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Literature review on Drivers of Chinese Outward Foreign Direct Investment

Valmor Comim Junior

Abstract:
The world has witnessed the rise of multinational corporations from emerging markets as well as the narrow gap of growth between developed and underdeveloped economies. Considering this, Chinese companies are looking for investment opportunities in different countries. The purpose of this review study is to find out the reasons, why Chinese companies wish to invest other country. During this review study, we aimed thoroughly investigate FDI. We found key motivations for Chinese firm to go abroad investment. We explored a variety of economic, political, social and external factors that influenced the organization to go global.

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About Author (s)

Valmor Comim Junior, University of International Business and Economics, Beijing, China.
Email: valmor.comim@asibras.com

1. INTRODUCTION

1.1 *Background*

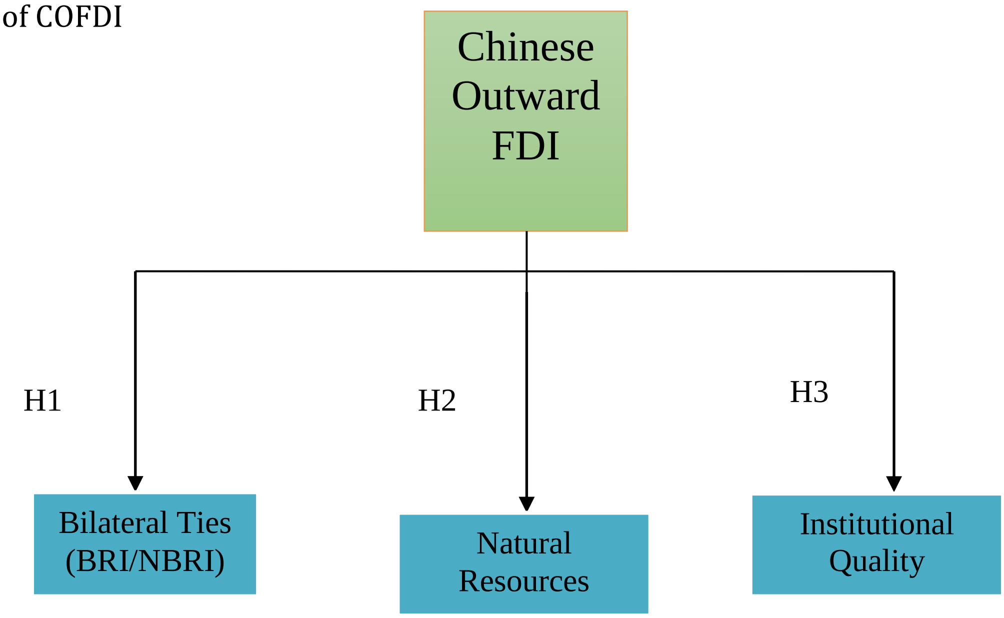
According to Davis, Liu, and Sheng (2019) newspaper-based indexes of policy uncertainty in Mainland China peaked all times high in 2019 after US-China trade policy tensions escalated from middle 2018 and kept intensifying. This is challenging Chinese firms and policymakers to coordinate policies and measures that could leverage firms to go global for the sake of the home economy objectives. The mainstream western economists seem unable to fully explain this phenomenon. To close this gap the first goal of this dissertation is to explore the Chinese firm's internationalization during the XXI Century on the lens of firms hedging uncertainty. In 2016 COFDI has increased by 21.413%. According to UNCTAD database (2019) no other country in the world expanded its presence abroad as China did. However, since 2017 this trend seems to be suffering a reversal, or at least declining its impetus, because of rapid policy change by Chinese Government. It seems that, recent government policies and firms responses regarding the promotion of OFDI became more cautious. In fact, data from the China Global Investment Tracker (2019) indicates a large amount of "troubled transactions" abroad, which turned around in 2017 in a reverse trend coordinated by Chinese policymakers (NDRC, 2019). China's overseas networks for increasing businesses and projects have increased over time, motivating Chinese firms to explore international businesses and this is an important component of China's strategy for economic development (Zuo, 1998).

1.2 *Significance and contributions of the study*

Although several research already done on FDI drivers factor, but this research adds to the literature on determinants of OFDI (Chang, 2014; Cieślik & Tran, 2019; Mumtaz & Smith, 2018; Padilla & Gomes Nogueira, 2015). This study identify that presence of bilateral ties encourage corporations to make investments in countries with low tariffs and investment opportunities such as countries under 'Belt and Road Initiative'. The biggest project in Chinese history, the Belt and Road Initiative (BRI) is positively associated with Chinese OFDI and provides support to the role of foreign policy and geo-strategic ties and decisions in Chinese OFDI.

