuan Welding Material Factory, was established in Lianyuan (Hunan Province). It was officially renamed SANY five years later in 1994 and moved its headquarters to Changsha before finally settling in Beijing. Starting with its core business in manufacturing construction and mining equipment, it now has expanded to a wide range of areas including port machinery, oil drilling machinery, financial insurance, industrial internet, real estate and renewable wind energy systems. In 2021, SANY entered the Forbes Top 500 club (No.468), ranked first in China and second in the world among heavy equipment manufacturers, with a yearly sales volume of US\$14.4 billion and a net income of US\$2.2 billion in 2021.

Internationalisation has been one of SANY's core strategies.⁷⁵ As early as 2001, SANY signed a distribution agreement with the American company John Deere, which marks its first overseas endeavour. Since 2006, SANY has accelerated its internationalisation by investing and setting up R&D centres and manufacturing bases in India (2006, US\$60 million), the US (2007, US\$60 million), Germany (2009, Euro 100 million) and Brazil (2010, US\$200 million), before it made big moves by acquiring German concrete machinery manufacturer Putzmeister in 2012 and setting up two joint ventures with the Austrian crane manufacturer Palfinger in the same year. Of these, the transaction with Putzmeister is deemed to be a milestone; not only it is SANY's first overseas M&A, it has also, again, reshuffled the concrete equipment industry and created a new global market leader.

The Putzmeister acquisition was valued at Euro 360 million, and the highlight of the deal was that SANY collaborated with CITIC PE Advisors (a Chinese private equity company) in the transaction, of which SANY paid 90 percent (Euro 324 million) and CITIC 10 percent (Euro 36 million). In terms of financing, SANY had the equivalent of Euro 800 million in cash before the deal and funded the acquisition (a 90 percent share) directly from its balance sheet.⁷⁶ Although SANY had good cash flow for the whole deal, the collaboration supplied it with more financial support while avoiding potential financial risks to some extent. Additionally, internal financing saved time that would have been taken by raising funds from external sources, allowing SANY to secure and complete the deal within four months.

As one of the largest Chinese POEs in the construction machinery and heavy equipment industry, SANY has experienced rapid growth and led the niche concrete pump market by ranking first globally since 2009. Motivated by reduced demand due to property markets that cooled in the face of government measures, SANY's internationalisation was imperative to expand its overseas markets. Since the world's largest heavy equipment manufacturers were still dominant, and located in Europe and North America, SANY's globalisation strategy started with franchising and greenfield investment in those developed regions. The financial crisis led to the depreciation and

⁷⁵ SANY's three corporate strategies: internationalisation, digitalisation, and automation.

⁷⁶ According to Chris, "China's SANY to acquire Putzmeister", via <https://www.ft.com/content/7aecad0a-4a5e-11e1-a11e-00144feabdc0>, accessed 6 May 2022.

sale of the world's top manufacturers, including Putzmeister, which provided an opportunity for SANY to acquire and transform its headquarters and to make Germany its global non-Chinese centre for concrete equipment. The deal was SANY's first cross-border investment by M&A and was funded with internal funds and paid for in cash. By allying with CITIC, the deal was completed in 4 months. As a listed company, SANY is now seeking more sources of finance from international markets, highlighted by its listing on Switzerland's stock exchange via global depository receipts this March (2022), with the aim of broadening the financing channels to increase its international business while also enhancing its global brand influence (SANY, 2022).

6.1.9 COSCO

Headquartered in Shanghai, China COSCO Shipping Corporation (hereinafter COSCO) is a mega SOE under the regulation of the central SASAC. Formed in 2016, it is the merger entity of two former central SOEs, i.e., China Ocean Shipping (established in 1961) and China Shipping Company (established in 1997). It is the world's 3rd largest container shipping company by capacity and ranks 231 in the 2021 Fortune Global 500 with an annual revenue of US\$48 billion. COSCO officially started its internationalisation as early as 1980, when it set up its first overseas joint venture with Netherlands-based Parker Boat in Rotterdam in 1988, and established its first overseas wholly owned subsidiary (COSCO UK) by acquiring the agency company Zhonghao from its British partner in 1989. Now it has invested in 58 terminals globally, whilst building a complete industrial chain involving shipping, terminals, logistics, shipping finance, and ship repair and building. The rationale, as indicated by the senior manager, is that:

COSCO's internationalisation is largely motivated by the nature of its ocean shipping business. In the past few decades, globalisation and China's participation in the international division of labour have nurtured ever-increasing bilateral trade. As the core vehicle that links with international trade, it is imperative to participate and lead the entire process of the value chain, including the terminal, freight agency, shipping agency, customs agency, towing business, railway business, warehousing etc., in seeking more control, efficiency, and profits. Internationalisation thus become natural for COSCO.

In terms of internationalisation strategy, COSCO started by setting up representative offices in the core port areas around the world, mainly undertaking on-site work as a cargo agent and ship operation agent. With the growth of fleets (business) and multinationality, the company gradually extended to acquire parts of or take full control of major ports or terminals. This is for strategic purposes, as this would allow control of shipping routes and schedules to alleviate our competency. We had big moves (acquisitions) in Europe in the past years.⁷⁷ This is because the shipping lines in Europe are quite mature ones and we've been very familiar with it. We've also done acquisitions in other core parts of the world, like Peru Chancay in Latin America, UAE Red Sea Gateway Terminal in the Middle East, Suez in Africa, Kumport in Turkey, PSA in Singapore, KBCT in South Korea, and we are still searching for entry (ports/terminals) into more countries in Southeast Asia; they are in progress, might be Thailand, Vietnam or Indonesia.

(PIN-CSC-01, 2022)

As for financing, COSCO mainly resorts to internal funds, capital markets, and bank loans in daily operations (PIN-CSC-01, 2022; PIN-CSC-02, 2022). Specifically, as explained by the financial director based at COSCO Europe:

Firstly, COSCO has good cash flow on the account because of stable profits (20 percent growth year-on-year) accumulated annually especially after the merger of the two entities. Covid-19 has even further infused our cash pool because of increasing freight rates and contracting freight capacity globally. Secondly, the debt ratio of the Group is quite low, for a mere 0.2 or so, which means it's very easy for us to borrow money. Thirdly, the Group has 7 listed subsidiaries, which has provided us with a convenient way to seek funds directly from the capital market. For example, we've been raising funds by issuing stocks and bonds periodically, especially when replacing or upgrading our vessels, which usually needs large amounts of money.

As for the financing for the acquisitions of ports in the past few years, those small volume transactions such as Vado and Noatum are from our internal funds (retained profits),

⁷⁷ See Table 6.7.

while those large volume deals such as Piraeus, Chancay, and Red Sea are via internal funds supported by bank syndicate loans. The Peru Chancay port, I remember, is financed through a bank syndicate led by ICBC. We also cooperate with CDB and BOC.

(PIN-CSC-02, 2022)

Table 6.7 COSCO's major investment in Europe

Transaction Party	Destination	Year	Percent	Volume
Euromax	Netherlands	2014	35 percent	Euro 41.43 million
Piraeus	Greece	2016	67 percent	Euro 369 million
Vado	Italy	2016	40 percent	Euro 7.05 million
Noatum	Spain	2017	51 percent	Euro 203 million
APM Terminals Zeebrugge	Belgium	2017	76 percent	Euro 35 million
Container Terminal Tollerort (CTT)	Germany (Hamburg)	2021	35 percent	Euro 34 million

As a mega SOE in the shipping industry, the nature of the business has determined its internationalisation from the outset. The need to integrate and control the whole industrial chain for profit and strategic purposes has propelled COSCO to invest in core port areas globally. Europe has undoubtedly been strategically important for COSCO though it has been looking for opportunities in the wider emerging countries (such as Southeast Asia) as well. COSCO has relatively diverse financing sources, which mainly include internal funds, bank loans, and funds directly from capital markets. Worthy of note is that the shipping industry is the only industry that was not hard hit by the pandemic. On the contrary, it was fuelled by constant demand and contracting business providers. These profits together with multiple financing sources ensured COSCO's further internationalisation in future.

6.1.10 Jinsheng

Founded in 2000 and headquartered in Changzhou, Jiangsu, Jinsheng Group is a diversified industrial group specialised in high-end machinery, with business covering machinery, textile

engineering, bioengineering, construction and real estate. It is now operating in 35 countries and regions, with more than 18000 employees worldwide. Jinsheng is among China’s Top 500 manufacturing POEs, ranking 344 in 2021.

As a relatively young enterprise with a 22-year history, Jingsheng’s internationalisation was about seeking strategic assets. Marked by two major acquisitions, i.e., the partial acquisition (50 percent) of Europe’s third largest machine tool company EMAG for Euro 100 million in 2010, and the purchase of two business units (natural fibres and textile components) of the Swiss company OC Oerlikon for CHF 648 million in 2013, Jinsheng has made the greatest use of the financial crisis to transform itself into one of the top companies in its respective sub-sectors. For a small-scale POE, the large volume of transactions drives it to look for external resources. The support from China’s policy bank CDB has played a key role in Jinsheng’s internationalisation.⁷⁸

In sum, as a small and unknown player in the global market, Jinsheng represents those Chinese POEs which use overseas M&As as an asset-augmenting strategy to move up the value chain. As an unlisted company, it has quite limited sources of finance. Being a small player in the high-end manufacturing industry promoted by the Chinese government, Jinsheng’s internationalisation is largely supported by China’s policy bank.

6.2 Cross-case comparative analysis

While financing for cross-border investment transactions is case-by-case, influenced by a diverse range of variables and conditions such as the deal volume, nature and resources available to certain investors, and the legal and institutional systems of the transaction parties, Chinese firms have their preferences and capabilities as to the source of funds. The 10 cases above have demonstrated these disparities (Table 6.8), where the financing for Chinese firms is closely linked with ownership structure, listed status and firm scale with transaction volume.

Table 6.8 A comparison of Chinese multinationals in cross-border investment

Acquirer	ownership	Listed status	Financing	Aims	industry
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⁷⁸ Refer to: http://frankfurt.china-consulate.gov.cn/chn/sbwl/201110/t20111028_3538744.htm, and http://www.cangzhou.gov.cn/ns_news/171369872394819, accessed 15 May, 2022.

