

The Emergence of Chinese FDI: Determinants and Strategies of Chinese MNEs

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Introduction

Chinese outbound foreign direct investment (FDI³) becomes an increasingly important phenomenon. In 2006, China's outbound FDI totalled about US\$ 21 billion (MOFCOM, 2007a), and it is expected to rise to tremendous US\$ 60 billion by 2010 (MOFCOM, 2007b). Chinese investors increasingly explore opportunities overseas in a wide range of industries (Ming & Williamson, 2007). A few high-profile acquisitions such as Lenovo's acquisition of IBM's personal computer business have become widely known, but the large amount of investments has found comparably little attention and a systematic understanding of the phenomenon is scarce.

Scientific analysis of and academic debate on Chinese FDI and its characteristics has started, with a growing number of relevant articles published over the last years. Looking at the motivations of Chinese multinational enterprises (MNEs) to go international, most scholars (Buckley, 2007; Morck, 2007; Poncet, 2007) agree that classical motivations play the key role: Chinese MNEs are to various extents market-seeking, resource-seeking, and strategic asset-seeking. However, most scholars such as Buckley, (Buckley et al., 2007), Morck (Morck et al., 2008), and Child & Rodriguez (Child & Rodriguez, 2005), feel that these characteristics, originally developed in a Western context and for Western companies, do not completely explain the phenomenon and cannot reveal all motivations of Chinese MNEs. They have thus identified explanations for the phenomenon to complement the classical theory.

This contribution intends to contribute to the analysis of Chinese FDI. It is structured in two sections. Section 1 presents a factual analysis of Chinese FDI and the emergence of Chinese MNEs, giving a statistical overview over the flows and stocks of Chinese FDI in different areas of the world, in various industries, and with regards to key characteristics of the Chinese MNEs expanding abroad. Section 2 analyses strategies of Chinese MNEs going international: What are the comparative advantages specific to Chinese firms, and how do they translate into motivations to expand abroad?

1. Emergence of Chinese FDI

1.1. Main trends

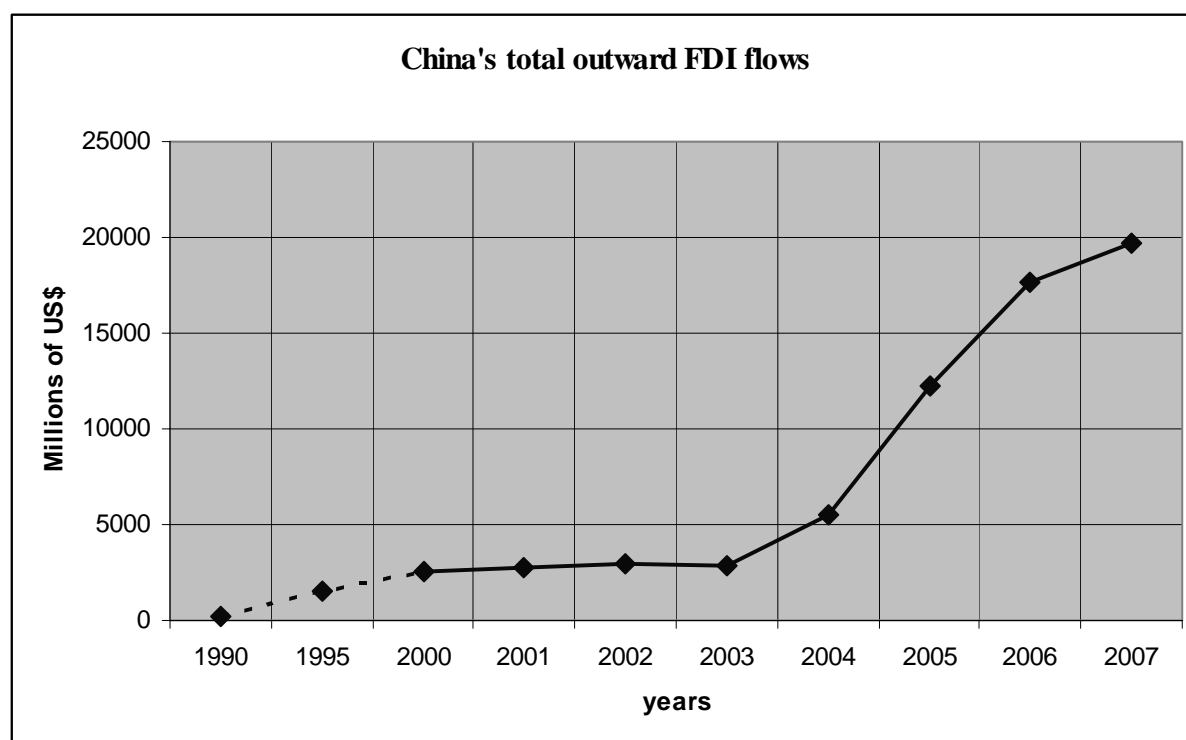
a. Flows and stock of Chinese FDI

China's FDI net outflows⁴ have shown a strong positive trend over the last years. As illustrated in *Table 1*, at the beginning of the 1990s, outflows stood at some marginal US\$ 25.00 million. They augmented to some US\$ 250.00 million at the beginning of the century (MOFCOM, 2006, p. 53). Since then, FDI outflows from China increased more than six folds from US\$ 2854.65 million in 2003 (MOFCOM, 2006, p. 67) to a total of more than US\$ 2100.00 million in 2006 (MOFCOM, 2007a). Out of this, US\$ 5.17 billion (24.4%) was incremental equity investment, US\$ 6.65 billion (31.4%) profits reinvestment and US\$ 9.34 billion (44.2%) related to other kinds of investment (MOFCOM, 2006, p. 51). Stock value added up from US\$ 33,222.22 million in 2003 to US\$ 75,025.55 million in 2006 (MOFCOM, 2006, p. 58). This stock breaks down to US\$ 37.24 billion (41.1%) equity investment, US\$ 33.68 billion (37.2%) profits reinvestment and US\$ 19.71 billion (21.7%) other kinds of investment (MOFCOM, 2006, p. 51).

³ This paper uses the common abbreviation "FDI" as a short form for Chinese outward foreign direct investment, unless explicitly stated otherwise.

⁴ This paper relies on the UNCTAD definition of investment, which characterizes FDI as an investment involving a long-term relationship and reflecting a lasting interest and control by a firm in an enterprise resident in a foreign country (UNCTAD WIR, 2005, p.297). Thus, any reference in text or graphics to Chinese FDI does not include investment executed for purely financial aims such as portfolio investment.

Table 1.



Source: 1990-2002: Various editions of UNCTAD's World Investment Report (WIR); 2003-2007: MOFCOM

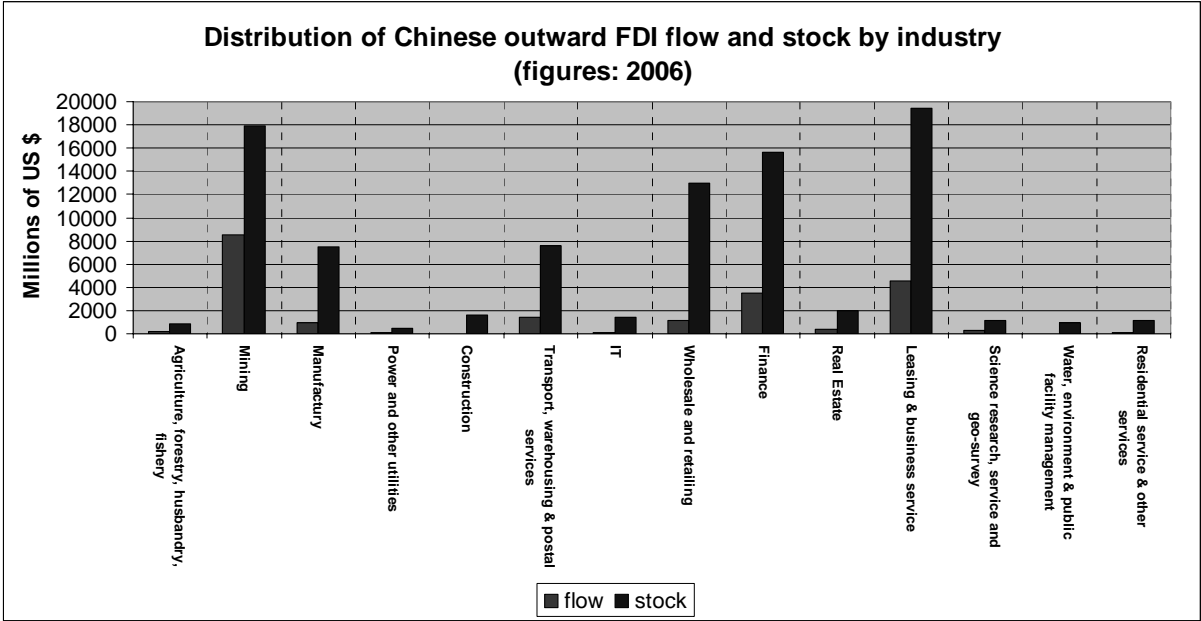
Compared to outward investments flows from other countries, China's share is still comparably small, but the country is catching up rapidly. According to the World Investment Report (WIR) 2006 of the United Nations Conference on Trade and Development (UNCTAD), the world's FDI outflows reached US\$ 778.7 billion and the stock volume of FDI amounted to US\$ 10671.9 billion in 2005 (UNCTAD WIR, 2006, p. 5). Taking this as the base period, China's FDI outflow and stock constituted 2.72% and 0.85% of the world's total respectively in 2006, ranking China 13th in the world's total FDI outflow among all countries (MOFCOM, 2006, p. 52). Already in 2005, when China's FDI outflows stood at US\$ 11 billion, which is only about half of today's value, this was the fourth largest outflow from developing and transition economies (UNCTAD WIR, 2006, p. 114). Further, a recent survey by investment promotion agencies predicts that China will become a top four source of FDI over the period 2005-2008 (UNCTAD, 2005a, p. 17).

b. Sectoral distribution of Chinese FDI

Looking at Chinese FDI in terms of stock until 2006, leasing & business services are the most relevant sectors, accumulating for US\$ 19,463.60 Mio (MOFCOM, 2006, p. 65). They are followed by mining (US\$ 17,901.62 Mio) and the financial sector (US\$ 15,605.37 Mio) (MOFCOM, 2006, p. 65). The importance of the financial sector may be illustrated by the information that, according to MOFCOM, the Chinese state-owned commercial banks had by 2006 established 47 branch offices, 31 affiliated institutions and 12 representative offices in 19 countries, including the United States, Japan and Britain (MOFCOM, 2006, p. 51). Following the financial sector, wholesale and retail (US\$ 12,955.20 Mio) transport, warehousing and postal services (US\$ 7,568.19 Mio) rank next (MOFCOM, 2006, p. 65). Manufacturing finally plays the least important role, standing at some US\$ 7,529.62 Mio (MOFCOM, 2006, p. 65). Also, analyses of Hobdari et. al. underlines the importance of outbound FDI in services, stating that most Chinese FDI is concentrated in financial and real estate, and other services (Hobdari et al., 2007, p. 7).