1.3 *Research framework*

Drivers of COFDI



2. THEORETICAL BACKGROUND

2.1 *Dunning Eclectic Paradigm*

Dunning (1977 and 1979) integrates imperfect market-based theories discussed with oligopolistic and internalization theories. He also includes a new dimension as location theory for explaining the facts for FDI (Dunning, 1981). Location theory addresses the important questions of who produces what goods or services in which locations, and why? Location theory has also been frequently applied by researchers in attempting to understand the factors that influence locations of MNC units. On the basis of the above, Dunning (1998) put forward his theory, which came to be known as the eclectic paradigm or OLI paradigm. Dunning suggested that a firm would engage in FDI if three conditions were fulfilled. It should have ownership advantages vis-à-vis other firms (O). It is beneficial to internalize these advantages rather than to use the market to transfer them to foreign firms (I);

There are some location advantages in using a firm's ownership advantages in a foreign locale (L). Ownership advantages are those which are specific to a firm. These advantages, which maybe enjoyed over domestic and foreign competitors, are in the form of both tangible and intangible assets. These ownership advantages lead to reductions in a firm's production costs and allow it to compete with firms in a foreign country. Location advantages of different countries play a significant role in determining which country will play host to the activities of multinational corporations (Dunning & Lundan, 2008). As indicated above, a firm gains from avoiding market imperfections in terms of uncertainty, problems of control, lack of desirability of giving full information to potential buyers etc. The internalization gains make it more profitable to carry out transactions within the firm than to depend on external markets. The essential feature in the eclectic theory is that all three types of conditions must be satisfied before FDI occurs. Dunning (1981) stated that the "OLI triad of variables determining FDI and MNCs activities may be likened to a three-legged stool; each leg is supportive of the others, and the stool is only functional if the three legs are evenly balanced". What this means is that a firm having ownership advantage, and where there are internationalization gains but no locational advantage is incurred by setting up a unit in a foreign country, will very likely choose to increase its production at home and export its product(s) abroad. In the same way, a firm having ownership and locational advantages will find it more profitable to produce abroad than to produce domestically and export its product(s); however, if there are no internalization gains then the firm will be better off licensing its ownership advantage to foreign firms(Stoian, 2013). The major contribution by Dunning's eclectic paradigm to the existing literature on FDI was to combine several complementary theories, and identify a set of factors that influence the activities of MNCs. For this reason his theory gained wider acceptance than other. The major contribution by Dunning's eclectic paradigm to the existing literature on FDI was to combine several complementary theories, and identify a set of factors that influence the activities of MNCs (Dunning, 1986).

2.2 *FDI theory for Chinese Multinationals*

Researchers posed that FDI from emerging economies may require specific theory, such as for Chinese OFDI. There are three main arguments unique to Chinese corporations OFDI; (1) imperfect capital markets, (2) specific ownership advantages of Chinese multinationals and (3) institutional factors.

2.3 *Imperfect capital markets*

Capital market imperfections in emerging economies such as China may require a special application of the general theory. Such imperfections may mean that capital is available at below-market rates for a considerable period of time, creating a semi-permanent disequilibrium in the capital market that (potential) outward investors can exploit. In this sense, market imperfections may be transformed into ownership advantages by emerging economy firms(Buckley, 2004). This ability may arise from a number of particular and interrelated imperfections: State-owned (and state-associated) firms may have capital made available to them at below market rates (e.g., in the form of soft budget constraints) (e.g.,Lardy, 1998; Scott, 2002; Warner, Sek Hong, & Xiaojun, 2004); Inefficient banking systems may make soft loans to potential outward investors, either as policy or through inefficiency (e.g.,Antkiewicz & Whalley, 2006; Child & Rodrigues, 2005; Warner et al., 2004); conglomerate firms may operate an inefficient internal capital market that effectively subsidizes FDI (e.g,Liu, Buck, & Shu, 2005); and Family owned firms may have access to cheap capital from family members (e.g.,Child & Pleister, 2003; Erdener & Shapiro, 2005; Tsai, 2002). There are good grounds for believing that all four of these imperfections exist in China. State-sponsored soft budget constraints make acquisition by Chinese enterprises a ‘normal’ mode of entering and penetrating a host economy(Warner et al., 2004).Over-bidding by Chinese MNEs is attributed to the absence of private shareholders and sanguine views of the associated technical, commercial and political risks, to limited fear of failure, close government support and low cost of capital(Buckley et al., 2010). Imperfections in the capital market would become evident if Chinese MNEs had a distinctive foreign investment strategy in terms of location, as exemplified by a perverse reaction to risk and return not predicted by studies on the FDI motivations of industrialized country firms. In the current study, we test for this by including political risk in our determinants of Chinese ODI after controlling for the risk premium, which is proxied by market size and market growth.