Huawei	POE True MNC	unlisted	Internal funds	Congeneric	ICT
Legend	Large POE	listed	Internal funds Capital markets	Congeneric	Started with ICT but developed into multiple sectors
Wanhua	Municipal SOE	listed	BOC Bank syndicate	Horizontal	Chemical
Weichai	Provincial SOE	listed	Internal funds bank loans	Congeneric Conglomerate	Multiple but specialise in Industrial machinery and auto parts
Joyson	Niche market industrial leaders POE	listed	Private placing for bank loans	Vertical	Auto parts
Zoomlion	Provincial SOE	listed	Bank loan Multiple external sources	Horizontal Vertical	Construction machinery
SANY	POE	listed	Internal funds External parties (PE)	Horizontal	Construction machinery
State Grid	Central SOE	listed	Bank syndicate Bonds	Horizontal	Utility
COSCO	Central SOE	listed	Internal funds Bank loans	Vertical	Shipping
Jinsheng	POE	unlisted	Bank loans CDB	Horizontal Congeneric	Machinery manufacturing

6.2.1 Firm ownership and financing

The 10 selected cases include five SOE and five POEs. The SOEs include central SOEs (State Grid and COSCO), provincial level SOEs (Weichai and Zoomlion), and municipal-level SOEs (Wanhua); while POEs included purely privately owned enterprises (Huawei, Joyson, Jinsheng, SANY), and those that previously had state participation but later transformed into hybrid-owned because of a dilution of shares via listing domestically and overseas (Legend Holdings). Firms with different

ownership backgrounds displayed different features and preferences for financing their internationalisation (Table 6.9).

Generally speaking, for SOEs, irrespective of their scale and level, a common and most sought after external source is bank loan, either from state-owned commercial banks or from policy banks; in contrast, most POEs resort to internal funds. When internal funds are limited, they often seek direct financing from capital markets or from external parties such as PEs. However, this relationship between financing and ownership is not absolute. Firstly, Weichai, for example, is a SOE controlled by Yantai municipal government. It financed its overseas investment wholly from many years' worth of profits,⁷⁹ yet it had close ties with various banks in its early days. Secondly, the firm's ownership status is fluid rather than rigid; a firm's ownership and social position during a specific time span affects their access to finance to some extent. Legend Holdings, for instance, used to be state-owned (created and funded by the Chinese Academy of Sciences). Most of its capital in the early days, therefore, came from state banks, including its takeover of IBM PC in 2004. But as it is listed in Hong Kong with a hybrid ownership structure, capital markets have become an important source of finance, as in its most recent acquisition of the BIL. Last but not least, as a corollary of state dominance in the Chinese political economy, most firms, regardless of ownership, are more or less politically connected with the state, whether formally, informally, locally, or at arms-length (Rithmire, 2022: 485).⁸⁰ In particular, the so-called "national champions" that have shouldered the government's strategic aims (e.g., COSCO, Huawei), and those which have followed industrial policy direction or simply fulfilled the competitive needs of municipal governments (e.g., Jinsheng), find it much easier to access financing with multilevel government support.

Despite this, four major features were revealed by the data: 1) SOEs tend to have more, and wider financial sources compared with POEs. In other words, their substantial internal resources as well as the predilections of China's state-dominant financial system provides SOEs with sufficient financial resources for overseas investment. Consequently, SOEs' finance comes more

⁷⁹ Such financing strategy has allowed Weichai to take bold initiatives in overseas acquisitions, e.g., the Weichai-Ferretti case in Section 7.4, p.194.

⁸⁰ For instance, most of the companies, irrespective of their scale and ownership, have their own Party branches (Henderson, Feldmann, and de Graaff, 2021: 1053).

from external sources and loan financing, compared with POEs which rely more on internal financing and capital market financing. 2) The implicit discrimination against POEs in loan markets has given POEs greater flexibility in financing. SANY, for instance, invited PE (CITIC) to collaborate in the acquisition of Putzmeister. Introducing external parties in this way not only solved the problem of capital shortages, also reduced costs (tax reduction) and achieved a win-win situation. 3) While both SOEs and POEs go to capital markets to raise funds (by issuing stocks or corporate bonds), SOEs can access resources from both domestic and international markets based on their global presence and state endorsement (some even with a credit rating equal to that of the sovereign). Often, they are mega SOEs (under the control of central government), represented by State Grid and COSCO. For POEs, except for the truly global players, such as Huawei, most can only resort to Chinese domestic capital markets, because their capacity and global influence are not enough to help them raise funds in international capital markets. 4) SOEs tend to have the advantage over POEs in direct competition for overseas acquisitions. In the case of the acquisition of CIFA, for example, both Zoomlion and SANY are among the bidders. Zoomlion won the bid because it was the first to get the state permit, and also received financial support from government backed PE and banks (Section 6.1.7). In a nutshell, SOEs are still the main force in internationalisation; they are explicitly and implicitly supported in the process by the state.

Table 6.9 A comparison of the financing of firms with different ownership

Ownership	Investor firm	Financing for FDI	Notes (PE, bank involved)
SOE	State Grid	Internal funds	
		Syndicate bank loans	BOC, ICBC
		Corporate bonds	Bonds issued overseas
	COSCO	Internal funds	
		Bank loans	ICBC, BOC, CDB
			Stock and bond issuance for daily operations (domestic and overseas)
Weichai	Internal funds		
			Bank loans used in the early days

	Zoomlion	Internal funds Bank loans External parties (e.g., PE)	Hony Capital, Goldman Sachs	Mandarin Capital,	
	Wanhua	Internal funds Bank loans	BOC, BoComm, ICBC		
POE	Huawei	Internal funds			
	Legend Holdings	Internal funds Stock issuance (IPO)			
	SANY	Internal funds External parties (e.g., PE)	CITIC		
	Joyson	Internal funds Stock issuance	SHSE		
	Jingsheng	Internal funds Bank loans	CDB		

6.2.2 Listed status and financing

Listed companies, compared with unlisted, have a wider choice of financing, which includes loan financing, equity financing and more hybrid means of financing such as convertible bonds. Unlisted companies, however, can only resort to internal sources, bank loans, or other formal and informal ways (e.g., loans from shareholders or from personal networks). Part of the reason for this could be the low transparency and limited availability of information about unlisted companies, which results in difficulties in getting finance from the wider market.

Most Chinese companies that invest overseas are listed firms. And most of the companies are organised and exist in the form of business group; they are often wholly listed or have more than one branch or subsidiary listed either domestically or overseas or both. In the cross-border acquisitions, even if the actual acquiror is not listed, the group can mobilise and source funds

from its various branches listed elsewhere in the world. This has provided efficiency for listed companies or groups with listed branches in sourcing funds for overseas investment.

Of the 10 selected cases, 7 are listed and 3 are unlisted (Table 6.10). Among the unlisted, State Grid is wholly owned by the central government due to the strategic nature of the utility industry, Huawei opts for employee-owned corporate governance and not to be listed (Section 6.1.1), and Jinsheng remains a young and developing enterprise. For those that are listed, what is worth noting is that although raising funds from the capital market is among their choices, only a few Chinese firms resort to it. Of the 7 listed firms, Joyson is the only one that raises funds by issuing stock (private placement), but their transactions are still financed first of all by self-raised funds (often bank loans) first and then substituted by stock issuance (Section 6.1.3). The reason for this is twofold: on the one hand, in the Chinese context, the issue of stocks takes a certain period of time under current security law and regulations, which has driven Chinese firms to go with other sources to secure transactions with a tight timescale; on the other hand, the traditional finance pecking order (internal-loan financing-equity financing) has made it a last resort in order to avoid share dilution and potential loss of control.

Table 6.10 A comparison of the financing of firms with listed status

Listed status	Investor	No. of listed companies (Listed location)	Financing for FDI
Listed	COSCO	7 listed companies (SH, HK)	Internal funds Bank loans
	Weichai	8 listed companies (SH, SZ, HK, DE)	Internal funds
	Zoomlion	Whole listed (SZ, HK)	Internal funds Bank loans External parties (<i>e.g.</i> , PE)
	Wanhua	Whole listed (SH)	Internal funds Bank loans

	Legend Holdings	Whole listed (HK)	Internal funds (IPO funds)
	SANY	2 listed companies (SH, HK)	Internal funds External parties (e.g., PE)
	Joyson	Whole listed (SH)	Internal funds Stock issuance
Unlisted	State Grid	-	Internal funds Syndicate bank loans Corporate bonds
	Huawei	-	Internal funds
	Jinsheng	-	Internal funds Bank loans

6.2.3 Firm scale, transaction volume and financing

Financing for cross-border investment has a close relationship with firm scale and transaction volume. More specifically, large enterprises tend to have more financing sources than small ones, while those with a large volume of transactions tend to resort more to external sources than those with a small volume of transactions. Yet the specification of scale and volume varies, they are relative to each other. In other words, a certain volume of transactions might be large for a small-scale enterprise, but insignificant for a globalized multinational.

The 10 selected cases represent four main categories among Chinese MNCs that invest overseas. These are: true global players, large MNCs, niche market leaders and small players (Table 6.11). Of these, the true global players are those world’s leaders in certain industries, they operate in a wide range of countries and are highly competitive. They are represented by Huawei and State Grid. The large MNCs are business groups that operate in a few countries, and are the leaders in China’s domestic market, with overseas revenue only accounting for a certain portion (often less than that generated domestically). Cases such as COSCO and Legend Holdings fall into this category. Niche market leaders refers to MNCs that are leaders in their respective sub-sectors,

including cases such as Weichai, Wanhua, Zoomlion and SANY; small players are relatively unknown players that typically make overseas M&As as a way to augment their assets and gain competence, in order to move up the industrial chain. They are represented by Joyson and Jinsheng.

For the true global leaders, sufficient internal funds allow them to make the most of small-medium volume transactions (e.g., Huawei). For some mega deals, however, they tend to seek external sources. Because of their global influence, a wide range of choices is available to them, and they often choose the most convenient and lowest cost option. State Grid’s acquisition of various power grids via syndicate bank loan is a case in point. As for large MNCs, depending on their ownership and performance (e.g., listed status, cash flow, debt ratio), they often use either bank loans or capital markets to support their large volume transactions. This also applies to the leading niche market companies, who use internal funds for small scale transactions, while resorting to external sources for large volume transactions. Unlike the large companies, firms in this category use innovative means of funding, e.g., introducing alliance investors seeking financial returns, which exit in due course after the transaction. This is represented by Zoomlion and SANY in their internationalisation. Last but not least, smaller players (often POEs), which often have limited internal sources, have to seek external funds to compensate for a shortage of their own resources, despite the transaction volume. Yet this is relative. Joyson, for instance, deemed small in 2011 with a revenue of RMB 2 to 3 billion, had to seek external funds when acquiring Preh; however, for today’s Joyson, with a revenue of RMB 40 to 50 billion, the acquisition would have been small in volume (PIN-JS-02, 2022).