With regards to investment flows, mining has in 2006 taken the highest share in Chinese outbound investments (US\$ 8539.51 Mio) (MOFCOM, 2006, p. 64). Together with manufacturing, mining has also seen the highest growth rates over the last years, accounting for 60% of total Chinese outbound FDI flows in 2005. The rise of the primary sector is an increasingly important factor in Chinese outbound investment, and reflects the overall development of the industry. Mining, as stated above, includes the whole primary sector with oil & gas and other commodities exploration and mining activities. In following ranks, leasing & business services (US\$ 4521.66 Mio) stand before the financial sector (US\$ 3529.99 Mio), followed by transport, warehousing and postal services (US\$ 1376.39 Mio) (MOFCOM, 2006, p. 64). *Table 2* visualizes flows and stocks of Chinese outward FDI by 2006.

Table 2.



Source: Own illustration based on information by MOFCOM Statistical Bulletin 2006

In international comparison, the high importance of services amongst Chinese FDI is in line with the international trend. According to UNCTAD WIR 2006, a breakdown of international outbound investment shows that the share of services in overall outbound investment is dominant. In 2004, it stood worldwide at some 67% for developed countries, and at 81% for developing and transition economies (71% excluding Hong Kong) (UNCTAD WIR, 2006, p. 115).

c. Geographical distribution of Chinese FDI

Chinese outward investments have been rising over the last years with regards to all continents. As illustrated by *Table 3*, despite the fact that some regions have gained and others lost importance as outbound investment locations, both flows and stock of FDI from China to Africa, Europe, North America, Oceania, as well as to Latin America and Asian countries show an overall positive trend.

China has most intense outbound investment activities to its Asian neighbouring countries, particularly the countries of the Association of Southeast Asian Nations (ASEAN). High investments are noted for Mongolia, the STANs, Indonesia, South Korea, Singapore, Vietnam, and also Iran (MOFCOM, 2006, p. 53). China’s special administrative region (SAR) Hong Kong plays a very important role with regards to outbound FDI. In fact, Hong Kong is the place that by far attracts the highest amount of

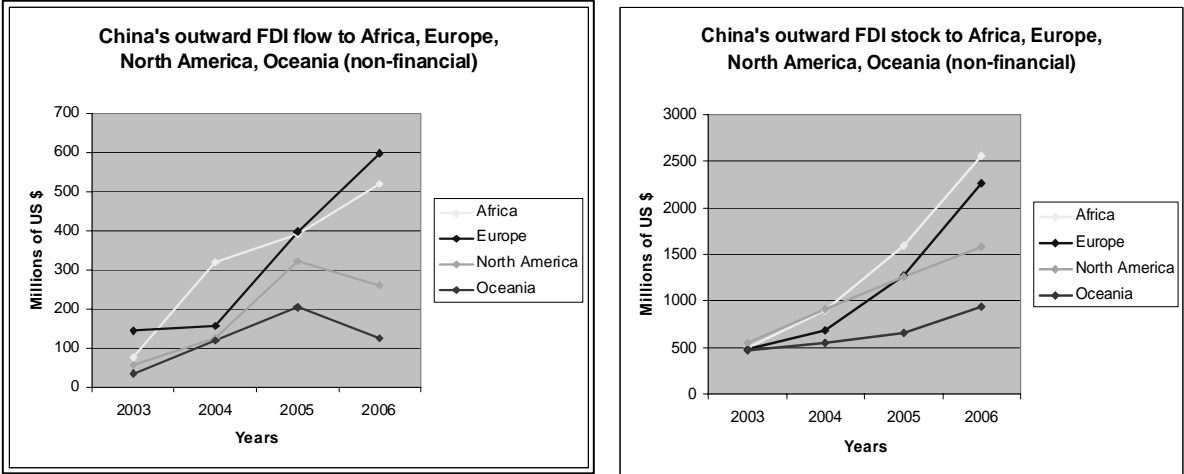
mainland Chinese outbound investment. Most of these FDI is in services, and a lot must be assumed to constitute round-tripping investment or investment to offshore financial centres (see section 1.3.b). While it is difficult to assess the specific characteristic investment transacted via Hong Kong in detail, it is obvious that Hong Kong is of crucial importance to mainland China as a financial marketplace.

As another eye-catching element, Chinese outbound investment to Africa is comparably high and continues to develop positively. With US\$ 2556.82 Mio, Africa is receiving more foreign direct investment from China than any other continent except Asia (MOFCOM, 2006, p. 59). According to a survey by the Multilateral Investment Guarantee Agency (MIGA), investment projects planned by Chinese companies for the period after 2005 even exceed the number of investment projects until 2005 (FIAS/MIGA, Battat, 2005, p. 19).

Chinese FDI also plays a role of growing importance for Europe and North America. Within the European Union, most Chinese foreign direct investment is attributed to Germany (MOFCOM, 2006, p. 61). Its stock of Chinese FDI accumulated in 2006 to US\$ 472.03 Mio, compared to a total of US\$ 1274.51 Mio for Europe (MOFCOM, 2006, p. 60). The United Kingdom, ranking second, is only receiving less than half of the amount invested in Germany (US\$ 201.87), Spain, Poland, Italy, Romania, Hungary and France follow with stock values between US\$ 136.72 Mio and US\$ 44.88 Mio (MOFCOM, 2006, p. 60).

Different perspectives have been expressed with regards to the question of a preference of Chinese investors between North America and Europe. According to the statistics of MOFCOM and visualized in *Table 3*, more Chinese FDI is reaching Europe than North America (MOFCOM, 2006, pp. 60, 63). This is supported by an analysis by the MIGA, according to which Europe is attracting more investment projects and tends to be more attractive for Chinese FDI for the years to come (FIAS/MIGA, Battat, 2005, p. 21). Research undertaken by the Roland Berger consultants in 2003, however, believes that the North American market remains the developed market of choice, with nearly 20% of China's Top 50 giving it high investment priority (Keller & Zhou, 2003, p. 18). This may possibly point to a change in the perspective of Chinese decision-makers in recent years, valuing opportunities in Europe more positively.

Table 3.



Source: Own illustration based on information by MOFCOM Statistical Bulletin 2006

1.2. Types of Investors

a. State-owned enterprises versus private enterprises

Both Chinese state-owned enterprises (SOEs) and private enterprises are engaged in FDI, and no clear breakdown has been published on the shares of SOEs and private enterprises in the number of investment projects. The high number of overall 5,000 Chinese companies invested abroad (MOFCOM, 2006, p. 51) suggests a high activity of companies from both SOEs and the private sector. However, a number of aspects characteristic for Chinese investors gives strong indication that the role the Chinese government is playing in Chinese FDI is tremendous.

Most large-scale investment projects that weigh heavy in Chinese FDI statistics have so far been executed by Chinese SOEs. As Cheng reports, the shares of FDI flows by SOEs under the Central Government were in recent years 73.5% (2003), 82.3% (2004), and 83.2% (2005) (Cheng & Ma, 2007, p. 10). The remaining shares of FDI flows are split in investments of SOEs administered by regional governments, non-SOEs that are owned collectively, and, finally, privately owned companies. Examples for companies largely owned by regional governments such as the governments of Beijing, Shanghai and Guangdong include TCL, and Beida Jade Bird (Cheng & Ma, 2007, p.10). Lenovo, today mostly in private hands, was still in majority state ownership by times of its famous acquisition of IBM's personal computer business. This underlines the very strong role of the Chinese government at various levels in large Chinese FDI projects.

Further, until 2003, outward investment was principally only allowed for Chinese state-owned enterprises (Buckley et. al., 2007, p. 500). This limits the amount of private Chinese companies invested abroad compared to SOEs considerably. Moreover, a number of FDI projects will naturally be executed by SOEs or majority SOEs, since the specific industry sector may factually be closed or nearly closed for private companies. Especially, by nearly all Chinese companies in the natural resources industry are SOEs (Brett & Ericsson, 2006, p. 27). Given the importance of the minerals sector in Chinese outbound investment, this constitutes an important factor.

Analyse by Morck confirms the very strong role the government is playing in Chinese FDI. According to him, Chinese private-sector firms can principally conduct outward FDI; but "the scale is too small to register" (Morck et. al., 2008. p. 22). As a second observation, Morck notes that the largest FDI players overlap substantially with the most profitable SOEs in China. The bulk of FDI is thus executed by Chinese SOEs that are the large domestic players in major industries in China. Regularly, they are backed-up with a an officially-sanctioned monopoly in their industry, such as natural resources, telecommunications or infrastructure (Morck et. al., 2008. p. 340).

Finally, FDI by any Chinese firm requires approval by Chinese authorities. Approval processes include MOFCOM, the State Administration of Foreign Exchange (SAFE), and the National Development and Reform Commission (NDRC) (FIAS/MIGA, Battat, 2005, pp. 7, 8). Approvals are usually needed initially and for a yearly review. Investment projects are expected to follow the catalogue of encouraged FDI, and may be rejected or restricted, for example via foreign currency exchange limitations (Buckley, 2007, p. 503). By these instruments, the government ensures that all investment activities, even if executed by privately owned companies, are in strict line with the government policies. Clearly, this needs to be taken into consideration when analysing the motivations and strategies of Chinese MNEs going international.

b. Large enterprises versus SMEs

Two aspects are eye-catching with regards to the size of Chinese companies investing abroad. On the one hand, a high number of companies are engaged in FDI. As MOFCOM reports, by the end of 2006, more than 5,000 domestic Chinese investment entities had established nearly 10,000 overseas direct invested enterprises in 172 countries around the world (MOFCOM, 2006, p. 51).