2.4 *Ownership advantages of Chinese Multinationals*

There is an argument that emerging economy MNEs have developed ownership advantages that allow them to operate certain types of activity in foreign countries more effectively than local firms and industrialized country MNEs. These advantages may include flexibility (Wells, 1983), economizing on the use of capital (or resources), benefits accruing from home country embeddedness (i.e., prior familiarity of operating within an emerging market context), and the ability to engage in beneficial relations with firms and other actors in order to provide access to resources controlled by others. The latter advantage, which some term are lational asset (Dunning, 2002; Erdener & Shapiro, 2005), may be revealed as networking skills and may be linked to the Chinese diaspora in the case of Chinese firms.4 Where these conditions are relatively long-lasting then they provide the case for semi-permanent ‘ownership advantages’ of emerging economy multinationals.

2.5 *Institutional factors*

The institutional fabric of an emerging economy can determine the ability and will of domestic firms to invest abroad. A straightforward, consistent and liberal policy towards outward FDI will encourage it, while a discretionary and frequently adjusted policy may do the opposite. There is an emerging body of theoretical work that concerns the institution-based view of strategy, or institutional theory for short (North, 1990; Peng, Wang, & Jiang, 2008). This has the potential to help explain distinctiveness in the behavior of outward investing Chinese firms. The basic thrust of this contribution is that firms’ strategy is shaped by the home institutional environment (more colloquially ‘the rules of the game’), which is formally and informally enforced by government and its agents (Scott, 2002) and which bears upon the norms and cognitions that influence investment, including foreign investment, behavior. High levels of government support, typically in the form of privileged access to raw materials and other inputs, low-cost capital (discussed above), subsidies and other benefits help emerging country firms to offset ownership and location disadvantages abroad (Aggarwal & Agmon, 1990). On the other hand, such investors also often encounter highly bureaucratic and burdensome administrative FDI approval procedures as government, at various levels, seeks to influence the amount, direction and scope of outward capital flows. If this is combined with discriminatory policy tools against certain industries and ownership forms, flows of ODI can be distorted. Given the extent of state control of the Chinese economy (Scott, 2002), the institutional environment is likely to have had far-reaching and profound effects on the internationalization decision of Chinese firms. The promotion of exports and export oriented FDI also continues. For example, direct government support in the form of export tax rebates, foreign exchange assistance and financial support was introduced in 1999 to foster FDI in trade-related activities and to promote Chinese exports, especially in the textiles, machinery and electrical equipment sectors (Wong & Chan, 2003). The effect of home country institutions on the investment behavior of Chinese MNEs would be evidenced by a correlation between a key policy change and a change in the amount or distribution of Chinese ODI, or both.

3. LITERATURE REVIEW

3.1 Chinese OFDI – Policies

Under the leadership of Xi Jingping since 2012, China is modernizing the institutions, opening new trade roads under a free market policy (BRI, 2019) that are considered multilateralism in spirit and bilateralism in approach, such as the BRI and enforcing a more rational risk-taking approach in financing tools and investment, giving equal condition compared to national ones for foreign enterprises to operate in China, taking effect from 2020 (FIL, 2019). After Chinese OFDI ratio to GDP peaked in 2016, policymakers issued measures to control capital flight. Then, OFDI met a sharp drop during 2017-2019. OFDI addressed to the BRI was stable in the period due to be in line with policies issued in 2017 (encouraged Investment). Although most countries that fear China topping the list of superpowers realize that the Asian country is the foremost beneficiary of liberalization of trade and investment and facilitation policies, these countries have limited influence on Chinese horizon for OFDI (Meyer, 2017; Tian et al., 2018) and should consider China's stance on the global flows of investment if they intend to lessen risks of further global economic crisis; let alone the goal of stimulating economic growth at a global level, since China is each day more involved in the international economic system (Child & Marinova, 2014; Meyer, 2017; Miao, 2019; Tian et al., 2018). According to Miao (2019) "healthy ties and smooth investment channels are two basic fundamental factors to promote world economic growth." Should scholars wish to understand the aspects of Chinese OFDI in a firm level, one would have to assimilate the peculiarities of these firms' beforehand. This is because China's government has created conditions for its enterprise's internationalization in a model not foreseen in any developing economy; nor had it been seen even in developed economies (Ramamurti & Hillemann, 2018). Extensive studies from renowned academics, such as Porter (1990), demonstrated that the level of a country's development is strictly interconnected with the number of companies this country can generate and sustain. The characteristics of Chinese MNEs' expansion through their OFDI not only endorse these researches but also substantially complement them. This is to say that the "Asian giant" benefited from inward and outward FDI because these investments enabled the country to give rise to a considerate number of MNEs (Ramasamy et al., 2012; Voss, Buckley, & Cross, 2014). The preponderance of state-owned enterprises (SOE) in Chinese OFDI is one characteristic that differs China's model so distinctively from other countries that presented fast development through the international expansion of their multinationals (Ramamurti & Hillemann, 2018).From 2003 onwards, China began to allow private-owned enterprises to take part in the country's outflows of FDI; however, by 2015, SOEs would still account for 70% of Chinese OFDI. A potential shift in this pattern is expected to gather steam from 2020 as a movement of government funds towards universities are propelling academics to stress the importance of OFDI originating in the private sector(Child & Marinova, 2014; Ramasamy et al., 2012). In 2017, Public holdings accounted for 51,3% while Non-Public Holdings accounted for 48,7% (MOFCOM, 2017). It has been acknowledged that the predominant aim of China's MNEs – also seen as emerging multinational enterprises (EMNEs) – in investing abroad is to secure access to resources, market or assets, and upgrade their internal capabilities. However, it has been noted that the involvement of Chinese MNEs in the Belt and Road Initiative (BRI) is a major indication that China's EMNEs serve the geopolitical and economic interests of the State (Witt, 2019) and are well aligned with China's Going Global Strategy. BRI was selected as part of encouraged investments overseas**.** More recently, aligned with Aug 18th 2017 Policy (the National Development and Reform Commission along with other four agencies formalized the regulatory pathway for ODI transaction approval on August 18, 2017, by issuing the Opinions on Further Guiding and Regulating Outbound Investment (the Guiding Opinions), which classified BRI projects into the Encouraged transaction list. This implicates continuity in the outflows of Chinese investment. "The BRI essentially promotes strategic international economic partnerships and multilateral credit to address investment, infrastructure, employment and economic development', with the goal of reinvigorating global economic growth."(Miao, 2019).