Table 6.11 A comparison of the financing of firms according to their scale

Category	Investor	Financing for FDI
True global player	Huawei	Internal funds
	State Grid	Internal funds
		Syndicate bank loans
Large MNC	COSCO	Internal funds

		Bank loans
	Legend Holding	Internal funds Capital market (IPO funds)
Niche market leader	Weichai	Internal funds
	Wanhua	Internal funds Bank loans
	Zoomlion	Internal funds Bank loans External parties (e.g., PE)
	SANY	Internal funds External parties (e.g., PE)
	Joyson	Internal funds Stock issuance
Small player	Jinsheng	Internal funds Bank loans

Chapter summary

To analyse Chinese MNCs and their investment in Europe, this chapter has presented 10 typical cases including Huawei, Legend Holdings, Joyson, Wanhua, Weichai, State Grid, Zoomlion, SANY, COSCO and Jinsheng. The analysis shows that: 1) Chinese firms use both asset-exploiting and asset-augmenting strategies to expand overseas, and internationalisation is mainly for the purposes of market-seeking and strategic asset seeking. 2) Europe is strategically important, either for its mature industries or as an ideal gateway into a third market such as Latin America. 3) M&As are the most efficient way to gain competence and move up the value chain. 4) Although the financing structure for each transaction is determined by the availability of funds, Chinese firms have various preferences and are capable of sourcing funds in diverse ways. In general, SOEs, listed companies and large, well-connected POEs tend to have a wider choice of sources of funding. The next chapter conducts an integrated analysis in greater depth.

Chapter 7 Chinese multinationals and their investment in Europe: an integrated analysis

After exploring the financing patterns of Chinese Multinationals in Europe empirically by implementing database analysis (Chapter 5) and doing comparative fieldwork analysis (Chapter 6) which attempts to answer the first research question (*How do Chinese firms finance their FDI?*), this chapter aims to answer the second question (*How does financing influence Chinese firms' strategies and the FDI process?*) by conducting an integrated analysis. Specifically, it will first identify the patterns and features of Chinese firms in their FDI by analysing three parameters concerning firms' comparative advantages, locational advantages, and internationalisation entry modes. Based on these facts, it will then try to examine different financing sources influencing FDI process, firm strategies and motives for conducting FDI. Apart from that, before reaching its conclusions, this chapter also tries to explain the phenomenon from a macro perspective by briefly looking at the Chinese financial system.

7.1 Chinese MNCs and firm specific advantage: the O advantage

Firms need to have certain monopolistic or superior advantages to offset the inherent costs and disadvantages of operating overseas (e.g., Hymer, 1960; Dunning, 1977; 1979; 1988; Zaheer, 1995). Such advantages, which allow individual firms to edge into particular markets and compete effectively against their counterparts (either indigenous firms in the supplying market or other foreign incumbents), mainly include those that come from the proprietary ownership of, and access to, specific assets (asset advantages, O_a), and those that arise from a firm's capacity to reduce costs or achieve economic scale by their hierarchical common governance of sub-units distributed in different geographic regions (transaction advantages, O_t) (Dunning, 1988: 2; 2001: 176). However, with the advent of emerging market MNCs (EM MNCs), this account of asset-exploitation has been criticised unilaterally, for ignoring the assets-augmenting aspect (see, e.g., Dunning, 1995, 1996; Rugman and Li, 2007), especially of latecomers which begin with few resources and try to create and acquire advantages (e.g., Mathews, 2002; Child and Rodrigues, 2005; Kedia, Gaffney, and Clampit, 2012; Park and Roh, 2019), explore and develop their

capabilities, or maximise their overall performance (Deng, 2004: 13; Wright et al., 2005: 14) via internationalisation. Yet neither perspective is mutually exclusive, for the prerequisite of firms engaging in asset augmentation is built upon leveraging their existing comparative advantages (asset exploiting) that are either inherited from their own competency (firm-specific advantages, FSA) (Rugman and Verbeke, 1990; 2018) or endowed by certain idiosyncratic nation state conditions (country-specific advantages, or CSA) (Rugman, 2009).

Chinese MNCs and their FDI involve both asset exploiting and asset augmenting strategies (Figure 7.1), across a wide geographical area and a range of industrial investment activities, as well as diverse types of ownership advantages specific to individual investing firms (Dunning, 2006: 139). While the former (asset exploitation) is often bundled with those traditional tangible and intangible FSAs owned by Western MNCs, they are exemplified by just a handful of Chinese MNCs. In other words, some Chinese MNCs, even if they are late globalisers, develop into trailblazers, with strong brands and cutting-edge technologies, which enables them to compete effectively with their advanced counterparts. One typical case among others, is Huawei (Section 6.1.1). Huawei represents one of the few Chinese MNCs that operate truly multinationally. As one of the world's top ICT companies, Huawei is among very few which are at the forefront of 5G technologies. It also dominates the telecoms equipment market, accounting for a 29 percent share of global revenue, followed by Nokia and Ericsson, which each have around 15 percent.⁸¹ Such core competence can be largely attributed to Huawei's investment in R&D. In 2021, it was the 2nd largest investor in R&D with a total spend of 20 billion Euro (142.7 billion CNY, equalling 22.4 percent of the total revenue) in 2021, and has been among the top 10 each year since 2016 (European Commission, 2021: 37; Oxford Economics, 2020: 17, Huawei, 2022).

Apart from conventional ownership similar to those of Western MNCs, EM MNCs are deemed to have four other kinds of unique FSAs (Ramamurti, 2009: 405-409), including: 1) The ability to adapt imported technology to create products tailored to the specific needs of local customers in emerging markets, either by making cheaper and more affordable products or adapting current products to suit harsher conditions with poor infrastructure and after-sale services. 2) Enhanced

⁸¹ Fletcher (2021), "Huawei still dominates telecom equipment market", via: <https://www.fiercewireless.com/wireless/huawei-still-dominates-telecom-equipment-market>, accessed on 26 May 2022.

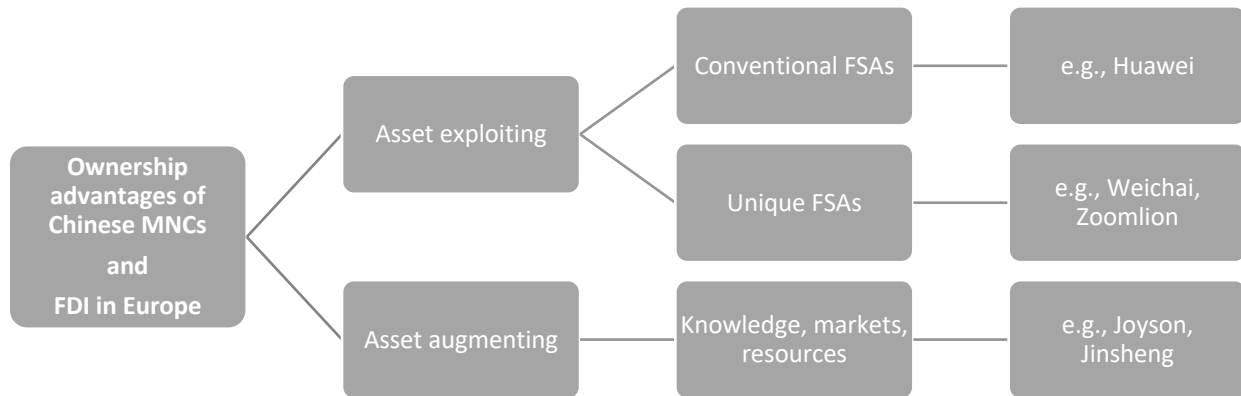
productivity and optimised processes, particularly in the context of emerging countries, by adopting best practice and renewed systems and involving more labour with less input, can bring their general overheads lower than their Western counterparts. 3) Adversity advantages, i.e., the capacity to manoeuvre effectively around institutional difficulties such as fragile infrastructure and political uncertainties. While Western MNCs might be thwarted by such challenges, EM MNCs are usually more comfortable at dealing with them and able to make the transfer during the internationalisation process to living with adversity from the very beginning. 4) Privileges offered by their home government in access to certain resources and markets, in the form of subsidiaries, capitals, preferential regulations and so forth. While the first three kinds of advantage are developed inside certain MNCs as they grow, the fourth kind is usually generated by national endowments. These represent the main categories of comparative advantage (FSAs) of EM MNCs, which gives them a certain edge among their global competitors.

Though most of the abovementioned FSAs occur when EM MNCs invest and operate in the down markets (South-South FDI), they are also demonstrated by a few Chinese MNCs investing in Europe (South-North FDI). Again, in order to set foot in Europe and expand the local market, Huawei developed the tailor-made product, SingleRAN (a mobile communications technology), which has sustained and contributed to its European revenue for quite a few years (PIN-HW-03, 2022). Weichai (Section 6.1.5), China's top diesel engine maker, has enhanced its productivity and processes via its previous acquisitions (multinationality). More specifically, although some of its acquired assets (e.g., the French Baudouin) were not state-of-the-art and may even have had problems with their management systems, the company has now been rejuvenated, after Weichai optimized and upgraded their products, and hired new, experienced managers, which in turn enlarged their France and European markets while also getting a foothold in France and accumulating competence useful for their subsequent acquisitions (PIN-WC-00, 2020). Zoomlion (Section 6.1.7), the global top five construction equipment manufacturer, fully leveraged its state background to get a state permit ahead of another Chinese bidder, SANY (which is a POE), whilst received intergovernmental PE support (Mandarin Capitals, a Sino-European PE) to fund its acquisition of the Italian machinery equipment maker CIFA.