On the other hand, as outlined in the previous section, it is the large Chinese companies that rank high with regards to FDI. These companies are active in the natural resources business, or business that follows closely minerals and metals in the value chain, such as chemical and steel making or construction business. Finance, logistics and infrastructure are also to be mentioned amongst the top 30. Most of them are SOEs or majority-SOEs. An overview over these companies is presented in *Table 4*.

Table 4.

The 30 largest Chinese companies as of 2006, ranked by outward FDI stock			
No.	Name of Enterprise	No.	Name of Enterprise
1	China Petrochemical Corporation	16	GDH Limited
2	China National Petroleum Corporation	17	China Power Investment Corporation
3	China National Offshore Oil Corporation	18	Shanghai Automotive Industry Corporation
4	China Resources (Holdings) Co.,Lt	19	China National Chemical Corporation
5	China Mobile Communications Corporation	20	China Minmetals Corporation
6	China Ocean Shipping (Group) Company	21	Legend Holdings Ltd.
7	CITIC Group	22	Shum Yip Holdings Company Limited
8	China National Cereals, Oils & Foodstuffs Corp.	23	China National Foreign Trade Transportation (Group) Corporation
9	China Merchants Group	24	Huawei Technologies
10	Sinochem Corporation	25	Shanghai Baosteel Group Corporation
11	China State Construction Engineering Corporation	26	China Huaneng Group
12	China National Aviation Holding Corporation	27	SinoSteel Corporation
13	China Telecommunications Group Corporation	28	China Poly Group Corporation
14	China Shipping (Group) Company	29	China Nonferrous Metal Mining & Construction (group) Co.,Ltd.
15	China Network Communications Group Corporation	30	Haier Group

Source: MOFCOM Statistical Bulletin 2006

This leads to the assumption that a comparably small number of large, Chinese SOEs are the source for the current raise in Chinese FDI. In their shadow, a large number of smaller companies, possibly privately owned, have started to emerge internationally, but do not possess significant international business, yet. This observation also seems to be in line with Papanastassiou who reports that the average size of investment projects by Chinese companies is comparably small (Hobdari et al., 2007, p. 9).

1.3. Types of Investments

a. Greenfield investments versus M&As and JVs

Internationally, the recorded number of greenfield investments has seen a sharp increase since 2003. In 2005, 15% of the recorded projects have been derived from developing and transition economies, with the largest share in this being projects from Asia (UNCTAD WIR, 2006, p. 110). Chinese companies are part of this trend, and greenfield investments are to date the preferred vehicle for expansion abroad. A survey by the Roland Berger consultants amongst Chinese business leaders reveals that greenfield investment ranks first amongst expansion strategies (48%), followed by strategic alliances (39%), and acquisition (13%) (Keller & Zhou, 2003, p. 21).

Outright acquisitions are a complicated process that requires considerable experience for successful execution. Many Chinese companies still lack this experience. In addition, intercultural challenges as well as lengthy and challenging approval processes with Chinese authorities make acquisitions generally less attractive for Chinese firms.

However, joint ventures (JVs) and mergers and acquisition (M&A) see a growing importance in recent years (Wu, 2005, p. 7), and are expected to increase in number, size and complexity in the years to come (Keller & Zhou, 2003, p. 22). In fact, M&As and JVs are regularly the only means of acquiring strategic assets, such as technology, intellectual property, business knowledge, and knowledge on the

functioning of foreign markets. The importance of M&As for Chinese MNEs must thus not be underestimated, especially to secure their position in highly competitive, developed markets.

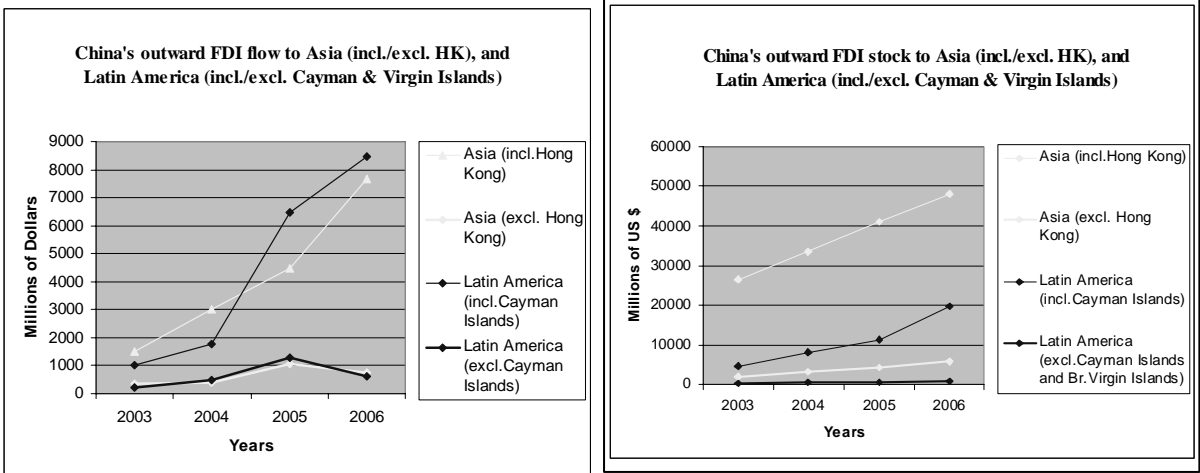
A number of scholars put forward arguments that support this view. Already in an older analysis, Zhan notes that large investment projects are rather realized through acquisition or partial acquisition, while smaller projects may rather be executed as greenfield projects (Zhan, 1995, p. 83). According to Poncet, selective support policy by the Chinese government is available for appropriate cases. In October 2004, a circular issued by the the National Development Research Council and the Export-Import Bank of China explicitly promotes M&As that could enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets (Poncet, 2007, p. 7). Carrying out a statistical analysis on Chinese outward FDI, Guohua Jiang finds that “developing country acquirers are more likely to carry out a cross-border M&A in developed countries for strategic asset-seeking purposes, but in developing countries for resource-seeking purposes.” (Jiang et al., 2007, p. #)

It is thus not surprising that the most famous recent examples of Chinese companies going abroad have taken the form of acquisitions, for example Lenovo’s acquisition of IBM’s personal computer division, Shanghai Automotive Industry Corporation’s (SAIC) acquisition of the Korean SsangYong, or TCL’s quasi acquisition of Thomson’s television section and Alcatel’s mobile phone division (Hagiwara, Bank of Tokio, 2006, p. 5).

b. Unspecified and round-tripping investment

The by far largest amount of Chinese outward investments in terms of transaction volume is executed via tax havens. The preferred tax havens are Hong Kong (SAR), Macau (SAR), Singapore, Cayman Islands, Virgin Islands and Bermuda Islands. Nearly 20% of all Chinese outward FDI between 2003 and 2005 was invested to the Caymen and Virgin Islands. Nearly 64% of the investment went to Hong Kong. Table 5 illustrates this fact, visualizing the flows and stocks of Chinese FDI to Asia including HK (dark grey), compared to flows and stocks of Chinese FDI to Asia excluding HK (dark grey, bold). Similarly, Chinese FDI to Latin America including the Cayman and Virgin Islands (light grey) is compared to Chinese FDI to Latin America excluding the Cayman and Virgin Islands (light grey, bold).

Table 5.



Source: Own graphic based on information by MOFCOM Statistical Bulletin 2006

The motivation of investments in tax havens are in detail difficult to investigate, but usually follow one of the following reasons: A high proportion of these investment flows are executed for financial reasons. In fact, it has been regularly noted that considerable parts of these investments do not stay in

tax havens, but are reinvested in China for reasons of tax optimization (UNCTAD WIR, 2006 p. 112). These investments are referred to as round-tripping investments. Apart from this, sources from the financial business report that it must be assumed that a number of investments transacted via tax havens are flowing into the natural resources sector (Hagiwara, Bank of Tokio, 2006, p. 4). For various reasons, a hidden investment in anonymous banking accounts is occasionally also a preferred business strategy.

Due to the high share of round-tripping and unspecified investment flows in Chinese FDI, an identification of the phenomenon within the analysis of statistics on Chinese outbound investment is essential. Especially when it comes to a statistical comparison of Chinese outbound investment to Asia or Latin America with investment flows to Africa, Europe, North America and Oceania, the amount of round-tripping investment must always be kept in mind. However, looking into the characteristics of Chinese outbound investment and the establishment of Chinese MNEs, round-tripping investment is of minor relevance. Relying on the UNCTAD definition of investment, which characterizes FDI as an investment involving a long-term relationship and reflecting a lasting interest and control by a firm in an enterprise resident in a foreign country (UNCTAD WIR, 2005, p. 297), no further reference will be undertaken to round-tripping investment within the scope of this contribution.

2. Internationalization Strategies of Chinese MNEs

2.1. Theoretical background

a. The theory of MNEs

The theory of MNEs indicates that the goal of firms in a global market economy is to increase or protect their profitability and/or capital value (UNCTAD WIR, 2006, p. 142). As noted by UNCTAD WIR (2006, p. 142), “One of the ways in which TNCs are achieving this goal is by engaging in FDI, either to better exploit their existing competitive advantages or to safeguard, increase or add to these advantages”.

The theories of MNEs and international competitiveness provide for various theories and concepts to explain in detail these competitive advantages. Among the several theories developed over the last decades, the eclectic or OLI paradigm is one of the most powerful tool to understand the extent and pattern of FDI (Dunning, 1981). For most, following Dunning, firms may be in a position to internationalize by using their ownership advantages (Dunning, 2000). The ownership advantages are defined as unique capability proprietary to the firm which may be built upon product or process technology, marketing or distributional skills (Rugman, 2008, p. 93). These advantages could be assets possessed by a firm (e.g. brands, or patents) or they could involve more efficient organization of these assets across national boundaries. Based on this kind of advantage, this type of MNE strategy is referred to as “asset exploiting” and its choice of host country location is determined by one or more of three types of motivations (Dunning, 1998; Dunning and Lundan, 2008, pp. 67 ff.): Market-seeking FDI; efficiency-seeking FDI; resource-seeking FDI, strategic asset-seeking FDI.