Hedge against Uncertainty: The private sector has incentives to respond to the opportunities of OFDI since the private property meet law uncertainty compared with state property. There is no clear definition of individual property in China. Therefore, even though some investments under the BRI may not be profitable Chinese enterprises will still carry out such investments. From the perspective of the BRI being a game-changing event for China as well as the global economy (Liu, Dunford, & Gao, 2018), outline the initiative in a thought-provoking narrative; they stated that: An international consensus is emerging around the Belt and Road Initiative (BRI) proposed by the Chinese government, with a growing number of countries seeing it as a way of jointly exploring new international economic governance mechanisms. Meanwhile, with the crisis of neo-liberalism, economic globalization has arrived at a crossroad. In particular, incessant voices speak out against globalization, making the quest for a new way of promoting global development a major challenge. In this context, more and more political elites and scholars consider that the BRI opens up a possible new globalization path, amongst which inclusive globalization warrants exploration. In May 2017, the BRI began a new phase of international recognition. In Beijing, the BRI International Cooperation Forum gathered over a thousand participants from 130 countries, including 30 heads of State, over 100 ministers and 70 international organizations. By the end of the summit, the United Nations (UN), the International Monetary Fund (IMF) and 30 heads of State had signed a Joint *Communiqué* stating that the BRI represents great possibilities for international cooperation in addressing global challenges (Liu et al., 2018). Despite all this approval from the international community, China's expectation as to whether the "New Silk Road" will give rise to national development and therefore justify its massive OFDI is a much larger concern to China than the world's economic challenges (Liu et al., 2017).

Geopolitical path: Currently the Chinese government strategy is based on a multilateralism of spirit and bilateralism in approach. From the Chinese government's perspective, the Belt and Road Initiative (BRI) launched in 2013 is not only based on economic calculation, but also focused on the establishment of China-led regional multilateralism. Consistent with that trend, the National Development and Reform Commission along with other four agencies formalized the regulatory pathway for ODI transaction approval on August 18, 2017, by issuing the Opinions on Further Guiding and Regulating Outbound Investment (the Guiding Opinions).The Guiding Opinions classify outbound into three groups and BRI is listed into the encouraged transactions one. The multilateralism of spirit is based on the idea of coordinating national policies in groups of states (Morse & Keohane, 2014). Multilateralism, in the form of membership in international institutions, serves to bind nations. Embedding the target state in a multilateral alliance reduces the costs borne by the power-seeking control. In fact, China was not involved in the establishment of the existing set international rules. China entered the WTO only in December 2001. In recent years, in order to support the implementation of the "Going Global" strategy, the related state departments have issued a series of policies and measures for the approval, finance & tax, insurance, foreign exchange, foreign affairs and information service for setting up enterprises overseas. It is shown by the analysis of the questionnaire replies that the respondent enterprises are most interested in the support of tax and financial policies for their overseas investments. 39% of them consider it necessary to enhance the support of tax policy to overseas investments, and 35% of them consider it necessary to enhance the support of finance policy to overseas (CCPIT, 2010). Besides, the direct support given to Chinese firms abroad is very significant in terms of low-cost finance, legal subsidies, diplomatic support and other forms of relevant CSAs (Child & Marinova, 2014). Thereby, the government role in securing and promoting OFDI is beneficial in effect and strategic in nature. In other words, if the Chinese State is able to condition the effectiveness of firms' OFDI in the host country, this mean that, to some degree, companies have to follow the government's agenda and its directives even in the domestic scenario. However, this relationship between governmental agenda and the interests of companies seem mutually beneficial and complementary, so long all directions of China's OFDI project towards national strategic priorities (Voss et al., 2014) that aim to positively affect the home country economy. In this view, the interpretation of how Chinese policymakers frame the path to achieve its national objectives along the time is in line with three dimensions: (i) domestic and external political and economic challenges – globalization or de-globalization, demand for industrialization or overcapacity, demand not met from the domestic market; (ii) POE and SOE weaknesses and strengths taking into account the present level of economy-which supply side of the economy is more prominent to be targeted and explored, i.e., labor low cost, fixed investments or innovation, to GDP growth; and (iii) indebted level of recipient nations to China in percentage of its GDP. China observed that some MNCs were going out in multiple investments strategies beyond the scope of the Enterprise, driving OFDI to a peak in 2016. This raised national concern about capital outflow and whether it was in fact employed to the benefit of national objectives. In 2017, later updated in 2018, China launched a new policy which defined OFDI as either encouraged, restricted or prohibited transactions, as well as enforced the scrutiny towards a rational risk-taking approach followed by a deleveraging trend. This policy was rather efficient. 2018 did not witness OFDI in transactions; therefore, the bill sealed as sensitive, and WANDA growth, for example, addressed their multiple investments from overseas to the domestic market, e.g., Real Estate and Football sectors (Knoerich, 2017). Contrastingly, Ahmad et al. (2016) conduct an econometric analysis and applied an OLI test on several variables correlating OFDI and exports in the ASEAN region utilizing data from the four largest economies in the bloc, and, surprisingly, even China demonstrated detrimental results to its exports when there was increase in OFDI during the same period. However, notwithstanding the fact that the research used a vast array of variables, the international context was not fully integrated in the analysis.