Asset augmenting FDIs are more ubiquitous among emerging market MNCs. This is particularly reflected in the Chinese MNCs and their acquisitions in Europe (see e.g., Henderson and Hooper, 2021). For Chinese MNCs, they mainly involve two kinds of acquisition: acquisition for complementary purposes and reverse takeovers. While the former describes most Chinese MNCs that go overseas to acquire strategic assets that are either related to (horizontal, vertical, and congeneric M&As) or deviate from (conglomerate M&As) their core businesses, in order to strengthen its global competence, the latter points to unknown players that take certain investment opportunities to capture and obtain core competence from the world's established MNCs. Joyson (Section 6.1.3) is a good example of this. Joyson was a small company with low capacity, simple products, a mediocre management and organisational system and a total revenue of less than 1 billion CNY in 2010, before it adopted a rapid expansion strategy by acquiring the world's top auto parts companies in advanced regions such as Europe, North America and Japan. Several years of overseas acquisitions have made Joyson the world's second largest automotive safety system company (30 percent of global market share) with a total revenue of 45 billion CNY (PIN-JS-01, 2021; PIN-JS-02, 2022; Joyson, 2022). In the process, Joyson's one core principle was to search for competent MNCs to acquire in order to achieve reverse learning and industrial upgrading effects (PIN-JS-01, 2021). Similarly, the Jiangsu-based small POE Jinsheng (Section 6.1.10) took an identical approach to moving up the value chain and achieved a global presence by acquiring from Europe the top players in its sub-field.

In a nutshell, Chinese MNCs, irrespective of their ownership structure, scale or industry, must have certain ownership advantages (FSAs) simply in order to conduct FDI. The number of advantages they have determines their propensity to utilise them across national boundaries, either by leveraging their existing FSAs (asset exploiting) to further strengthen their competitive edge, or by aiming to capture them (asset augmenting) during the process. Chinese MNCs and their FDI activities have demonstrated both strategies, with most reflecting the latter type of incentive.

Figure 7.1 Chinese MNCs and their asset-exploiting and asset-augmenting FDI



7.2 Europe and Chinese FDI: the location factor

While firms internalise imperfect external markets for more benefits and profits, they choose geographic locations to conducting their constituent activities in a way that minimises their overall operating costs (Buckley and Casson, 1976; Buckley et al., 2007: 500). Choice of location, to a large extent, depends on a firm's motives for the investment⁸² and whether the investment activity is a new or sequential one (Dunning, 1998: 50). With the advance of the transportation and communication that intensifies globalisation and a reduction of spatial transaction costs, the world is becoming geared towards a knowledge-based economy and seeing the rapid growth of strategic asset seeking FDI; the location factor, thus, becomes pre-eminent during FDI, partly because of the need to take a firm's strategic considerations into account, but also due to a heavy reliance on the availability of certain sought-for assets, since technical knowledge, expertise and brands tend to be concentrated in specific geographic areas, such as developed countries and some large developing countries (Dunning, 1998; Cantwell, 2009).

For Chinese MNCs, Europe fits both parts of the location consideration when conducting FDI. More specifically, Chinese firms invest in Europe for two main kinds of reasons (Figure 7.1). The first is for the strategic reason that: 1) Europe is of strategic importance to the development and globalisation of an individual firm (e.g., industrial needs, especially for monopolistic industries), setting foot in Europe by operating there is essential for realising its business aspirations; 2)

⁸² Dunning (e.g., 1993; 2008: Chapter 3) suggests firms conduct cross-border value added activities are out of four primary motivations, i.e., resource-seeking, market-seeking, efficiency-seeking, and strategic asset-seeking (Section 2.2.1.2).

Europe has the optimal “hard” (e.g., R&D, quality labour) and “soft” (e.g., culture, education, political and legal system) infrastructure facilities that naturally attract and propel Chinese investors to explore potential opportunities. Most often, firms of this type tend to opt for organic growth, starting from setting up representative offices or greenfield investment before going for aggressive M&As. The second type, in contrast, is for realistic reasons; Europe is not necessarily, or at least not a priority for internationalisation, yet for some reason, whether it is micro (e.g., a firm’s performance, or stakeholder decisions), meso (e.g., global industry distribution), or macro (e.g., geopolitical issues, financial crisis), Europe happens to be the destination for investment. The difference, however, is that the former takes Europe as a strategic resource to fulfil its commercial goals, whilst the latter is opportunistic.

For the first type, one case in point is COSCO (Section 6.1.9). Born in the maritime industry, COSCO has been destined, since its establishment, to operate globally. Its internationalisation follows a “linking the dots to form lines” strategy by firstly setting up representative offices and agencies in the world’s core port areas to undertake the on-site work of being a forwarding agency. After that, with increasing fleets and having accumulated overseas operating experience, COSCO then expanded its services to inland areas (e.g., cargo marketing) whilst trying to participate in or take control of pivotal port terminals (PIN-CSC-02, 2022). Europe is of strategic importance in COSCO’s business map, and acquisition of a series of major port terminals, such as Euromax (Netherlands), Piraeus (Greece), Vado (Italy), Noatum (Spain), Zeebrugge (Belgium), Tollerort (Germany), was a necessary step to complete its global industrial chain and strengthen its competitiveness.⁸³ In doing so, COSCO has created its core logistics centre in the eastern Mediterranean area (Europe's relatively weak economic region). For the western side, such as Spain, the acquisition of the holding platform (Noatum) has allowed it to deploy the two terminal companies and five transportation hubs it controls to integrate regional resources including North Africa. For Latin American (Peru), African and Southeast Asian projects, COSCO has focused

⁸³ For maritime logistics, taking control of core port terminals ensures its schedule and costs. To be more specific, each port terminal has its arrangement or processing priority (docking, freight processing, etc.); if certain terminal is not home port or controlled terminal, the delay in transportation will affect the general logistic cycle and further effectiveness against those competitors (PIN-CSC-02, 2022).

more on industrial transfer and early arrangement (PIN-CSC-02, 2022). Europe, therefore, is an integral part of COSCO's global map.

State Grid (Chapter 6, Section 6.1.6) is another example. Its monopolistic operation in China has made it China's and the world's largest utility corporation. State Grid's FDI in Europe fulfils its strategic intent in three ways: first, Europe enjoys a mature electric power industry and a sound social-economic environment; secondly, investing and operating in advanced regions such as Europe give it more legitimacy and prestige in the global marketplace; thirdly, making acquisitions in certain countries, such as Portugal (REN), allows it to radiate and enter a third market such as Brazil. Europe, for State Grid, is a strategic foothold for development and global expansion.

In terms of the second type, a case in point is Legend (Chapter 6, Section 6.1.2). Starting in the IT industry with the PC brand Lenovo, Legend has evolved into a holding company that encompasses multiple industries, including IT, financial services, agriculture and food, advanced manufacturing, and other professional services. Legend internationalises with the aim of strengthening its competence by adding valuable assets (to become what Legend called "pillar assets") to its existing industry portfolio via allocation of resources on a global scale. By tracing the best assets of their type, Legend has acquired the technology giant IBM (PC unit) and Motorola (Mobile unit) in the US, the top sea food production and distribution company KB (Australia) and Australis (Chile). Apart from its IT and Agriculture and Food sector, Legend also searches for quality assets to strengthen its finance sector. Yet due to the tense Sino-US relation, Legend uses Europe as an alternative, not only because of its advanced financial industry, but also for the availability of the large-scale financial assets it seeks. From setting up the acquisition team in 2014, to the takeover of Luxembourg's third largest bank BIL (Banque Internationale a Luxembourg) in 2018,⁸⁴ Europe has become a natural fit for Legend's overall strategy.

⁸⁴ According to the interviewee (PIN-LG-00), Legend has been actively searching for financial assets for acquisition in the European region since 2015. The team in Switzerland has reviewed dozens of cases but could not find an optimal one. In 2017, BIL was up for sale, and its then owner Precision Capital (owned by Qatar Royal Family) was looking to exit after years of profitability. The investment bank commissioned by them came to Legend, and it was fairly a quick transfer.

Another typical example is Wanhua (Section 6.1.4). As one of the top players in the niche polyurethane manufacturing market, Wanhua's acquisition of BorsodChem in Hungary, Europe, was purely for the purpose global industrial distribution (availability of strategic assets). Due to the extremely high technical entrance barriers, the world's top polyurethane producers are concentrated in advanced regions such as East Asia, Europe and North America. Thus, competition between the several top incumbents is essential. The BorsodChem transaction was an acquisition that the original shareholders did not intend to sell at the outset; Wanhua acquired part of BorsodChem in the form of an upfront loan-to-equity swap, before it took the entire stake (PIN-WH-00, 2020). The merger created the world's second largest polyurethane manufacturer which greatly increased Wanhua's global competence. Europe (Hungary), which marks a milestone in Wanhua's internationalisation journey, has naturally become a focal point in the European area and the only overseas manufacturing base on Wanhua's global map.

Chinese MNCs that invest in Europe include both first time and sequential investors. In other words, Chinese MNCs do not necessarily follow the "psychic distance rule" (Johanson and Vahlne, 1977; 2009), as quite a few Chinese firms (e.g., SANY, Jinsheng) started their FDI (or more broadly, internationalisation) in Europe, which is both geographically and psychically far from Asia. For Chinese MNCs, Europe is an optimal destination, for two main kinds of reasons. Europe fits into their strategic ambitions on the one hand, and there are strategic assets available there, on the other. For either reason, Europe is an integral part of shaping their global presence and strengthening their international competitiveness.

Figure 7.2 Europe as the destination for Chinese investment: two main kinds of reasons



7.3 Internationalisation and entry mode: Internalisation

It is received wisdom that the degree of O advantages and L advantages that a particular firm owns determines the extent of its internalisation. Generally, the greater the net benefits of internalising cross-border intermediate product markets, the more likely a firm will be to opt for an equity mode by establishing direct foreign production itself rather than using a contractual mode via trade or licensing to another company (e.g., Buckley and Casson, 1976; Dunning, 2000; 2001). When a firm finds it is more efficient to produce internally by entering specific foreign markets, a critical strategic concern is whether to proceed with establishing new facilities (either a new subsidiary or joint venture) from scratch (greenfield) or by purchasing all or part of an existing domestic business (M&A).

While the choice of entry mode is determined by various factors represented by foreign investment models (aggressive or defensive motives) and firm-specific characteristics (e.g., length of foreign experience, investment location, product diversification) (Wilson, 1980), a firm's resources and capabilities are deemed to play central role; that is, firms choose between greenfield and M&As based upon the capabilities they possess and the complementary capabilities they pursue during internationalisation (Slangen and Hennart, 2007: 411). Meanwhile, greenfield and M&As also have their own characteristics, with M&As allowing firms speedy entry into a foreign market, therefore achieving greater financial benefits because of

strong first-mover advantages(Globerman and Shapiro, 2009: 165)⁸⁵, whilst greenfield allow for lower costs of installing technologies from the outset with further transference, especially for MNCs with strong technological skills and rich international-operating experiences (Hennart and Park, 1993; Anderson and Svensson, 1994; Raff, Ryan, and Stahler, 2009).