Market-seeking FDI may be undertaken to sustain or protect existing markets, or to exploit or promote new markets (Dunning and Lundan, 2008, p. 70). Apart from market size and the prospects for market growth, there are several other reasons which might prompt firms to engage in market-seeking investment such as the need to adapt products to local tastes or needs, to cultural mores and to indigenous resources and capabilities.

The motivations of efficiency seeking FDI is to rationalise the structure of established resource based or market seeking investment in such a way that the investing firm can benefit from the common

governance of geographically dispersed activities (Dunning and Lundan, 2008, p. 72). Such gains are essentially those of the economies of scale and scope and of risk diversification.

Resource-seeking FDI's aim is to acquire abroad particular and specific resources of a higher quality at a lower real cost than could be obtained in their home country (Dunning and Lundan, 2008, p. 68). The theory distinguishes three main types of resource seekers: those seeking physical resources of one kind or another; those seeking plentiful supplies of cheap and well motivated unskilled or semi-skilled labour; those seeking to acquire technological capabilities, management or marketing expertise and organisational skills (Dunning and Lundan, 2008, p. 68).

Finally, strategic asset-seeking investors play a key role in the theory of MNEs. As noted by Dunning and Lundan (2008, p. 72), this "group of MNEs comprise those which engage in FDI, usually by acquiring the assets of foreign corporations, to promote their long-term strategic objectives – especially that of sustaining or advancing their global competitiveness. The investing firms involved include both established MNEs pursuing an integrated global or regional strategy, and first time foreign direct investors seeking to access or to buy some kind of competitive strength in an unfamiliar market".

In contrast to asset-exploiting MNEs strategies, firms engaged in asset augmenting strategies may not possess competitive advantages in particular ownership advantages. "In order to address this shortcoming, such firms may therefore be motivated to venture into international markets and exploit their limited competitive advantages in order to acquire 'strategic' created assets such as technology, brands, distribution networks, R&D facilities and managerial competences (quite commonly through M&As)" (UNCTAD WIR, 2006, p. 142).

b. A theory for Chinese MNEs?

In addition to the above theory, a number of additional points have been raised in literature pointing out characteristics of the current political and economic situation in China, which have an effect on Chinese FDI and which might not be sufficiently covered by the usually applied theoretical approach. As Buckley notes, "the question arises as to whether Chinese outbound investment is indeed to be explained by traditional theoretical approaches, or whether a special theory is needed to explain the phenomenon." (Buckley et. al., 2007, p. 500).

John A. Mathews proposes a new theoretical approach to explain the phenomenon of MNEs from Asia-Pacific (Mathews, 2006, p. 6). He identifies a generally new characteristic of these MNEs. He calls this new type of MNEs "dragon multinationals", and defines them as being firms from the Asia-Pacific region that have successfully internationalized and, in some cases became leaders in their respective fields. Starting from behind and without initial resources, skills and knowledge, they succeed due to a number of certain factors and special characteristics. Overall, their sudden appearance cannot be explained by conventional multinational strategies, and thus helps to "expose the weaknesses and limits to traditional accounts of MNEs and to existing theories and frameworks of International Business" (Mathews, 2006, p. 8). The main difference in the approach taken by new MNEs from the Asian-Pacific region compared to established MNEs is according to Mathews that they are of so recent origin that they are perfectly adapted to a globalized world. While "the incumbents see the world full of competitors who are trying to imitate their success [...] the newcomers and latecomers see the world as full of resources to be tapped" (Mathews, 2006, p. 9).

Some scholars have found it useful to apply a concept of push- and pull-factors to categorize constraints and incentives relevant for investors (Dunning, 2008). Such a categorization does not oppose or contradict the traditional approach, but arguably takes a wider perspective, since various motivations for investors deriving from conditions in the home as well as the host country may be addressed with such a scheme. Cheng, for example, categorized resource-acquiring FDI, market-expanding FDI, efficiency-improving FDI and asset-seeking to be pull factors. These pull factors are "favorable natural and economic endowments abroad [that] lure Chinese corporations invest and

expand their businesses overseas” (Cheng & Stough, 2007, p. 15). Push factors, on the other hand, are conditions inside China “that facilitate, if not force, Chinese firms to actively participate in international and global investment and production” (Cheng & Stough, 2007, p.15). These push factors are mainly derived from market conditions such as domestic competition and excess production capacity, and macro-economic considerations of the state, such as abundant foreign exchange reserves, high demand for natural resources, and political goals of the Chinese government to support Chinese companies internationalize (Cheng & Stough, 2007, p. 15). Many scholars agree with these points. Poncet adds that companies may see a need to bypass trade barriers (Poncet, 2007, p.11). Business intelligence such as research by Roland Berger underlines the importance of internal corporate motives to provide for great impetus for overseas expansion (Keller & Zhou, 2003, p. 9).

A large number of scholars, finally, insist on the application of the general theory, accepting, however, that FDI from China is unique in certain regards (Buckley, 2007; Poncet, 2007; Pearce, 2006). Buckley states that “Chinese FDI is indeed distinctive in certain respects with implications for the theory. This, however, does not exclude the application of the general theory” (Buckley et. al., 2007, p. 500). Others, such as Liu, share Buckley’s view. Analysing whether the emergence of significant outbound investment from China derives from China’s institutional and idiosyncratic economic reforms, or whether Chinese outbound direct investment could still be explained in terms of China’s stage of development and the established, but refined investment development paths (IDP) hypothesis, he finds that the latter proves to be a valid tool to explain Chinese FDI.

We find that traditional theory most appropriate to explain Chinese FDI, and is consequently putting at first place the known, main motivations for companies to invest abroad, such as market- and resource-seeking motivations (see subsection 2.3). It complements these with various explications to address Chinese specifications, and refers to arguments put forward in other approaches where appropriate. Two aspects seem to be most relevant to understand the Chinese specifications, which are in many academic papers hardly differentiated. On the one hand, the particular situation of Chinese MNEs is key to an understanding of Chinese particularities, being the companies’ background, ownership and administrative structure, and the landscape of political support and constraints they are bound to. These are competitive advantages and disadvantages Chinese MNEs possess or have to deal with, which are deeply rooted in Chinese tradition and follow largely from the historical and cultural development of the country. While they are thus evident and self-explanatory for Chinese scholars and the management of the respective companies, they create a considerably different starting point of analysis for Western scholars. These competitive advantages and disadvantages of Chinese MNEs will thus be reviewed as follows in the second subsection of this section. In the third subsection of this section, finally, analysis will focus on the particular motivations of Chinese MNEs to invest abroad.

2.2. Competitive Advantages and Disadvantages of Chinese MNEs

As indicated by Cantwell and Barnard, “in order to understand the advantages firms gain from FDI, it is important to understand their initial (ownership) advantages” (Cantwell & Barnard, 2008, p. 60). A number of particular Chinese characteristics that build the landscape for business of Chinese MNEs have been identified. Together, they are expression of the political, economic cultural features of today’s China People’s Republic of China. Due to the supportive policy of the Chinese authorities, these characteristics will often have a positive effect for Chinese MNEs and thus constitute competitive advantages for Chinese MNEs. However, they may in certain cases also condition and restrict the managerial freedom, and may consequently constitute disadvantages for Chinese MNEs, compared to companies based in a less regulated political system. A number of such features possessed by developing-country MNEs have been identified and developed in the theory, being “expertise and technology”, “access to home resources and activities” and “production and service capabilities” (UNCTAD WIR, 2006, p. 148).

a. Expertise and technology-based features

Expertise and technology-based advantages are a key success factor for companies in global competition. In detail this includes, amongst others, appropriate and specialized expertise and technology; early adoption of new technologies, sustainable investment in R&D and other resources. These advantages are particularly relevant in industries that depend largely on innovation, such as consumer electrical and electronic products, machinery and transportation equipment (UNCTAD WIR, 2006, p. 147-148).

On first eyesight, Chinese companies do not possess a particular competitive advantage in these areas. Chinese companies to date rather depend on knowledge and expertise of their foreign partner rather than having a reputation for own technological innovation. Typically, Chinese companies are being perceived as imitating successful products instead of taking the lead in technological innovation based on their expertise in technologies.

However, a number of upraising Chinese MNEs have in the meanwhile taken a leading international position in innovative goods. Typical examples will include the household electronics producer Haier and consumer electronics producer Hisense. In light of these success-stories, it has been argued that the particular expertise of Chinese MNEs does not consist in the knowledge as such, but rather in knowing how to deal with the challenges they face. According to Mathews, late- and newcomers engage in “accelerated internationalization”, “organizational innovation” and “strategic innovation” (Mathews, 2006, p. 13 ff.). This means that they develop expertise in approaching the challenge on how to catch up with the established MNEs in innovative manner. Organizational innovation motivates companies to start their business with an international approach right from the beginning. Like this, they are capable to engage in international business directly, instead of having to adapt their business to international activity at a later stage. Experience in strategic innovation approaches lets companies engage in contract services, licensing models of technologies, or directly opt for JVs and strategic alliances. Late-comers such as Chinese MNEs have thus an quickly gained experience in innovative resource generation and utilization, leverage and learning abilities (Mathews, 2006, p. 14).

Further, a number of relevant features in expertise have been brought up by Morck: According to him, Chinese companies have a particular expertise in managing large, complex markets. One possible case of this might be Chinese telecommunication companies’ recent attempt to expand in Southeast Asia. Given this interpretation, these Chinese firms’ FDI nicely fits the standard internalization model (Morck et. al., 2008. p. 345).