3.2 Factors driving OFDI

The recent trend of Chinese outward FDI has attracted academic attention to investigate the factors and characteristics of Chinese firms and host countries that shape firms' internationalization strategies. Researchers like(Child & Rodrigues, 2005); Deng (2004); Deng (2009) and Morck and Yeung (1991); and many others studied different aspects of outward foreign direct investment by the firms. Below is the brief review of selected studies. FDI by large firms is also determined by their investment in research and development (R & D). Firms devote a considerable portion of the available finance to research and development to make their products better and stand out of other competitors. So firms look forward to get maximum benefit from this expenditure by creating a brand and going for large scale production (Buckley & Casson, 2003; Morck & Yeung, 1992). After a change in China's economic policy, Chinese outward FDI experienced phenomenal growth from nearly zero in early 1980s to $17.6 billion in 2006 (Morck et al., 2008). Chinese firms expanded their presence across the globe, however South and East Asia were the main destinations. Almost 80% of the outflow is directed towards Hong Kong and Caribbean tax havens. These countries provide secrecy of information therefore, firms can easily evade taxes (Harris, 1993). This evasion of taxes increases firms' profits. This also gives an opportunity to some individuals, the insiders of the firms to move their wealth into the tax heavens as evident in case of Eastern Europe (Lipton et al., 1990; Sachs, 1992). Excessive undistributed earnings that only are poured into low return projects domestically. Investing abroad comes out as a better option for such dividend-averse firms (Jensen, 1986; Morck, Nakamura, & Frank, 2001).La Porta et al. (2000) andPorta et al. (1998) are of the view that investors look for sound legal protection of their wealth and property. The investors in the countries where legal systems do not serve them adequately, park their excessive earnings in foreign where they find strong property rights. Moreover, large firms with higher profits also find it preferable to work in financially developed markets so that their financial needs could be managed easily. As the financial system in China is less developed so the firms hold more cash (Khanna, 2000). When they find themselves big enough, they move towards financially developed markets. Similarly, outward FDI is also the result of restrictive business environment in China (Witt & Lewin, 2007). Firms like freedom to produce and sell, so once the opportunity is there, they invest in the economies where economic system is more liberal. Similarly, the internationalization also helps firm reaping transactional advantages such as managing internal as well as external relationships (Rugman & Li, 2007; Rugman & Verbeke, 1992).