EM MNCs, which are often motivated by an asset-augmenting strategy, tend to be more radical than conventional MNCs, for they need to accelerate their pace of internationalisation to keep up with their incumbent competitors (e.g., Satta, Parola, and Persico, 2014; Luo and Zhang, 2016: 343). Consistent with this, in the pursuit of wider markets and strategic assets such as brand names, technological expertise and managerial know-how, they often choose high-risk and rapid expansion modes such as aggressive M&As (e.g., Aybar and Ficici, 2009; Jormanainen and Koveshnikov, 2012; Sun et al., 2012: 5), predominantly in developed regions (e.g., Luo and Tung, 2007; Anderson and Sutherland, 2015). Chinese MNCs are no exception. Although the total frequency of greenfield projects is larger than M&As on a global scale (Alon et al., 2018: 598), Chinese MNCs prefer rapid internationalisation facilitated by acquisitions that aim to obtain and control strategic assets to redress their competitive advantages (e.g., Hong and Sun, 2006; Deng, 2009; Zhu and Zhu, 2016).

For Chinese MNCs in Europe, M&As and greenfield are the most often opted-for entry mode, with the former experiencing a surge especially after the financial crisis, whereas the latter are particularly sought by firms in technology intensive industries. Huawei (Section 6.1.1), for instance, is the largest greenfield investor of the Chinese firms investing in Europe, with a total of 132 greenfield projects, accounting for 29 percent of its world total. Of the projects, the vast majority go into R&D (49 percent) and sales, marketing, and support (22 percent). This reflects their two main aims; that is, Huawei's FDI is motivated by market expansion, and strategic asset seeking. More specifically, on the one hand, Europe has the most advanced ICT carrier operators together with the most demanding customers, and setting up local offices and customer support centres would allow Huawei to get closer to local customers and to develop products that fit local needs, to gain more market share. In addition, since Europe is the global high ground for branding

⁸⁵ Early entrants have the advantage of profiting from opportunities that later entrants will not be able to take advantage of, due to the entry barriers created by prior entrants.

and strategy in the ICT industry, creating and establishing R&D centres and regional subsidiaries will allow Huawei to benefit from the spill-over of local resources and expertise. Consequently, Huawei has set up its aesthetics research centre in the global fashion and arts hub, France, its enterprise global service centre in Romania for its relatively low wages but high-quality human resources, and its European supply centre, also the company's second largest one in Hungary for its relatively low costs, as well as setting up technical R&D centres across Europe, especially in Western Europe including UK, Belgium and Germany. Besides Huawei, Geely is among the biggest greenfield investors in Europe, which spends half of its investments on setting up manufacturing bases and R&D centres because Europe has long been established as the world leader in advanced automotive manufacturing.

Apart from greenfield investment, most Chinese companies, adopt acquisitions as their main entry mode. This is because Chinese MNCs have relatively limited ownership advantages and internationalisation experience compared with the incumbent companies, while acquisitions allow them to bypass local barriers by controlling a local partner, rapidly gaining competence and moving up the value chain. This sort of entry mode, like greenfield, is mainly influenced by local industry endowment. Germany, the UK and France have accumulated the most advanced and complete industrial systems, which attract almost half (48 percent) of Chinese acquisitions (Section 4.3.3). The success of transactions, or a critical reason for European partners agreeing to be acquired by Chinese MNCs, is that particular acquisitions allow the target firm to gain a number of strategic benefits, meanwhile ensuring their Chinese acquirors can equally fulfil their goal (Knoerich, 2010). This is fully reflected in the transactions represented by the Legend-BIL deal, Zoomlion-CIFA deal, and Wanhua-BorsodChem deal, in which the Chinese firms usually took a long-term strategic stance by retaining the acquired team and leaving them with the greatest degree of independence while helping them explore China or the extended market (PIN-LGH-00, 2020; PIN-ZL-00, 2022; PIN-WH-00, 2020). However, since acquisition is a high-risk entry mode, for only 20-30 percent of cross border acquisitions turn out to be successful (PIN-LGH-00, 2020; PIN-FS-02, 2022; PIN-FS-03, 2022), the varying capacity of Chinese MNCs in post-acquisition management leads to heterogenous results. Compared with Wanhua's integration of BorsodChem which became profitable within three years of acquisition and went on to be among

the top 10 companies in Central Eastern Europe (PIN-WH-00, 2020), Weichai’s acquisition of Baudouin and Ferretti remained inconclusive (PIN-WC-02, 2022).

In brief, when the benefits would exceed the costs by transferring producing abroad, firms then need to opt for an efficient way to enter foreign markets. The FDI entry mode for Chinese firms is largely influenced by their strategic intent to conduct FDI as well as their strategic fit with industries in the host countries (Cui and Jiang, 2009). Chinese firms’ market-seeking and strategic asset seeking motives, and European industrial distribution determines that FDI entry modes in Europe are dominated by greenfield and M&As. Compared with greenfield, which is usually used by firms with relatively technology-abundant and rich experiences of overseas operations, most Chinese firms, irrespective of ownership structure, firm scale or industry, actively adopt a rapid means of expansion via acquisitions. Yet being a high-risk method of expansion, acquisitions have not always reached expectations.

Table 7.1 Greenfield vs. M&A

Entry mode	Advantages	Disadvantages
Greenfield	<ul style="list-style-type: none"> - Allow firms with high technology and rich internationalisation experience to retain their proprietary advantages and reduce transaction costs 	<ul style="list-style-type: none"> - High costs (e.g., building facilities from the ground up) - Vulnerable to political risks
M&A	<ul style="list-style-type: none"> - Rapid expansion - Allow firms with limited experience to achieve a quick increase in market share 	<ul style="list-style-type: none"> - High risk (e.g., post-acquisition management)

7.4 Financing and FDI: how financing influences the FDI process

While traditional theories suggest that three main factors, i.e., a firm’s assets and capabilities (O advantages), host countries’ tangible and intangible resources and markets (L advantages), and benefits from internalising the intermediate market (I advantages), determine firms’ motivation for FDI, they have paid minimum attention to financing (Chapter 2, Section 2.3). In fact, FDI

activities must occur through investment capital (firm financing) and financing, which, in turn, impacts a firm's internationalisation process. There are three main aspects of this.

Firstly, financing is an integral part of the investment process. It is the transaction vehicle and prerequisite, and the arrangement and processing of financing, which usually involves raising funds from external sources and regulations concerning fund transfer, affect the efficiency and efficacy of the transaction process. To be more specific, a typical transaction process consists of four main parts (Table 7.2);⁸⁶ that is, a preparatory phase (first round bidding), commitment (bidding-offer), signing and closing (asset transfer). Financing encompasses the whole process. The first stage mainly includes preparatory work such as doing preliminary due diligence (DD), focusing on the financial documents of the selling asset, meanwhile providing a non-binding offer (NBO)⁸⁷ and building tentative contacts with the potential sourcing partner (e.g., relationship banks). During the second stage, the central work involves a financing commitment letter. While this provides an investor's binding offer, usually it also needs to attach evidence that finance is available. If the transaction is financed completely by internal funds, then related documents could be bank statements; if by equity or loan financing, a corresponding equity or loan commitment letter is thus needed. One caveat regarding financing, at this stage, is that investors are usually over-confident in their financing capability, which sometimes affects the transaction process or can even lead to the failure of the deal.⁸⁸ The third phase usually concerns the finalising and signing of financing documents and ensuring the availability of funds for the deal, before it goes to the last step of closing. During the last stage, financing, or funds transfer, is the main work to complete the deal. Since funds often come from various sources, i.e., internal

⁸⁶ This table presents the typical process of M&A (by auction) with external financing sources. Transactions via private sale or from internal funds are a comparatively streamlined process. Yet not all M&As take place by auction, others such as bilateral negotiation are not applicable. Here I use the auction type because it has a tight schedule overt which the seller has highly control, and it clearly presents the role of financing in the whole transaction process.

⁸⁷ The contents of NBO usually cover the identity of the bidder, transaction rationale, transaction scope, price and valuation assumptions, financing, conditions and regulatory approvals, due diligence, etc., yet it has no legal effect and is usually subject to revision in the valuation period during full-scale DD. The main aim of NBO is to showcase the buyer's strength and competitiveness in order to proceed on to the next round of the bidding process.

⁸⁸ For instance, if the transaction is financed by bank loans, the investors usually need to leave sufficient time for the bank to issue a loan commitment letter, since banks have to complete an evaluation of whether to provide such a supporting document, usually by conducting DD or a financial model before submitting to their credit committee for approval. A delay in getting, or a failure to acquire, a supporting letter will bring uncertainty to a transaction.

sources, equity, loans (from one or several banks), or in different currencies, the aim is thus to minimise the time gap between the handover of the acquisition certificate and the arrival of funds so as to reduce the transaction risks until successful transfer.⁸⁹

In this vein, financing (source of funds) thus becomes critical and determines the efficiency of transaction. Firms funding acquisitions from internal sources usually close the deal within a shorter time, as much time can be taken up by getting approval for the relevant transaction from the host country's ruling authorities. For instance, in the cases of Legend-BIL and SANY-Putzmeister, since financing for both transactions was available to hand (both were financed from internal funds, albeit, for Legend, retained IPO funds⁹⁰), the whole process, including getting approval from the ruling authorities, took 8 and 4 months respectively.

Table 7.2 The role of financing in a typical M&A transaction process

Phases	Transaction process	Financing related work
Phase 1: Preparation	<p>Seller planning sale, recruiting consultants, drafting selling documents, e.g.:</p> <ul style="list-style-type: none"> - Process letter - Confidentiality letter - Exclusive letter (rare in auction M&A) 	<p>Preliminary due diligence (DD, e.g., financing information), initial quotation (non-binding offer).</p> <ul style="list-style-type: none"> - Confidentiality letter - Indicative short form term sheet - Tentative contact with potential financing partner (if external funds needed)
Phase 2: Commitment	<p>Selecting potential buyer, providing sale documents, revising sales and purchase agreement (SPA).</p>	<p>Providing financing commitment letter.</p> <ul style="list-style-type: none"> - Full-scale DD

⁸⁹ For instance, if part of the funds is in US dollars, the transfer may be affected by going through the Clearing House Payment System (CHIPS) or being selected randomly for further review by the global anti-laundering system, which can lead to delay in the flow of cross-border funds. A funds flow test or simulation is therefore usually conducted before the formal transfer to ensure the safety and certainty of funds transfer.