Moreover, MNEs with a Western background tend to be experienced in operating in stable markets with transparent regulation and weak government influence on business decisions. Corrupt or otherwise dysfunctional institutions rather create difficulties for their operations. Contrary to that, Chinese firms are more experienced with such institutional features, and as a result are likely more capable of dealing with troublesome regulation and navigating around the opaque political constraints. Such experiences are an intangible asset for Chinese companies and put them arguable in a better position than many other foreign, especially Western firms (Morck et. al., 2008. p. 346). As has been pointed out, many target countries for Chinese FDI, especially in Asian and African countries are characterized by comparably weak institutions, a high level of direct state intervention, insecure property rights protection, and opaque corporate governance, and thus fit comparably well with the expertise of Chinese companies.

b. Access to home country resources and activities

As underlined by Cantwell and Barnard, home country characteristics play an important role shaping the nature of the initial firms’ ownership advantages (Cantwell & Barnard, 2008, p. 80). According to Dunning, home-country-specific advantages are the main feature that allow emerging country’s firms, such as Chinese firms, to invest abroad. Those firms have rarely the firm-specific ownership advantages to insure success in their FDI (Dunning, Kim & Park, 2008, p. 177). Features relating to

home country resources and activities regularly concern natural resources, clusters of knowledge and expertise, access to fund or alternative forms of financing, and development of utilities and infrastructure (UNCTAD WIR, 2006, p. 149). Developing and transition economies are typically characterized by an active governmental involvement in business, both through ownership and through regulation (Peng, 2000, p. #).

This is certainly the case for China, and the consequences for the internationalization of Chinese firms are significant. Home market resources and activities are of crucial role for any Chinese company wishing to engage in global investment. In a broader perspective, all extensive government interference with the activities of firms may be seen as an element of home country activities. To some extent, these activities may offer companies strategic support, constituting a tremendous comparative advantage compared to other international MNEs. For example, companies that have been designated as 'national champions', will receive all government support necessary to overcome their late-coming disadvantage internationally. This will include financial aid and political interference, as well as a hindering of internal Chinese competition, in order to give these Chinese companies opportunities to grow large internally before directly facing the international competition (Compare also Child & Rodriguez, 2005, pp. 384 and 388). On the other hand, regulation, interference and surveillance by state authorities over the activities of companies internationalizing might considerably constrict companies in their business development, as is reported at the end of this section.

Looking at these special characteristics of Chinese home country resources and activities, Buckley differentiates between capital market imperfections, special ownership advantages of Chinese MNEs and certain institutional factors that need to be taken into consideration (Buckley et. al., 2007, p. 501 ff.), whereby the first and the last seems to be of greatest relevance.

Capital market imperfections generally make capital available a cheaper rate than the market rate. Such capital may be available directly via (state-approved or guaranteed) loans or subsidies, or in soft forms, for example in form of soft budget constraints. Further, the acceptance and support of companies running an inefficient business activity in the internal market will effectively subsidise FDI. Finally, family structures or the famous Chinese "guanxi" relationships, basically a form of cooperation by "give-and-take" may include government officials and bring thus about strong strategic advantages for example in the form of cheap capital (see also Buckley et. al., 2007, p. 506).

There is strong evidence that these capital market imperfections are "daily business" in China: Based on the government policy to support outward investment of Chinese companies, close interaction between government officials and business will find individual ways to realise investment goals. In October 2004, a circular issued by the the National Development Research Council and the Export-Import Bank of China explicitly promotes M&As that could enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets through preferential credit and accelerated screening process (Poncet, 2007, p. 7). The very structure of the interaction is already characterized by the financial institutions supervising the internationalization by providing funds and foreign currency. The four biggest banks, together responsible for about three-quarters of all commercial loans and just over half of total banking assets, the Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), and Agricultural Bank of China (ABC) are all state-owned. Further, the key role in financing outbound investment plays the China International Trust and Investment Corporation (CITIC), which is a state-owned conglomerate active in a variety of financial services, and which was established by the Chinese government as the first investor abroad. (See section 3). Other big companies have even been allowed by the government to establish their own banks and financial sections to take care of their investment activities. Examples are the Sinochem Group and China's premier steel producer, the Beijing based Shougang Group (Buckley et. al., 2007, p. 502).

Institutional factors go a step further than capital market imperfections, and address the complete interference of government bodies and authorities in shaping the form and activities of Chinese MNEs. Especially the emergence so-called "national champions" first-ranking global players, has been

viewed in the light of institutional factors. Especially companies with an engagement in industries of strategic importance to the development of China, such as natural resources and infrastructure, have been supported so actively by government authorities that it has been argued, that China “built” some of its MNEs (Buckley et. al., 2007, p. 503). Also, the acquisition of strategic assets and capabilities such as brands, distribution networks, and foreign capital markets and so on are often supported by the Chinese government.

The potential risks of the domestic market and the institutional interference in the business activities as been noted as well: Approval processes include NDRC to check the firms’ capabilities, the State Administration of Foreign Exchange (SAFE) to survey and approve the sources of funds, and the Ministry of Commerce (MOFCOM) to check the conditions of the host country. Finally, state-owned banks have to be consulted to clear the transaction. Annual review procedures are due for companies with MOFCOM and SAFE. In the same time, the very firms that might be expected to internationalize with the advantage of support from national governments could be weakened by the way they “remain beholden to administrative approval and bear a legacy of institutional dependence.” (Child & Rodriguez, 2005, p. 385).

Indeed, all major challenges faced by Chinese companies when going global are issues that may be addressed affectively by government interference. Mentioning “limitations on foreign exchange use”, the “application time”, “limited sources of finance”, “costs to comply with procedures and regulations”, “costs to comply with procedures and regulations”, “check of source of funds” and “industrial policies” as their major points of concern (FIAS/MIGA, Battat, 2005, p. 9), it becomes clear that the crucial elements for Chinese companies wishing to go international are government policies and interference. The institutional frame thus plays the key role in promoting or hindering Chinese FDI.

c. Production process capabilities

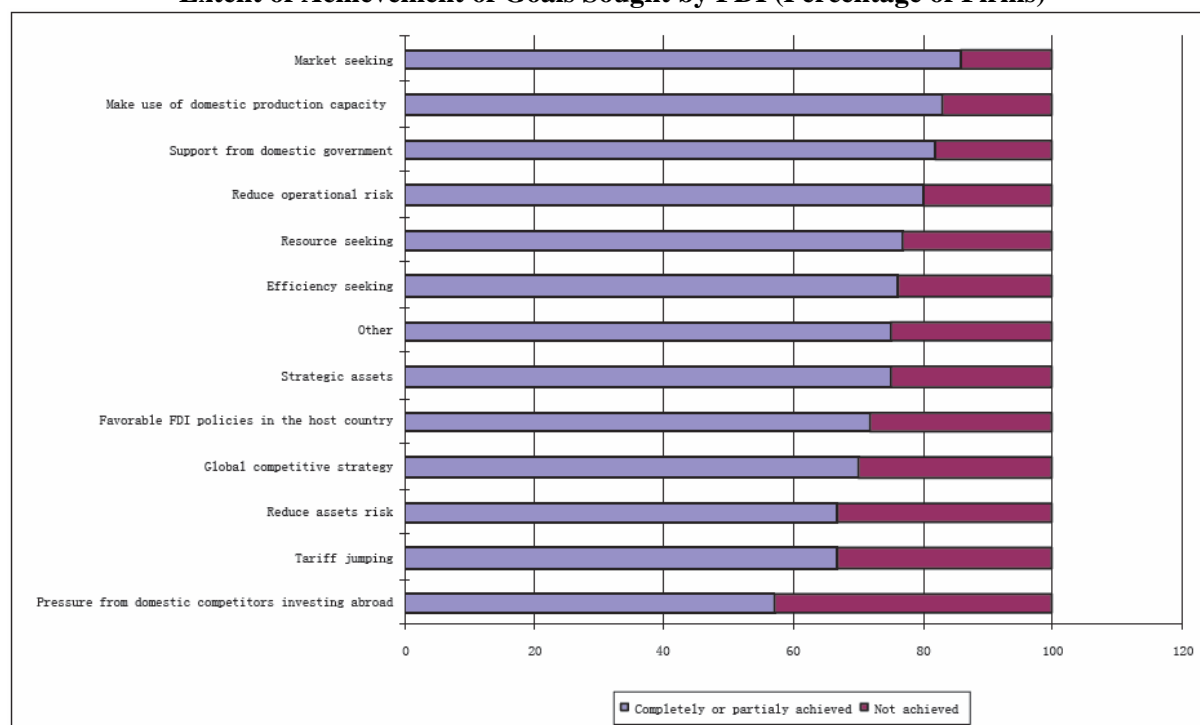
Features relating to production process capabilities concern primarily production of components and products as well as distribution and delivery capabilities. In this case, firms derive their advantages primarily from specialization in the production part of the value chain in sectors such as electronics, automobile components, garments and footwear (UNCTAD WIR, 2006, p. 149). Most of them are specialized in low-cost, high-quality manufacturing, mostly for sale to retailers or manufacturers (UNCTAD WIR, 2006, p. 149).

According to a China survey by FIAS/MIGA and as illustrated in *Table 6*, some of Chinese MNEs’ most important advantages rely in production process strengths (UNCTAD, 2006, p. 152). Chinese companies intend to exploit these advantages. According to UNCTAD “this echoes China’s role as a major global production base” (UNCTAD WIR, 2006, p. 152). Market-seeking motivations are a direct consequence for Chinese MNEs.

However, Chinese MNEs seem to be having a clear view that they may not be able to rely in long-term on the competitive advantage of their production strengths. According to UNCTAD, “the relatively low self-assessment by the firms surveyed across different aspects of the value chain implies that they will see themselves as having, at most, an average level of competitiveness”. Chinese MNEs thus may not be in a position to rely on the advantages of these production process capabilities in longer run. In consequence, this suggests a powerful motive for asset-seeking internationalizing motives by Chinese MNEs, especially in industries in which they face intense competitive pressures (UNCTAD WIR, 2006, p.152).

Table 6.

Extent of Achievement of Goals Sought by FDI (Percentage of Firms)



Source: Survey on China's Outward Foreign Direct Investment, FIAS/MIGA Firm Survey. Joseph Battat, FIAS, the WBG, 2005

d. Cultural proximity and ethnic Chinese businesses

Finally, academic research and literature has further suggested that international, “ethnic Chinese” business cooperations play a crucial element in the internationalization process of mainland Chinese business. The existence and support of these ethnic Chinese business undertakings abroad is arguably seen as a considerable competitive advantage. In fact, some of the biggest and most successful South-East Asian MNEs outside China are “ethnic Chinese” companies.