China adopted "Open Door" policy in early 1980s when the Chinese policy makers familiarized with the economic gains on attracting FDI from developed countries in form of joint ventures. As added advantages, the authorities also realized the advantages in form of knowledge sharing, cost effectiveness and risk sharing when Chinese firms invested abroad(Buckley & Casson, 2016; Buckley et al., 2008; Buckley et al., 2015; Wang, 2002). In this era of throat cut competition, adapting to sophisticated technology is vital for success. This is one of the purposes that big firms in developing and transition economies make huge investments in developed countries. Chinese firms are also making outward FDI specially in advanced countries to acquire themselves with latest technologies and production techniques to decrease their cost of production and improve the quality of the products(Cui & Jiang, 2012; Lu, Liu, & Wang, 2011). Adopting to advance production techniques and embracing themselves with the latest modern technology is very costly. The benefits of these can be reaped only by mass scale production. However, doing business in a limited domestic economy limits the production possibility of the firm as higher supply may result in cutting the profits, so such firms expand their businesses in other countries, go global to expand the effective demand. However, such firms also face many restrictions from the international markets and the governments of the other countries. Same is the case with China(Deng, 2004). Firms go for globalization to diversity the risk as well. Medium and large firms make investments in other countries to diversity their business portfolio and intact safeguards against financial and business risks. The investments under such motives are also encouraged by the Chinese government (Deng, 2003; Faeth, 2009; Gottschalk & Hall, 2008). Growing firms always seek for maximizing the performance and do not limit themselves to one single market no matter how much efficient these are in that market. This requires well designed strategic aims set at corporate level. Therefore, this is also one of the important motives of the firms behind making investments in international markets(Deng, 2004; Dunning, 1998). The most important of these strategic aims is to accumulate a stock of strategic assets which are those resources, technologies and capabilities that are important for a firm to for its competitive advantage(Raphael & Schoemaker, 1993). One of the most effective way for acquiring these strategic assets is foreign direct investment(Chung & Alcácer, 2002; Wesson, 2000), especially in technologically rich countries. During the boom in commodities, China used different strategies to achieve this goal, and in a country level, loans to Africa and other recipient countries could relieve pressure from the purchase side of the economy, as commodities were given as collateral (Horn et al., 2019). Looking back to the 2008 global crisis, China has significantly strengthened its OFDI. While the worldwide FDI flow decreased by 14% in 2008, OFDI flow from China increased by 11%, up to U$56 billion, ranking it the 12th largest source country of OFDI in the world (UNCTAD, 2010). Having this understanding, and forecasting uncertainty response, the Chinese government is pushing local firms to rationalize and is inducing their big players to go global. Food deserves special governmental attention. The state-owned Chinese giant Cereals COFCO holds 60% of its world operation in Argentina and Brazil(Stanley, 2019). Commodities price can easily rally if a global crisis comes about. As former studies show, stock market and commodity prices can be directed linked and move in opposite direction. Analysing the US stock market composite relative to the US commodity markets from 1870 to 2006 regular cycles averaging 18 years(Yuen, 2012), combined strategies will be explored observing moderators. Though in the Constitution of People's Republic of China, properties are protected under the law, the private property is not as good protected as the collective property or state property. In other words, there is no clear definition of individual property. China's rural lands are owned by collectives (the rural political unit), and urban lands are owned by the State (Knoerich & Xu, 2018). This is one reason why some investments under the BRI are not profitable and yet Chinese enterprises and the Chinese government still carry out such investments. Poorer domestic financing implies less credit availability. With that in mind, the Chinese government used the strategy to control financing in order to cap capital flight. This was part of the policy package of 2007 to control capital outflows. This more rational risk-taking approach contributed to reduce the Chinese ratio OFDI: GDP from 2016 to 2019[1]. Gabusi (2017) stressed this as a wake-up call to the importance of valuing the Asia Infrastructure Investment Bank (AIIB) as a way secure the financing of the OFDI employed in the BRI. This is to say that is important to diversify financing so companies can conduct outward FDI without excessive government concern. This type of hedging – diversification – has been broadly discussed amongst the business community and previous researches. Padilla-Perez and Nogueira (2016) and (Tavares, 2007) conformed that most investing firms take diversification largely into account when planning to secure their businesses against risks in financing. For example, exchange rate is a determinant to financing, and it can be very volatile; for that reason, one of China's most relevant determining factor to its outward FDI is currency exchange (Liu, 2017). Other determinants can be mentioned as Chinese OFDI policies, such as high credit growth,

[1] World Bank (2018)