⁹⁰ According to the interviewee, the IPO funds were held in their overseas account, which further accelerated the whole process by free mobilising of funds.

	<ul style="list-style-type: none"> - DD reports (e.g., management presentations and interviews) - Valuation - Drafting acquisition agreement (private sale) or offer document (public bid) - Drafting equity documents - Structure memorandum (e.g., regulations and approval from the involving countries, industry specific review or regulation) 	<ul style="list-style-type: none"> - Mandate documents (financing commitment letter) - Financing structuring - Financing strategy: internal, equity, loan (syndication if necessary)
<p>Phase 3:</p> <p>Signing</p>	<p>Completed DD and several rounds of negotiations before finally achieved agreement.</p> <ul style="list-style-type: none"> - Acquisition agreement/disclosure letter (if private) or offering memorandum (if public) - Final DD reports - Business model - Funds flow document - Conditions to closing 	<p>Signing financing documents to ensure the accessing of funds for transaction.</p> <ul style="list-style-type: none"> - Credit agreement(s) - Intercreditor agreement - Security documents - Hedging documents - Conditions preceding funding
<p>Phase 4:</p> <p>Closing</p>	<p>Successful transfer of the asset.</p> <ul style="list-style-type: none"> - Satisfaction of conditions for closing - Equity injection/funds flow - Acquisition certificate - Syndication assistance - Ongoing business management 	<p>Cross-border funds flow.</p> <ul style="list-style-type: none"> - Satisfaction of conditions to funding - Funds flow - Repay existing target group loan - Post-closing target group security and other subsequent conditions - Syndication process

		- Amendments, waivers, consents
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Source: Author's research and personal interviews (PIN-FS-02: 2022; PIN-FS-03: 2022)

Secondly, financing influences firms' strategy and behaviour when conducting FDI. Firms' ability to raise capital and the related capital structure is even decisive in strategic planning (Puck and Filatotchev, 2018: 661). Specifically, since raising funds for specific transactions is a case-by-case issue, and the financing structure is constructed based on the safety and availability of funds during a particular period, a firm's financial strength and financing capability becomes one important variable affecting their FDI strategy. If a firm has financial strength and abundant cash flow, FDI thus becomes a natural way to expand. Weichai, for instance, accumulated large amounts of capital as profit after many years of being one of the top engine manufacturers. Its FDI, mainly via M&As, targets multiple fields.⁹¹ In other words, Weichai's cross-border acquisitions are not limited to its core businesses, demonstrated by the fact that it has acquired its direct competitors (horizontal acquisition, e.g., the acquisition of France-based Baudouin) and suppliers (vertical integration, e.g., KION and its subsidiary Linde Hydraulics). It has also expanded into new fields for strategic planning, including its conglomerate acquisitions of the Italian yacht manufacturer Ferretti, the US intelligent intralogistics solutions company Dematic, and the Canadian proton exchange membrane manufacturer Ballard. This is different from most Chinese MNCs (especially SOEs), which focus on their core business during foreign production, and allows Weichai to build on its core competence in advance to give itself an edge when competing with incumbents in future. It is Weichai's financial strength, among other things, that allows it to source funds internally and thus respond efficiently during cross-border acquisitions (PIN-WC-00).

Last but not least, while FDI is motivated by three main (OLI) parameters, it functions through financing, which in turn, influences the extent and results of firms' FDI activities. Specifically, since MNCs from emerging countries tend to have a lower number of ownership advantages, that is, most of them lack well-developed management, technology, and business know-how

⁹¹ Weichai's preference for conglomerate acquisition is (based on a preference for) long-term strategic investment, which is different from those investment holding companies (e.g., Fosun), who specialise in identifying and investing in prosperous companies distributed across a wide range of industries for profitability or risk diversification purposes.

(Section 7.1), financing, or the ability to access funds, can address such disadvantages to a certain extent. Recent years have seen increasing numbers of emerging country MNCs actively engaging in FDI, particularly via M&As in developed regions. Often, they are willing and able to bid higher and pay a greater premium (16 percent more) for the same target than their counterparts from developed countries (Hope, Thomas and Vyas, 2011). This is valid for Chinese firms. While the success of acquisitions can be attributed to multiple factors including firms' competency among all bidders, strategic synergy beneficial to mutual parties, agreement about post-acquisition arrangements, etc., one main factor, which is often neglected, is a firm's financial strength and the bid premium from Chinese MNCs (PIN-LGH-00, 2020; PIN-SASAC-00, 2020; PIN-WC-00, 2022; PIN-FS-02, 2022). For instance, in the partial acquisition of the Portugal energy company REN, State Grid paid 34 percent more of the premium. Similarly, Fosun took five years (from 2010 to 2015) and paid a premium of around 45 percent in its acquisition of French travel and tourism operator Club Med. Financing, in this sense, has played a key role and offset the disadvantages of Chinese MNCs when competing with international bidders in securing the deal.

7.5 Financing and FDI in the Chinese context: the rationale

The FDI of Chinese MNCs, compared with the incumbents of developed markets, has displayed unique features in many ways, including: 1) the institutional context has determined the heavy involvement of the Chinese government during the process; 2) most Chinese MNCs investing abroad lack significantly superior firm comparative advantages such as advanced technologies, strong brands and managerial know-how; 3) Chinese MNCs prefer to make acquisitions the primary modalities of FDI, especially in developed countries; 4) SOEs, among others, are the key drivers of foreign expansion; 5) Chinese firms invest in a broad range of industries, covering almost all industrial sectors; 6) Chinese firms to engage are motivated to take part in FDI mainly to pursue foreign markets, secure natural resources and generate strategic assets; very few are about efficiency-seeking, given their relatively low labour costs domestically (Dunning and Narula, 1996; Child and Rodrigue, 2005; Peng, 2012; Yang and Stoltenberg, 2014; Alon et al., 2018; Section 7.1, 7.2, 7.3). However, despite a proliferation of literature on different aspects of this phenomenon, most of which focuses on the factors that drive such investment and the patterns exemplified, very few have touched upon its nature, such as the fundamental question of how

Chinese MNCs access the finance to support their FDI (i.e., what makes all these happen or what competitive advantages enable Chinese firms to successfully compete against globally established companies), or further explore the rationale behind it.

Though existing scholarship has sketched out relevant issues, such as the imperfect capital market in China (Buckley, 2004; 2007: 501), country specific endowments (e.g., abundant capital) that add to firm ownership advantages (Rugman and Li, 2007; Ramamurti, 2009: 404), most of them tend to link Chinese outward investors with cheap money allocated by the Chinese government to support outward investment. This is problematic, however. Firstly, the finance capital used by Chinese MNCs to support their FDI, is not all from domestic sources. On the contrary, a certain portion is from overseas channels (McKinsey, 2017: 3-4; Chapter 5, 6). The past few years have seen many large transactions, the ChemChina-Syngenta deal, for example, where 33 billion out of 47 billion funds were provided by an international bank syndicate. Secondly, in spite of the imperfect market that has inherent bias towards some firms (e.g., SOEs or former SOEs), they are not necessarily all accessible and with below-market rates, after all, financial institutions are not non-profits, they have their evaluation system to ensure the security and repayment of their capital (PIN-FS-02, 2022; PIN-FS-03, 2022). Lastly, and perhaps most important, is that they ignore the underlying financial system that implicitly and explicitly shapes the financing dynamics of Chinese MNCs in their internationalisation.

The financial system, which is a sub-system of the national political economy, consists of financial institutions, financial markets, financial instruments and a range of regulatory arrangements that interact, typically in a sophisticated manner, for the purpose of mobilizing funds for investment, and providing facilities, including payment systems, for the financing of commercial activities between fund providers and users (IMF, 2019: 11). Generally, there are two main kinds of financial system; i.e., market-based (arm's length or external finance) and bank-based (relationship finance) systems, with the former represented by the US and UK and the latter by Germany, Japan and France (Allen and Gale, 2001; Dore, 2002). Often, bank-based systems have a stronger tendency towards government intervention, while a market-based one tends to have a decentralised, freely competitive market resource allocation mechanism. Yet both are relative means; horizontally, for example, the Japanese financial system is bank-oriented compared to

the US financial system, while vertically, capital markets now play a much more important role in the Japanese financial system than in the past. And neither is superior, since for underdeveloped financial sectors, bank-based systems tend to outperform market-based systems, and for developed financial sectors, stock markets are more active and efficient and market-based systems outperform bank-based systems (Levine, 2002; Tadesse, 2002).

China's financial system is a typical bank-based one, featuring "a dominant banking sector, a fast-growing bond market, a widely followed stock market, and an increasingly and multi-faceted shadow banking sector" (Amstad, Sun, and Xiong, 2020: 1; He and Wei, 2022). Although each part of the sector is ranked among the top globally, they are generally considered to be large yet underdeveloped (or heavily restricted). This diverges from Western financial systems in three main ways. First and foremost, the banking sector remains large and dominant, albeit with liberalisation and the influx of many domestic and foreign banks and financial institutions over the past decades. In China, banks are equal to the financial system, and the banking system has thousands of entities which consist of different levels and types of institution (Walter and Howie, 2012: 29).⁹² The total assets of banking institutions account for more than 95 percent of all assets since the early 2000s, and only in recent years that that has contracted to about 90 percent (Table 7.1). This has dwarfed the assets of non-bank sectors, which including security and insurance institutions, account for less than 10 percent in total. The concentration of the banking sector in China is the opposite of those liberal market economies such as the US and the UK, and it is even higher than traditional bank-based systems such as Germany and Japan, where insurance, pension, and other financial institutions have developed to a certain level (Yin, 2018). In terms of its capital market, China is among the underdeveloped countries, with stock market capitalization accounting for 78.7 percent of its nominal GDP in 2020, compared with that of the US (194.9 percent), Japan (128.9 percent), UK (100.1 percent), and Germany (55.6 percent), according to World Bank and CEIC data.