In his article “The Internationalization of Ethnic Chinese Business Firms from Southeast Asia”, Yeung gives impressive statistical analysis on the influence of ethnic Chinese business firms from South-East Asia. According to him, at the end of the 1990s, the “overseas Chinese” controlled some 80% of corporate assets and 160 of 200 largest enterprises in Indonesia, 40-50% of corporate assets in Malaysia, 90% of manufacturing and 50% of services in Thailand. Further, in 1995, every reported Indonesian billionaire was an ethnic Chinese. In Thailand, the “Overseas Chinese” control the four largest private banks, of which Bangkok Bank is the largest and most profitable in the region. In the Philippines, the “Overseas Chinese” control over one third of the 1000 largest corporations.” (Yeung, 1999, p. 105). UNCTAD statistics on large ethnic Chinese MNEs proof the importance of the phenomenon (UNCTAD WIR, 2006, p. 129 f.).

What is most relevant for the analysis of the emerging of Chinese MNEs is the fact, that ethnic Chinese players are part of the overall globalization process and largely act as international players already. In this sense, they constitute for new Chinese players examples to learn from and to follow, and, given the regularly close cooperation of ethnic Chinese in the international sphere, helping partners (Yeung, 1999, p. 166 ff.).

Further, apart from truly “ethnic Chinese” business cooperation, cultural proximity in a wider sense has been brought up as an argument to explain investment decision in regions, where a culture with proximity to the culture of the investors is to be found. For China, this would be neighbouring countries such as North and South Korea, and possibly Vietnam or Myanmar. Real, physical distance might thus be complemented by psychologically perceived proximity, due to a similar culture, or a close relationship existing between countries and regions. These factors may take the function of a door opener and catalyser for business development. Empirical research by Buckley underlines the importance of cultural factors (Buckley et. al., 2007, pp. 506 and 513).

Not disputing the phenomenon, more critical voices have also been raised. In fact, the strong particularities of Chinese business behaviour, including cultural, linguistic, institutional, and organisational elements may prove to be a disadvantage for Chinese firms when internationalising. These characteristics may give Chinese firms a comparative advantage when emerging in areas where they find similar cultural conditions, or can even connect to ethnic Chinese businesses. Yet, these characteristics may hinder the success of Chinese businesses in areas of different cultural styles, mainly outside Asia. According to Child and Rodriguez, this implies “that even if the lack of tangible assets such as technology and branded products can be met through their purchase abroad, a liability of foreignness may still jeopardize the effectiveness of how they are put to use. Distinctive Chinese styles of management [...] could thus prove a handicap [...]” (Child & Rodriguez, 2005, p. 386).

2.3. Motivations and strategies of Chinese MNEs

The process of China’s reintegration with the global world economy began with the “Open Door” policies in 1979s. Quite soon, in the middle of the 1980s, clear and concrete political motivations for the opening were stated. As Zhan notes, the important aims were to secure a stable supply of resources that cannot be sourced in China, to contribute to foreign exchange earnings and generating export opportunities, and channelling advanced technology and equipment to China (Zhan, 1995, p. 69). The early, selective approach for approval of investment projects has been more and more removed over the years, but the intention of the government to use Chinese FDI has remained valid. As a key-stone, in 1999, the “go-global” initiative (zou chu qu) was established, aiming at promoting the international competitiveness of Chinese firms. As part of this initiative, foreign-exchange-related, fiscal and administrative obstacles to international investment were gradually removed (Sauvant, 2005). An important step to accelerated opening was finally achieved with the accession of China to the World Trade Organisation (WTO) in 2001 (Buckley et. al., 2007, p. 499). The political intention, not having changed since the beginning, has been articulated again in 2003 by the Chinese Vice-Premier Wu Yi: “We will actively foster our own multinational companies... We will create all kinds of [favorable] conditions to help our multinational companies further explore overseas markets and engage more strongly in global economic competition and cooperation”(China Daily, November 7, 2003, cited following Cheng & Stough, 2007, p. 16).

This section will analyse motivations and strategies of Chinese MNEs. We will examine the main drivers of Chinese MNEs separately for the sake of clarity, but it is worth noting that in most cases motivations might be mixed, complementary or evolutionary. In fact, and as stated before, the application of traditional approaches to explain motivations for FDI (as extensively presented by Dunning) seems to be the most appropriate way to address the phenomenon, since Chinese MNEs are engaging in an international, capitalist business environment, where most strategies are following intentions such as market seeking, resource seeking or efficiency seeking and strategic asset-seeking. This applies equally to Chinese companies.

However, the political intention of the Chinese government to promote FDI that has been developed and stated in progressing form since the late 1970s will have to be kept in mind. Given the great influence of institutional factors, cultural elements and home country resources and activities (subsection 2.2), and, even more important, the large extent of state ownership over Chinese MNEs

heading abroad (section 1), has effects on the motivations of Chinese FDI. On the one hand, motivations will partially diverge from those of Western MNEs. On the other hand, they are quite close to interests of Western MNEs. In the latter case, Western MNEs are facing international competition from emerging MNEs with a different background: As state-owned or state-controlled enterprises, they are competing for markets and resources with Western MNEs, but being backed-up by the Chinese government. In this sense, the internationalization of (state-owned) Chinese MNEs is expression of the going global of the P.R.C.

a. Market-seeking FDI

As noted by UNCTAD, “market-seeking FDI is by far the most common type of strategy for developing-country TNCs in their process of internationalization” (UNCTAD WIR, 2006, p. 158). Several recent studies point to the rise of market-seeking motives driving Chinese MNEs particularly towards large markets (Taylor, 2002; Zhang, 2003; Deng, 2003). The FIAS/MIGA global survey confirms the prevalence of Chinese market-seeking FDI. In the survey, Chinese companies were asked to state whether a motivation was important or not on a scale of 1 to 3. Of 148 firms which responded to this question, 85 per cent regarded market-seeking as important or very important (FIAS/MIGA, Battat, 2005, p. 11ff.; and UNCTAD WIR, 2006, p. 167). In their study covering Chinese FDI from 1984 to 2001, Buckley and al. discovered that market seeking was a key motive for Chinese FDI in the period under study (Buckley et al., 2007, p. 509; Buckley et al., 2008, p. 137). However, over this period, Chinese firms have moved away from undertaking mainly market-seeking strategies in nearby foreign markets towards the securing of raw material even in riskier markets (Buckley et al., 2007, p. 511).

As suggested by the theory, FDI in nearby regions is the most common location for market-seeking affiliates in the case of most developing countries FDI. However, in the case of Chinese FDI in many manufacturing industries as well as India in IT services, the Republic of Korea in advanced manufactures and the Russian Federation in natural resources, proximity is less relevant for some important FDI attracted by developed-country markets (UNCTAD WIR, 2006, p.158). In the case of Chinese FDI, most investments do follow successful, established export streams, and destinations might be neighbouring countries as well as markets overseas. As Zhan points out, market-seeking motivations are the logical consequence of China’s export oriented policy over the last years. The firms follow their export channels to expand market shares and avoid trade barriers (Zhan, 1995, p. 87). Buckley adds that trade-supporting reasons for FDI include distribution networks, the facilitation of exports of domestic products, and to enhance exports from the home country to other large and rapidly growing markets. Since market-seeking strategies are often correlated positively with large markets, engagement of Chinese MNEs in large, foreign markets may particularly be explained by market seeking motivations (Buckley et al., 2007, p. 503).

Famous examples for Chinese companies investing abroad for market-seeking purposes include Chinese home-appliance and consumerelectronics manufacturers such as Haier, TCL, and Huawei Technologies, that have made repeated efforts to enter the more affluent developed economies such as the United States. The TCL Group succeeded to purchase the ill-stated Schneider AG in Germany, and Haier Group purchased an Italian refrigerator facility. Further Shanghai Haixing Group’s acquisition of Glenoit Textile, China Insurance’ investment in Pacific Insurance, or Wangxiang Group’s acquisition of Universal Automotive Industries Inc. have been reported (Keller & Zhou, 2003, p. 12).

Apart from these motivations, which might also be described as “pull-factors”, push factors give incentives for Chinese companies to expand abroad, due to harsh conditions in the home market. Increasingly severe competition and overcapacity are one of the most important pushing factors, particularly in China’s home appliance sector (Cheng & Stough, 2007, p. 15). Especially manufacturers of electronic appliances cite according to a NBR survey growing competitive pressure from MNEs in the domestic Chinese market, excess capacity, and sliding profit margins to be the key reasons to search for new markets abroad (Wu, 2005, p. 7). In a cited study by McKinsey & Co., overcapacity within China’s home-appliance market is estimated to stand at over 30% in washing

machines, 40% in refrigerators, 45% in microwave ovens, and 87% in televisions (Wu, 2005, p. 7. Compare also Cheng & Stough, 2007, p. 15).

b. Efficiency-seeking FDI

“Efficiency-seeking FDI is an important motive, but its prevalence varies considerably among developing-country TNCs, especially in terms of their country or region of origin and industry. In the UNCTAD global survey, 22% of responses indicated this as a strategic motive. Most of the companies for which efficiency-seeking FDI is important are Asian and in three main industries, electrical and electronic products, garments and IT services” (UNCTAD WIR, 2006, p.159). However, according to the survey, efficiency-seeking FDI is relatively unimportant for Chinese MNEs because of relatively low costs in their respective home economies (UNCTAD WIR, 2006, p.160). However, in some sectors where competitive pressure is very high, other cost-reducing factors, including national and international policies, seem to have induced efficiency-seeking investment by emerging countries firms including Chinese companies. For example, companies from China have invested in African countries such as Lesotho, Malawi, Senegal and Swaziland to benefit inter alia from special treatment (duty-free) accorded by some developed countries to product exports from these African countries (UNCTAD WIR, 2006, p. 160).

Most scholars agree that given the low production costs in China, efficiency-seeking motivations do not play the prime role for Chinese MNEs going global (Buckley et. al., 2007, p. 501). However, a few examples may point to growing role of efficiency motivated Chinese FDI in the years to come. For labour intensive production such as textiles, the situation has become more dynamic over the last months, since wages have considerably increased in the coastal areas of China. Especially the Pearl River delta is facing competition from even cheaper labour in neighbouring countries such as Vietnam or Thailand. Production in these regions will not necessarily be cheaper than remote provinces in China, but easier accessible.