corporate tax rate, rights of workers, investment on R&D. These are considered positive factors for Chinese OFDI and its correlation to the effects in the home country. Moreover, results of studies on Chinese regional OFDI demonstrated that exchange rate of the RMB motivates the government to ease controls over OFDI. That was confirmed through a research that addressed the drivers and impediments of OFDI from 30 firms using the Bayesian Averaging of Maximum Likelihood Estimates (BAMLE) method. It did however, showed negative results related to government concerns about high interest rate and presence of SOEs investing abroad(You, 2017). Intense expansion of China's production capacity in various sectors has generated idle capacity because domestic and global demand have fallen (Cintra & Pinto, 2017). When expanded capacity meets demand stagnation and the country aggressively pursue market-seeking policies, this leads to trade friction. In order to address this challenge, China has directed capital abroad to match this surplus overcapacity (Hiratuka, 2019). Supported by studies that use a correlation between overcapacity index and OFDI number, it's demonstrated that the BRI has become part of a domestic overcapacity export strategy (Yu et al., 2019). Among all industrial sectors, the fact the rise of production overcapacity is directly associated with more OFDI hits the spotlight after the BRI is launched. Sectors such as construction-and-infrastructure and manufacturing are substantially stronger than others towards this pattern (Al Sayed & Yang, 2017). Nevertheless, other studies found results indicating that OFDI is strongly associated with all industrial sectors and with increase production capacity. However, this was more notably observed after the initial stages of the Belt and Road initiative. To correct the diminishing production capacity in some industries, Chinese firms were stimulated to engage in exports, and this is another speculation that the BRI once again has been propping up Chinese firms (Huang, 2016; Kong, 2017; Qian & Qi, 2017). The aim is to restructure the domestic market even while achieving export, transport or capital overcapacity, where it can grow as overcapacity is internally digested in China (Masiero, Ogasavara, & Risso, 2017). In 2017, one policy measure passed in China put a tight scrutiny into projects and capital abroad taking into accounts a more rational risk-taking approach[2]. Take Jamaica case for instance. The well-known Chinese investment pattern in LAC is market-oriented (seeking new markets, profit, and cheap labor) alongside the exploration for resources(Myers & Gallagher, 2019). SOEs following Follow the Leader hedging policy (See concept on following Hedging driver) build a 600,000 tons of sugar cane but an annual production capacity to process less than 200,000 tons is meeting losses (Minto, 2019). It notable that these dynamics are somehow influencing China's developments towards OFDI. In a sort of desperate attempt to tackle overcapacity, stockpiling, and decline in domestic structuring, China seems to be concentrating efforts to get its SOEs as much engaged as possible in the BRIs derivatives. It is believed that this is mostly promoted through State assisted technological upgrading, stimulus for those firms to invest abroad and increase in their involvement in infrastructure construction. One problem with this is that this type of push is prone to inhibit firms from investing in R&D (Du & Zhang, 2018). The problem is caused by excessive drainage of capital that also end up crowding out funds that could otherwise be used in innovation(Al Sayed & Yang, 2017).

3.3 FDI strategies of State-owned and Private-owned enterprises

This section discusses how SOEs and POEs pursue their FDI strategies based on their capability and resources. Firstly, it explores the characteristics of SOEs in emerging economies and secondly putting focus on their specific FDI strategies.

3.4 ***State-owned enterprises in Emerging economies***

[2] NDRC (2019)

SOEs are firms founded by governments or governmental agencies (Stan, Peng, & Bruton, 2014). In emerging economies like China, state ownership can be utilized by governments for serving two purposes: economic goals and political goals (Cuervo-Cazurra et al., 2018). Governments' economic goals toward SOEs is acquiring surplus values and accelerating development of national economies, while governments' political goals toward SOEs is achieving social desirable objectives, such as maximizing employment rate and social welfare(Lin, Cai, & Li, 1998). Co-existence of economic and political goals toward SOEs results in both support and intervention from governments. On the one side, emerging market governments may provide SOEs with subsidy, favorable treatment, and backing in adverse circumstance(Huang et al., 2017). Conversely, emerging economies governments may intervene in SOEs' decisions and operations via imposing complicated administration procedures and policy burdens, by which the governments can strictly control SOEs' strategies and activities(Lioukas, Bourantas, & Papadakis, 1993).

Due to market-oriented reforms of SOEs in emerging markets, it is necessary to understand state ownership of emerging economy firms from two different dimensions, namely, the percentage of state-owned shares and the type of affiliation to governments (Cui & Jiang, 2012; Wang et al., 2018). Prior to market-oriented transitions in EE, central governments directly create and operate SOEs as their affiliation to control national economies (Peng & Heath, 1996). In such institutional arrangements, SOEs strictly follow input and output quotas mandated by central governments (Zhou, David, & Li, 2006). However, the approach to coordinate economic activities leads to unsatisfied efficiency and triggers privatization programs (Park, Li, & David, 2006). Two major changes hence take place in ownership structures of SOEs. First, emerging countries governments start to transfer state-owned shares in SOEs to private investors. The reform leads to emergence of hybrid SOEs, which possess inconsistent percentages of state-owned shares (Xia et al., 2014). Second, central authorities gradually transfer oversights of substantial portion of SOEs to local governments. SOEs hence become heterogeneous in affiliation levels to governments, forming different type of SOEs, such as central and local SOEs (Li & Yu, 2019).