Table 7.1 Structural changes in the total assets of China's financial system, 2003-2021 (trillion RMB)

⁹² For a detailed review of China's banking system or financial system more broadly, see e.g., Elliott and Yan (2013); Allen, Qian, and Gu (2017); Rambures and Duenas, 2017: Chapter 4; He and Wei (2022).

Year	Total Assets of China's Financial System	Banking sector	Non-banking sector (Security sector and insurance sector)	Percentage of total assets owned by the banking sector
2021	381.95	344.76	37.19	90.26%
2020	353.19	319.74	33.45	90.52%
2019	318.69	290.00	28.68	91.00%
2018	293.52	268.24	25.28	91.39%
2017	264.34	252.40	11.94	95.48%
2016	240.18	232.25	7.93	96.70%
2015	205.84	199.35	6.49	96.85%
2014	177.35	172.34	5.01	97.18%
2013	155.33	151.36	3.97	97.44%
2012	136.85	133.62	3.23	97.64%
2011	115.9	113.29	2.61	97.75%
2010	97.4	95.31	2.09	97.85%
2009	81.07	79.52	1.55	98.09%
2008	64.33	63.15	1.18	98.17%
2007	54.09	53.12	0.97	98.21%
2006	45.01	43.95	1.06	97.64%
2005	38.49	37.47	1.02	97.35%
2004	32.47	31.60	0.87	97.32%
2003	28.57	27.66	0.91	96.81%

Source: People's Bank of China

Secondly, China's financial system continues to have a high degree of government involvement, and government intervention is evident in almost all financial activities (Elliott and Yan, 2013: 13; Hess, 2014: 29-32; Yin, 2018: 9; Huang and Ge, 2019: 70). This includes but is not limited to: 1)

the situation where the government still holds tight and majority control of large financial institutions. The dominant banking sector, for instance, is controlled by the largest state-owned commercial banks, which own about half of the total assets of the banking industry, and there are significant government stakes in many of the other banks. This demonstrates that the government has direct impact on financial institutions as well as on cross-border capital flows; 2) the price of financial resources is not determined by the market. For example, bank deposit and lending interest rates have not yet been marketised, stock market issuance and IPO quota is still government-determined and approval-based, and the delisting mechanisms are merely nominal; 3) China's financial system is relatively closed off from international financial markets, and its capital and financial accounts are far from fully open to foreign investors.

A third and related core feature is that the socialist market economy in China is fundamentally based on the idea that the market is an instrument of the State, not an end in itself. This can be mainly attributed to the Chinese political economy system, which is in contrast with various forms of capitalist systems in the West, where there is a conceptual separation of and a boundary between state and market, and the market is regarded as an autonomous realm separate from the state. In the Chinese context, however, the centralised structure of the state (which has existed historically and up to the present time) decides that the market should be regarded as part of the state and an aspect of government's responsibilities over society, and that it should and always will operate within the boundaries set up by the state (Zheng and Huang, 2018: 80-82). In this vein, the Chinese financial system (including financial infrastructures and mechanisms) is mainly operated according to state directives and tasked with fulfilling a wide range of fiscal and developmental objectives to serve the economy.

These three features, essentially, reflect the rationale on which the Chinese financial system has been built and developed by the Chinese government, with a mission to finance China's economic reform and development (Rambures, 2015: Chapter 4; Song and Xiong, 2018). Before 1978, the Chinese economy featured socialist central planning, and the country had a monobank system, in which the People's Bank of China (PBC) served in all capacities as a central bank, a commercial bank, a development bank and a government bank. Since the early 1980s, China has set out on the path of economic reform, the core of which is liberalisation, by introducing a dual-track

approach and allow the co-existence of SOEs and private businesses. Yet the burgeoning private sector has compelled the state to improve the efficiency of SOEs, which has become the trigger for SOE reforms. As part of the reforms and with the aim of activating inefficient SOEs, the monobank system was dismantled and developed into a two-tier banking system by splitting the commercial banking functions from the PBC into four independent state-owned banks (i.e., the “Big Four”).⁹³ These state banks have provided excessive numbers of loans to support the ailing SOEs, which resulted in enormous capital loss during 1990s and 2000s. With the banks heavily constrained by the non-performing loans, stock markets and bond markets were established successively to provide alternative funding sources, especially for SOEs (see e.g., Borst and Lardy, 2015; Song and Xiong 2018: 7).

This financial system, however, has both inherited and created financial distortion in the economy from the very beginning (see e.g., Johansson, 2012; Anzoategui et al., 2015, Chan, 2021). While the state sector (or state-favoured companies and projects) has and always will receive implicit and explicit favouritism, the vast private businesses have to rely on their internal sources or alternative finance sectors operating largely outside the markets and formal institutions (e.g., shadow banking). This has been fully demonstrated in the financing patterns of Chinese firms during their internationalisation, especially in Europe. Chinese multinationals, in which SOES feature heavily,⁹⁴ as well as internal and loan financing for their FDI activities, echo the dynamics of the evolving Chinese financial system, shaped by the state-dominated political economy. China’s financial system will be less likely to develop into a Western-styled one - neither the liberal market-based system that features a highly developed and fluid capital market, nor the bank-based system with multiple financing sources available. The financing patterns for Chinese firms may diversify as the Chinese economy liberalises, but they will never lose the background colour of internal and loan financing, as the Chinese state continues to play a pivotal role in many aspects of the economy.

⁹³ After several rounds of reform, they are technically joint-stock banks which are state-controlled.

⁹⁴ According to MOFCOM data, SOEs are the lead and the FDI stock owned by them was predominant for around 80 percent since the financial crisis; although it has dropped to around half of the total in recent years, most large volume transactions were conducted by SOEs.

Chapter summary

In this chapter, I answered the second research question: “*How does financing influence firms’ strategy in their FDI process*” by conducting an integrated analysis. Based on the OLI-F theoretical framework, I first examined the unique features of Chinese MNCs and found that: 1) compared with the global incumbents, Chinese firms, like other emerging market MNCs, conduct FDI for both asset-exploiting and assets-augmenting purposes. Apart from a few true globalisers that have strong competitiveness, most Chinese MNCs go overseas to search for wider foreign markets or to acquire strategic assets they cannot generate internally; 2) Europe became the destination for Chinese FDI, either for strategic reasons such as being integral to the fulfilment of business aspirations, or for realistic reasons such as being the alternative to other developed markets; 3) compared with organic growth, Chinese firms prefer to expand quickly via acquisition as the primary mode of entry to foreign markets. Based on these facts, I further argued that financing influences firms’ strategies and FDI in three main ways: firstly, financing is a prerequisite of FDI, and the source of financing affects the efficiency of the FDI process. Secondly, firms’ financial strength influences the strategy and behaviour of firms conducting FDI, and their ability to raise funds can even be decisive in strategic planning on some occasions. Thirdly, empirically, financing supports firms’ comparative advantages, which allows them to compete successfully with other companies especially in bidding for acquisitions. At the end, I briefly accounted for such a phenomenon by connecting it to China’s contemporary financial system.

Chapter 8 Conclusion

China's fast-growing investment in Europe during the past decade has been the subject of increasing scholarly attention. However, despite such efficacious endeavours in exploring this phenomenon, the width and depth of knowledge remain limited. This PhD study contributes to this emerging stream of scholarship by examining this phenomenon from the perspective of financing. Specifically, it attempts to answer research questions concerning the ways and extent to which financing, as an important, yet often under-estimated factor, influences the investment strategies and FDI process of Chinese firms. Based on mainstream MNC and FDI theories and contributions from political economy, this study has searched for answers by applying a mixed-methods approach to collecting both primary and secondary data. In this chapter, I present the main findings from my research, after which I outline its limitations and suggest directions for future research. I do this in the hope that the analysis contained in this thesis will help enrich further understanding of expanding Chinese investment in Europe.

8.1 Principal findings

In response to the specific research questions, I offer five key findings:

Firstly, Chinese investment in Europe has been increasing since the beginning of the new century, and in particular has experienced a sharp increase since the financial crisis of 2008. This can be attributed to significant push factors. Among these, the influence of the liberalisation policies adopted by the Chinese government in the early 2000s has been significant, as have Chinese firms' responses to the saturated and overheated Chinese domestic market at that time, which propelled them to seek opportunities abroad. There have also been complementary pull factors, such as the fact that Europe has strategic assets desired by Chinese companies and offers a relatively open market for international investors. At that time, in addition, a wide range of depreciated assets was available, as a result of the Euro debt crisis. While Chinese investment, both greenfield and M&As, has occurred in most European countries, Germany, France and the UK have been the recipients of the greatest amount of Chinese inward investment, together accounting for almost half the total. For greenfield investment, the top sectors for investment

have been communications, electronic components, and industrial equipment; whereas, for M&As, manufacturing, information systems and communications, as well as energy (represented by the electricity and gas generation and supply industry) have been the most targeted areas. A notable feature in relation to M&As is that more than half the investors are POEs (61 percent), and the vast majority are listed companies (83 percent). Although the businesses of nearly all (94 percent) the targets for M&As have been related to the investors' core businesses (via horizontal, vertical, and congeneric acquisitions), five percent of transactions targeted businesses in unrelated industries (conglomerate acquisitions). Most of these investors have been POEs, which indicates that POEs are more aggressive in searching for new areas of opportunity to enhance their international competitiveness.

Secondly, for Chinese firms, financing for FDI has been sourced in four main ways: finance from internal corporate funds, finance from internal funds supplemented and supported by bank credit, finance from internal funds supplemented by stock offerings, and hybrid financing. Of these, internal funds take the form of either retained profits or self-raised funds from multiple sources that have been retained internally within the business. The financing mode that uses internal funds with bank credit includes both single bank loans and loans from bank syndicates. Concerning stock market financing, there are three variations on the basic stock offering model. These are: substitution for bank loans, stock offerings with a buying agent, and stock offerings for stock swaps. The multi financing or hybrid mode can take the form of a combination of any of the available sources. In general, two modes—financing entirely from internal funds and financing from internal funds supported by bank credit (especially via “*Neibai Waidai*”, i.e., using the onshore guarantees for offshore loans service)—are the most commonly used methods used by Chinese firms to finance their European investments.