Further, Shaoming Cheng notes that efficiency-improving and market-expanding outward FDI are often intertwined and complemented with each other. Market conditions (such as, for instance, quota-free access for exporting to the United States and the European Union) in combination with good conditions for an application of mature low-tech and labor-intensive production will offer economically efficient production conditions. Such efficiency-enhancing and market-expanding outward FDI might grow significantly in ASEAN countries (Cheng & Stough, 2007, p. 14).

c. Resource-seeking FDI

China tremendous economic development requires a steady supply of natural resources, including ferrous and non-ferrous metals, precious metals, minerals and oil and gas. The country, is, however, comparably poor in most natural resources except coal (Zhan, 1995, p. 88). Chinese companies have thus developed enormous activities in resource-seeking. FDI in natural resources are not driven by regional proximity, but simply by the availability of assets. The active acquisition of natural resources stands out amongst Chinese investments abroad, and destinations for Chinese outward FDI are resource-rich countries around the globe, such as African and Central Asian countries, along with Australia, Russia and Canada (Buckley et. al., 2007, p. 511). The common rationale to set up subsidiaries abroad is to ensure a stable supply of resources for the own operations in production and construction (Hobdari et al., 2007, p. 10).

Various studies have addressed the issue. According to UNCTAD, Chinese MNEs generally regard natural resources as an important motivation to invest abroad. The fact that 40 per cent of firms indicating the importance is relatively low compared to market-seeking motivations (85 per cent of the firms) and created-asset-seeking (51 per cent of firms) may possibly be explained by a higher concentration of firms in the natural resources sector. (UNCTAD WIR, 2006, p. 168).

FDI in natural resources can be undertaken by firms which are themselves based in the primary sector, or those from other sectors, mainly natural-resource-related such as metal manufacturing (UNCTAD WIR, 2006, p. 161). Because of the strategic importance of securing supplies of resources for the home economy, a large proportion of Chinese MNEs engaged in these efforts are state-owned.

Generally, a division must be made between the oil & gas and the mining in minerals resources sectors. In the former, it is especially the big three national Chinese oil companies, China National Petroleum Corporation (CNPC), China National Offshore Oil Cooperation (CNOOC), and China Petroleum & Chemical Corporation (Sinopec). These companies invested in high-risk (and high return) projects in the 1990s, but have in recent years turned to rather acquiring existing, big oil fields which promise a stable and long run production of oil and gas and considerable revenue. These acquisitions have been financed to a large extent with the large-scale fund raising by listing in overseas stock exchanges. Due to the fact that these companies are acting as quasi monopoly players in China's enormous and fast-growing market, the companies' listings were tremendously successful. These three companies are in business and media today often referred to as the "Chinese oil majors". According to industry knowledge, these companies have over the last years – backed up with the necessary political support – succeeded in acquiring over 100 projects, including several billion dollar projects, in the Middle East, Africa, Latin America, Southeast Asia, Central Asia and Russia (Hagiwara, Bank of Tokio, 2006, p. 4).

With regards to the minerals resources industry, the amount of Chinese players is bigger, and the projects invested in are less known. Companies such as Minmetals, China Aluminium Cooperation (Chalco), or Zijin are important examples of a big amount of Chinese companies investing in a wide variety of countries and regions to secure assets in minerals and metals. All resources are fundamental for China's further economic growth. The main industries driving the high need for resources are energy creation (coal and uranium), and construction.

The overview over the largest Chinese outward investors, as presented in section 1, further confirms the analysis. The top 3 Chinese outward investors are all companies in the natural resources field. As an example, in the year 2002 alone, CNPC acquired two oilfields in Azerbaijan and, together with Petrochina, the companies Devon Energy Corp. (Indonesia) and Salyan Oil (Azerbaijan); CNOOC acquired Repsol-YPF SA (Indonesia) (Keller & Zhou, 2003, p. 13).

Finally, less prominent but still relevant are Chinese acquisitions in other natural resources, such as fishery, timber and agricultural products. As an example, Huaguang Forest Co.Ltd. acquired Rayonier Inc. timberland operation (New Zealand).

d. Strategic asset-seeking FDI

While the UNCTAD global survey indicates that strategic asset-seeking FDI is a relative modest motive for developing-country MNEs (14 per cent of responses compared to 51 per cent for market-seeking FDI), the picture is quite different for Chinese MNEs. These latter regard strategic asset-seeking as the second most important motivation after market-seeking. Among Chinese MNEs, 51 per cent regard created-asset-seeking as an important motive for their FDI, compared to 85 per cent for market-seeking, 39 per cent for efficiency-seeking and 40 per cent for resource-seeking FDI (UNCTAD WIR, 2006, p. 168).

Generally, strategic asset-seeking is often aiming at the acquisition of information and knowledge on how to operate internationally. However, with growing experience of Chinese firms in this, their goal has rather turned to concrete intangible assets, such as advanced proprietary technology and immobile strategic assets, both through greenfield investments and acquisitions. The acquisition of foreign technologies and brands is often regarded as a short-cut to establish a company as an internationally known, quality producer with a portfolio of latest technologies and services, and an efficient

distribution channel. Acquisition will function as a fast route to such benefits, and in addition, will also deny them to competitors (Child & Rodriguez, 2005, p. 392).

Consequently, it is mostly countries with a highly developed industry and attractive technologies and brands, which are of interest to Chinese strategic asset-seeking companies. Such countries are mostly industrialized countries in Europe or North America. Also, a correlation between the motivations of the investment has been noted. Generally, developing country acquirers seem to rather carry out an international M&A for strategic asset-seeking purposes. Developing countries seem to be a preferred destination for resource-seeking purposes (Keller & Zhou, 2003, p. 22).

However, it seems that very few Chinese – as well as from other emerging countries – MNEs purely seek strategic assets, in market contrast to market- or efficiency-seeking FDI. Most are established for mixed reasons (UNCTAD WIR, 2006, p.162). According to UNCTAD, “One of the reasons why “pure” created-asset-seeking FDI might be rare is because developing-country firms seeking created assets must first master the capabilities to absorb them” (UNCTAD WIR, 2006, p.162). For that reason created-asset-seeking FDI go hand in hand with asset exploitation motivation, especially market-seeking and efficiency-seeking investments. For example, Lenovo, by acquiring IBM’s computer division was simultaneously seeking to establish itself as a global brand, as well as gain expertise and technology to complement its existing specific advantages in China (Goldstein et al., cited following UNCTAD WIR, 2006, p. 251).

There are a large number of other famous examples of Chinese strategic asset-seeking FDI. In the automotive industry, Chinese companies have been taken tremendous efforts to overcome their greatest weakness compared to internationally established producers: the lack of a known, well-reputed brand. SAIC, the largest Chinese car producer has acquired the Korean SsangYong, and intended an acquisition of MG Rover. The British brand was, however, later acquired by Nanjing Automobile Group Corporation (Hagiwara, Bank of Tokyo, 2006, p. 5). Other examples for technology and/or brand motivated investments for the years 2001-2003 have been reported by industry knowledge: Dalian Machine Tool Group Co., Ltd. invested in Ingersoll Production Systems (USA), the Holley Group acquired Philips CDMA chip design departments (USA / Canada), Shanghai Electric Group invested in Akiyama Publishing Machinery Co. (Japan), Shanghai Huayi Group acquired Moltech Power Systems, Inc. (USA), and the D’long Group invested in Fairchild Dornier (Germany) (Keller & Zhou, 2003, p. 14).

The final success of these investments remains to be determined for the future. Doubts have been expressed that the acquisition of often economically weak companies with a completely different business culture will be easily digestible for their new Chinese owners and partners. For Lenovo, for example, it has been stated that US\$1.75 billion was a high price for a deficit manufacturing company (Hagiwara, Bank of Tokyo, 2006, p. 5). The confusion over the acquisition of MG Rover and the ownership of the brand name has not rendered the bit a particularly success story, either. However, the ongoing boom of acquisitions for strategic asset-seeking purposes is indication for an ongoing optimism of Chinese companies in the benefits of a short-cut to technology and brands.

e. Other China-specific motivations for FDI

The above analysis of motivations for Chinese FDI gives clear evidence that Chinese MNEs have traditional motivations for their internationalization. A number of studies and surveys support this view and underline, that these motivations are the dominant ones for Chinese MNEs. Liu finds factual evidence that despite of the country’s enormous land, large population and geographical position established, refined IDP hypothesis are valid tools to explain Chinese outbound investment (Liu, 2005, p. 112). Roland Berger research underlines that internal corporate dynamics give the greatest impetus for overseas expansion for Chinese companies. Yet, admittedly, their evidence points out that at least 8% of the indicated motivations by company leaders are not in line with traditional market motivations (Keller& Zhou, 2003, p. 10). This section looks at these additional motivations and points out various elements of China-specific FDI motivations.

Important work on this issue has been done by Buckley, Child and Rodriguez and recently Morck. Buckley applies known instruments to analyse Chinese FDI but admits that “Chinese firms that invest abroad have to straddle environments, institutions and rules that differ probably more than for any other outward-investing country in the world.” (Buckley et. al., 2007, p. 511). Child and Rodriguez identify four primary areas of relevance to explain Chinese characteristics of FDI motivations: the latecomer perspective and catch-up strategies, institutional analysis with reference to the role of government, the relation of entrepreneurs and institutions, and the liability of foreignness (Child & Rodriguez, 2005, p. 402 ff.). Morck has contributed insights into the interconnections of government and business in China (Morck et. al., 2008. p. 345 ff.). Again, as noted above, motivations for Chinese FDI will usually be complementary and mixed. In the following, this contribution will distinguish particular Chinese motivations with regards to economic constraints, government interference, and individual interests of entrepreneurs.