3.5 *Outward FDI strategies of SOEs vs. POEs*

In literature, there is an enabling-view on the role of state ownership in SOEs' OFDI from emerging countries. Because EE firms usually lack advanced firm-specific expertise, scholars have contended that the support from home governments is an impetus behind emerging economy firms' OFDI(Lu et al., 2014; Luo et al., 2010). Among various types of firms, SOEs are more capable of obtaining support from home governments(Pan et al., 2014). Thus, some scholars have contended an enabling effect of state ownership on SOEs OFDI from emerging market economies (Liang, Ren, & Sun, 2015). Nevertheless, not all firms in emerging economies lack competitive advantages. Toillustrate, Luo et al. (2010) state that SOEs in emerging economies have multiple advantages including financial support and privileged treatment that may largely support their OFDI activities. Given the importance of financial resources for EMNEs, Buckley and Casson (2016) prove that Indian MNEs that accumulate more of their own financial resources are more likely to acquire foreign companies. In contrast, POEs in emerging economies may have to address more competition from SOEs in terms of access to home country resources. In that case, to escape unfair competition, firms, especially POEs are actively engaging in OFDI strategy (Stal & Cuervo-Cazurra, 2011). Moreover, SOEs also achieve network advantages in that they can receive support and protection from government institutions (Li & Zhang, 2007); and priority advantages such as access to critical policy and aggregated industrial information(Sheng, Zhou, & Li, 2011). Such privileged benefits assist emerging market multinationals, (especially for SOEs), counterbalancing their ownership and location disadvantages when expanding internationally (Aggarwal & Agmon, 1990). On the other hand, both SOEs and POEs may actively engage the OFDI strategy to escape resource dependence on government support from the home country(Choudhury & Khanna, 2014; Cuervo-Cazurra et al., 2014). Especially for SOEs,Xia et al. (2014) argue that significant state ownership largely makes them more dependent on governments for securing vital resources. It may lead to governments' intervention in SOEs' FDI strategy(Huang et al., 2017). Furthermore,Cui and Jiang (2012) Cui and Jiang (2012:265) emphasize that SOEs possesses the ability to serve as assets of home-country governments which becomes a part of their institutional set-up. In other words, strategic initiatives that SOEs make should be relatively in accordance with the general policy of the state. SOEs are thus, at least somewhat, required to support home institutions' interests (Zhang et al., 2011) rather than pursue own market orientation SOEs strategies. Residences in target countries also regard SOEs as representative of home country governments (Globerman & Shapiro, 2009). As a result, host country institutions may have more concerns when foreign investors are state-owned entities. For example, Zhang et al. (2011) have found that the likelihood of CMNEs that successfully complete a cross-border acquisition is lower if they are SOEs. As such, there are likely three aspects of dark-side effects stemming from SOEs' higher dependence on domestic resources: firstly, it may reduce SOEs' willingness to expand abroad; secondly, it makes SOEs suffer lower levels of autonomy and market orientation due to more government' intervention(Huang et al., 2017; Lioukas et al., 1993); thirdly, it may decrease SOEs' legitimacy in the target countries as they may be regarded as political instruments of governments(Cui & Jiang, 2012; Globerman & Shapiro, 2009). On the contrary, POEs are relatively driven to expand abroad by the need to mitigate unfavorable domestic institutional contexts, and especially the difficulties of raising capital(Luo & Tung, 2007). In particular, by surveying 51 Chinese POEs,(Sutherland & Ning, 2011) have found that these companies' main purposes of foreign expansion via a tax haven were both to raise financial capital to support foreign trade and business, but also for domestic purposes. Thus, Cuervo-Cazurra et al. (2014)argued that existing theory does not present a consistent prediction of state ownership influence on MNEs' OFDI. Many other empirical studies provide either an insignificant or negative effect of state ownership on EMNEs' OFDI(Hu & Cui, 2014; Huang et al., 2017; Lu et al., 2014). These mixed findings imply that the linkages between state ownership influence and CMNEs' OFDI may be more complex than presumed. In addition, owing to differences between SOEs and POEs, these firms may have to address different institutional pressures meanwhile pursuing different IB strategies. For example, "*In countries with strong technological development, concerns might arise about losing critical technologies to foreign competitors as well as to foreign governments.*" (Meyer et al., 2018; 1006)In comparison with POEs, SOEs (especially for those central-government controlled enterprises) comparatively face more pressures in engaging in SAS FDI strategies and have a lower possibility of doing so. As far as I know, no empirical research has investigated whether different state ownership types (i.e. central-, provincial- and municipal-level government, and private ownership) affect CMNEs' specific FDI strategies, such as resource seeking, strategic asset seeking, market seeking, and efficiency seeking strategies.

4 CONCLUSION

After adopting open door policy, a lot of multinational firms across the globe rushed to China. This impacted the production, employment, exports and transfer of technology significantly. Along with that Chinese government extended its support for local Chinese firms and helped them politically and economically to grow and go global. Thus, not only foreign multinational firms but also Chinese firms earned and accumulated a healthy stock of reserves.

4.1 Main findings and contributions

During this review study, we aimed thoroughly investigate FDI. We found key motivations for Chinese firm to go abroad investment. We explored a variety of economic, political, social and external factors that influenced the organization to go global. Similarly, considering the Chinese economic situation where the government has a significant stake in the economy, we have studied how the ownership of Chinese firms affects the Chinese OFDI objectives.

Governments may also want to review any restrictions on OFDI, weigh their costs and benefits, and ensure that these are based on sound policy goals. 38 Several of the largest source markets of developing country OFDI have recently eased restrictions on OFDI, although restrictions do remain. These controls may be based on macroeconomic objectives such as securing financial stability or promoting domestic investment. But the evidence suggests source countries can also benefit from OFDI, and restrictions may only be constraining positive home effects.

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