Though the financing solution for each individual investment transaction is developed on a case-by-case basis, factors affecting the availability of financing sources for Chinese firms are generally closely related to firm ownership, listed status, firm scale and transaction size or volume. In other words, the financing structure is determined by firms' preferences and capabilities in sourcing funds, coupled with those of the transaction parties as well as factors specific to the transaction. Generally, SOEs tend to source funding via bank loans, either from state-owned commercial

banks or from policy banks; POEs, on the contrary, usually source from internal funds, capital markets via stock offerings, or by cooperation with external investors such as PEs. This is not always the case, however, since for highly profitable SOEs internal funds might be the main source, whereas for well-connected POEs or state-promoted private businesses, bank credit is an accessible source. Listed companies tend to have a wider choice of financing sources (e.g., loan financing, equity financing, and a range of hybrid approaches such as convertible bonds) compared with unlisted companies, which often resort to internal sources, bank loans, or other formal or informal means. Apart from these two variables, financing also relates to the size of the investing firm and its particular transaction volume. Large, mature companies tend to have a wider range of financing options than small, developing businesses. Similarly, large volume or high value transactions tend to use more, and more diverse, financing sources than small ones.

Thirdly, concerning investment motives and strategies, three notable features were identified in relation to Chinese investment in Europe. These were: 1) Chinese firms operate using both asset-exploiting and asset-augmenting strategies, and FDI in Europe is mainly undertaken with the dual purposes of seeking access to international markets and seeking to acquire strategically important assets; 2) Europe has been optimal for Chinese investment, and Chinese firms choose to invest in Europe for two reasons: the first, strategic reason, is that Europe is an integral part of the global economy and therefore of strategic importance for their globalisation aspirations, while the second, realistic reason, is that Europe has the strategic assets that Chinese firms seek; 3) Compared with an organic growth pathway (e.g., greenfield), M&As are regarded as the primary entry route for Chinese firms to invest in Europe, because they allow rapid expansion to gain competence and move quickly up the industry chain; 4) As for post-acquisition management, most Chinese investors retain the original management and leave the acquired company to operate independently from the headquarters of their new owners. This is generally because of a shortage of necessary talents at headquarters—people familiar with the acquired business—and also because acquisitions that are performing well independently do not need to go through the massively disruptive process of business integration. In addition, despite the potential advantages of business synergy after acquisition, cultural differences were identified by the interviewees as presenting enormous challenges to the successful integration of acquired assets.

Fourthly, financing influences Chinese firms' investment strategies and the FDI process in three main ways: 1) as the transaction vehicle and a prerequisite, financing affects the efficiency and efficacy of the transaction process; 2) firms' financial strengths and financing capabilities affect each individual firm's FDI strategy. Specifically, for firms that are financially strong and have abundant cash flow, FDI offers a natural route to expansion which, in turn allows the investors to acquire a certain edge in global competition; 3) financing influences the extent and outcomes of firms' FDI activities. In other words, for Chinese firms that lack sufficient firm-specific assets to initiate and support the process of internationalisation, advantageous financing addresses these disadvantages and adds to the firm's competence and likelihood of success in acquisition bidding.

Lastly, the financing dynamics of Chinese firms in their FDI is largely shaped by China's financial system or, more broadly, by the Chinese political economy. The bank-centred financial system in the Chinese political economy, in which the state plays a dominant role, has created a multi-level (state-owned) bank-centred financial system with an under-developed and relatively closed capital market. This has shaped two features of Chinese firms' FDI: 1) firms are financed mainly through internal funds (45 percent) and debt market sources (29 percent), with only a small portion (12 percent) gaining access to the capital market via equity financing; 2) SOEs are relatively more active in internationalisation, because the predilection for state (or state-promoted) sectors, and the prejudice against private businesses that is inherent in the Chinese financial system, tends to cultivate the development of SOEs while constraining the internationalisation efforts of POEs to a significant extent.

This study contributes to the extant literature in two important ways:

Empirically, I have documented the data in this study based on the most comprehensive available micro-level data on Chinese FDI in Europe. In other words, compared with the existing literature, which places emphasis on EU countries within a particular time period, I assessed Chinese firms' FDI in thirty-nine countries between 2003 and 2019 (Chapter 3, Section 3.4.1), covering a wider geographical range and time span to more effectively assess this phenomenon. In addition, as I was trying to investigate and renew the existing literature with regard to their motivations and strategies, I also traced the details of financing transactions, which helps to enrich and reinforce current empirical understandings.

Theoretically, by adopting an approach from the perspective of financing, this work adds to mainstream FDI and MNC theories by highlighting the role of finance through an additional and less-explored analytical lens. It also complements mainstream theories by placing the emphasis on explaining '*what*' questions concerning the motivations, determinants and strategies for FDI, and by answering, at least partly, '*how/why*' questions relating to the Chinese firms' rationale for competing with global incumbents, and doing so successfully, which has implications for explaining FDI from other emerging countries.

8.2 Research limitations

Although this study emphasises empirical originality and theoretical contributions, there were certain limitations on the research which should be acknowledged:

First, on the data regarding financing information. Data concerning financing details (particularly M&As) in this study were mainly obtained from third party databases, corporate sources (e.g., official publications, websites), and personal interviews. Of these, most of the data were from corporate sources, especially reports published on Juchao,⁹⁵ with a small proportion gathered from commercial databases (e.g., Thomson One) and via personal interviews. However, the available data related to only around half of the documented M&A transactions during the period investigated, and almost all the data gathered related to listed companies. In other words, the analysis and research findings are generally based on publicly available data from transactions involving listed companies. More data, especially data relating to the transactions of unlisted companies, are needed to obtain a more holistic view. This limitation, however, does not nullify the findings, which have been triangulated as far as possible using multiple sources such as personal interviews with financial experts specialising in financing for cross-border M&As.

Second, with regard to the case studies, while the selected cases are typical Chinese companies, selected with reference to key factors such as firm ownership, firm scale, major transactions, financing sources and industries, I did meet considerable challenges in accessing a number of the most suitable firms – firms that I had originally selected for inclusion in the process. For instance,

⁹⁵ An official website or database that publishes all information of Chinese companies listed on Shanghai, Shenzhen, and Hong Kong stock markets, see: Chapter 3, Table 3.6.

I tried to contact potential interviewees in ChemChina, Fosun, and Three Gorges, three companies that have all completed multiple large transactions in Europe. However, these companies turned down my interview requests on the grounds of corporate confidentiality and the need for high-level approval, which was considered effectively unobtainable. In addition, for those case studies where interviews were granted, some of the interviewees ignored or avoided more detailed questions concerning financing on the grounds that they were not familiar with specific details, or that they would have to consult headquarters, or that the topics were too sensitive and confidential. As a result, the data collected via interview with corporate executives or senior staff are limited in terms of financial details. I therefore had to resort to other sources such as corporate filings, interviews with government officials (e.g., an official from the SASAC), and interviews with third-party financial experts familiar with the case study firms. Finally, the Covid-19 pandemic resulted in travel restrictions throughout the core fieldwork period, which added more challenges to the already difficult fieldwork program (see Covid-19 Statement). All of these factors contributed to an enforced acceptance of trade-offs in the depth of each case study.

8.3 Future study

Future research on this topic could focus on three main areas:

First, as indicated above, the detailed data obtained on the financing of transactions primarily refer to large, listed companies (although Jinsheng was also included as a case study). More research could be carried out on medium and smaller companies investing in Europe. This is because, in the context of China, smaller and unlisted companies (especially POEs) face more severe conditions and have access to far fewer resources than large, listed corporations. Consideration of how they finance their investment projects, how they manage to defeat other competitors, both domestic and international, and how they succeed in establishing foreign production gives rise to many intriguing questions, the answers to which would be of immense value in understanding Chinese MNCs. Due to the constraints on access, this research was unable to fully reflect this group of investors. More research could achieve this by conducting further in-depth case study analysis.

Second, this study focuses on Chinese MNCs and investment within a specific geographical area—Europe. This is because: 1) Europe has experienced the highest growth in Chinese inward investment among the developed regions; and 2) it has hosted most of the largest Chinese M&A transactions. More detailed research on the financing details of large-volume and high value transactions would be immensely valuable and Europe, in turn, provides the optimal sample pool of potential cases for systematic analysis of such transactions. Future research could be extended to other geographical areas, both among other countries within Europe, or in the form of comparisons between Europe and other developed regions (e.g., North America, Australia) or developing regions (e.g., the BRIC countries). This is because various capitalist systems have nurtured different financial systems (and particularly capital markets), with wide variations in the regulatory environments for foreign investment, which has implications for the range and scale of financing sources available from the host markets. Such comparisons would allow more nuanced examination of Chinese firms' strategies and operations in different geographical regions.

Finally, apart from Chinese MNCs, research on the financing arrangements of firms from other emerging economies, or from developed countries, would allow for comparative analysis of the differing rationales for international investment. Comparisons could be made between emerging country MNCs, between Chinese and other (East) Asian industrialisers, between EM MNCs and developed country MNCs. Potential areas for research could include national strategies relating to outward FDI (In the US, UK, Germany and Japan, for example, one of the most common strategies is equal treatment of all national firms in promoting their outward FDI), national financial schemes for providing support to firms embarking on outward FDI (for example, The US has set up development finance institutions such as the Overseas Private Investment Corporation and the EXIM Bank, specifically to provide medium- to long-term concessional loans to US firms investing abroad), investment facilitation policies in different national contexts, and so forth. This will not only have the benefit of collecting and collating more material to enrich empirical understanding but will also contribute to the theoretical advancement of current MNC and FDI research.

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Appendix

Interview Protocol

Project title: Chinese Investment in Europe: A Financing Perspective

Basic information about the interview:

Time and date:

Place:

Interviewee:

Recording/storing information about interview:

Introduction:

- Self-introduction and build rapport
- Discuss the purpose of the study
- Provide structure of the interview (audio recording, note-taking)
- Ask if interviewee has questions or concerns

Interview topic:

1. On the general information of the company
(Ownership, core business, business model, global markets, etc.)
2. On the motives of internationalisation
(Background, context, process, etc.)

3. On the role of Europe in the company's global strategy?
(Similarities and differences of Europe compared with other markets)
4. On the FDI in Europe
(Greenfield investment, M&A transactions, rationale, process)
5. On financing sources
(What, how, why, so what)
6. On opportunities and challenges during internationalisation
(Advantages that the company have over its competitors, problems and issues raised during FDI process)
7. Post-acquisition management and future direction
(How, why)

Closing instructions:

- Thank you for participating
- Assure confidentiality and anonymity
- If needed, request follow-up interviews
- If asked, comment on when and how interviewee will receive results of the study