In macro-economic perspective, the increasing Chinese foreign currency reserves have implications for outward investment activities. With over a trillion dollars in foreign reserves (end of 2006, Shaoming Cheng), the question arises for China how to best invest these savings, and points to various ways of outward investment. Purely financial engagements, for example via the Chinese national investment fund, are an option to profit from world-wide economic growth. However, Chinese government economists may also believe that reserves will support the economic development of China best if used to as means to acquire international technologies, brands, and resources, and to smoothen access to international markets. It is in this context of mixed motivations that fears about the intentions of Chinese FDI to developed countries have recently been coming up. Morck, has presents a critical view on such state-policy driven FDI activities, and questions the long-run efficiency of policy driven investments. “Grandiose and patriotism-inspiring initiatives, like takeovers of foreign companies, legitimize the continuation of the political status quo. Over the longer term, deflecting capital away from more efficient private sector ventures may compromise both continued economic growth and political stability” (Morck et. al., 2008, p. 344).

Moreover, traditional theory has a tendency to explain motivations of companies by incentives in the host countries. In reverse perspective, a lack of certain factors in China may drive companies to go international and protect their business success. These factors may include lack of developed intellectual property rights; lack of training and education and consequently limited access to skilled human resources; poor local infrastructure; fragmentation of regional markets, pressure from corrupt or otherwise illegitimately interfering officials. Chinese MNEs will in this sense be motivated by emancipation from poor business conditions in China, and the wish to profit from a more beneficial business landscape abroad.

Mathews identifies economic motivations for companies from the Asia-Pacific, which might be seen as an overall global competitive strategy in light of the conditions of globalization. In fact, it is surprising to which extent Chinese MNEs seem to be adapted to the challenges of globalization, and pursue their motives with ease. According to Mathews, the main difference in the approach of new MNEs from the Asian-Pacific region compared to established MNEs is that they are of so recent origin that they are perfectly adapted to a globalized world (Mathews, 2006, p. 13 ff). Their motivation to internationalize is consequently not taken on the basis of established business operations and the wish to optimize these business operations. Internationalization is for these companies a initial characteristic of their business and ex-ante an integral part of their organizational approach to globalization. In this sense, Mathews framework provides a powerful tool especially for the explanation of motivations of SMEs with little capital resources and regularly a weak institutional support.

Looking at government interference, a number of points need to be preliminary reviewed to outline the interrelations between government officials and the private sector. For many years, a typical private sector business was non-existent in China. With economic opening and the introduction of private ownership in the 1980s, private sector activities emerged. Partially they were built on individual,

entrepreneurial initiative; partially they were driven by state policies such as privatization. In consequence, a range of different companies emerged, which all underlie the applicable government regulation, but which are to a different extent personally and institutionally intertwined with government bodies. SOEs and companies that play a crucial role for China's development, or possibly have been selected by the authorities as future "national champions", will have a very close interrelation with the government. The leaders of such companies will usually be traditional state bureaucrats and members of the Communist Party. For these Party bureaucrats, the fact that companies may act as private players is a comparably new phenomenon. The way they execute managerial work in these companies is thus characterized by their established and ongoing trust and responsibility to State interests. They experience their work in the "private sector" largely as a continuation of their career as civil servants (Morck et. al., 2008. p. 344)

Morck reports an eye-catching recent example, illustrating the interrelation between these new Chinese MNEs and the government sector, and the career paths of the company leaders. In brief, within short time, the leaders of (mostly internationally) listed Chinese MNEs changed positions with high-ranking government officials and vice-versa. "In April 2003, Mr. Li Yizhong, then Chairman of the Board of CNPC, was appointed to the [State-owned Assets Supervision and Administration Commission of the State Council] SASAC and replaced by Mr. Chen Tonghai, a former State Planning Commission official. In October 2003, Mr. Wei Liucheng, then CEO, Chairman of the Board, and Party Secretary of China National Offshore Oil Corp. (CNOOC) was appointed Governor of Hainan Province. In November 2004, the top managers of the three largest telecommunication companies in China – China Mobile, China Telecom and China Unicom – exchanged positions almost overnight without prior notice to public shareholders" (Morck et., al. 2008. p. 344). Further, generally, CEOs of the largest 53 national SOEs are directly appointed by the Communist Party, and senior management positions are largely appointed by SASAC, under direct control of the State Council (Morck et. al., 2008. p. 344).

In light of the presented government-company interrelations, a number of motivations for Chinese FDI activities emerge. They relate not only to the decision to internationalize as such, but also give important explanation on how Chinese MNEs will effectively carry out investment projects. The focal point for motivations of Chinese MNEs centres on the challenge to efficiently exploit supportive government support, while keeping the entrepreneurial freedom necessary to compete in a competition-driven international business context.

Government support is positively related to firms' internationalization motives where they have a supportive effect and possibly open business opportunities Chinese firms would not have been able to realize on their own. Companies will rely on government support in those countries, where arbitrary interference of the host government in the host countries' private sector is possible and consequently, a positive trade-off may be achieved for the business of Chinese companies via the political interference of the Chinese government. Such countries will largely be non-democratic countries with a weak rule of law, for example in Africa or Central Asia.

For developed, Western markets, strategic asset-seeking motivations of companies might be supported by government action. Child and Rodriguez note that the distinctive role that the state can play in the FDI of Chinese MNEs is particularly high when the state possesses some, but not total, ownership in the companies (Child & Rodriguez, 2005, p. 400). For a number of companies, strategic government support has given considerable advantages in the internationalization, and thus shaped the companies' motivations strategies. Home appliances producer Haier, on its way to a national champion, or Lenovo on its move to the world's third largest computer manufacturer have profited from support and advantages in their internationalization strategies in terms of financial back-up or support in succeeding in the domestic market, which makes companies a more valued potential partner internationally.

Chinese companies expanding in developing and in developed markets will both seek to exploit the support provided by state authorities. It is difficult to assess whether government interference in FDI

activities of Chinese firms is larger with regards to FDI to developing or to developed host countries. Yet, it seems evident that government interference will be more efficient in countries with strong discretionary powers of the state leaders, and weak market forces. It will, in reverse, be less efficient where market forces are the main drivers of business development and potential business partners are private sector players with an exclusive interest in the economic feasibility of the proposed cooperation or investment project.

Both Morck and Buckley identify contradictions / surprises with regards to Chinese FDI, which might be partially explained in light of these findings. Morck notes that in accordance with internationalization theory, Chinese firms with large investments in enhanced productivity should lead China's FDI surge. Instead, "large relatively inefficient SOEs lead the charge, and more efficient private enterprises remain largely domestic." (Morck et. al., 2008. p. 345). Also, Chinese companies should look at realizing economies of scale and consequently focus on large, developed markets. However, Chinese FDI is to large parts entering Southeast Asia and Africa, and only to a lesser extent Europe, Japan, or North America (Morck, p. 345). Looking at risk perception, Buckley's empirical results reveal that Chinese FDI seems to be rather attracted than deterred by political risk (Buckley et. al., 2007, p. 513). Both observations can be seen as supporting the analysis that the supportive hands of the Chinese government can play a bigger role in Chinese FDI to countries with a weak rule of law, and have can provide less strong support in highly developed markets.

Sections 1 and 2 of this contribution have evidenced that the largest amount of current Chinese FDI in terms of value derives from the big new Chinese MNEs, which are the typical companies to have the outlined government interrelations. The current focus of academic literature on these companies is thus justified. However, as a new phenomenon, a large amount of Chinese investors with currently still comparably small FDI are on the rise. Their relations and interaction with government authorities might be smaller than the ones of the mentioned large Chinese MNEs. Their business activities are more characterized by entrepreneurial engagement, domestic and international competition and other economic constraints. They will thus also have a slightly different view on government interference. It is especially for these companies that government interference may also have partially constraining effects.

Indeed, business needs the freedom to base strategic decisions on market requirements rather than fulfilling institutional instructions and ideals. Foreign partners may have a critical view on strong government interference. In this context, Child and Rodriguez state that currently successful internationalizing Chinese firms are non-state-owned enterprises or companies that have installed arrangements protecting from bureaucratic interference. Galanx and Holly are typical town and villages enterprises (TVEs), Haier and Huawei are collective enterprises. Lenovo and TCL have mixed international-domestic ownership structures. All this has positive effects on managerial autonomy (Child & Rodriguez, 2005, p. 392). Consequently, an important driver for Chinese FDI must also be seen in the intention of Chinese firms to escape domestic institutional restrictions. Especially, "legal uncertainties, obstruction of domestic acquisitions, and regional protectionism through license restrictions" are challenges for (privately owned) Chinese companies (Child & Rodriguez, 2005, p. 401). The international sphere may possible offer the freedom for unrestricted business development without limiting government influence.

In sum, it seems clear that key for a success of Chinese companies in their internationalization strategies it their relationship to the Chinese government, and their ability to use the embeddedness strategically in combining the supportive hand with escaping institutional restrictions.

Finally, the motivations of business leaders on a private level must not be neglected. International engagement of "their" companies offers opportunities for an augmented reputation amongst colleagues and government officials. Arguably, corporate executives will gain respect and status by internationally "restoring China's honor as a true economic power" (Morck et. al.. 2008. p. 347). Besides, business leaders may see chances to escape the control of the Chinese state and the

uncertainties of the Chinese regulatory market, and potentially store their and their families' wealth in international tax havens.

Conclusion

Chinese FDI has gained importance over the last years. A large number of Chinese companies have invested abroad and are emerging Chinese MNEs. The growing importance of Chinese FDI is expected to remain an ongoing trend for the future. According to the survey by FIAS/MIGA, 58.9 per cent of Chinese MNEs taking part in the survey had concrete plans to continue to expand abroad, and 12,9 had at least an intention (FIAS/MIGA, Battat, 2005, p.19). Further, as Shaoming Cheng notes, a future stronger Chinese currency will greatly enhance Chinese firms' purchasing strengths in international M&As and therefore lead to rising Chinese FDI outflows (Cheng & Stough, 2007, p. 15). In addition, the competitive pressure in the domestic Chinese market is expected to accelerate, and will continue to push Chinese enterprises to globalize. Especially, a further liberalization of the services sectors will intensify the pressure on services companies over the next two years (Wu, 2005, p. 19). Finally, the goal of the Chinese government to help Chinese companies integrate in the world economy and the country to participate in international economic growth will continue to support the globalization of Chinese MNEs.

Main motivations of Chinese MNEs are thus motives derived from their operation in an international capitalist market economy. Chinese MNEs have mostly market-seeking, resource-seeking, strategic asset seeking and efficiency-seeking motivations. They are to this extent, independent from their ownership structure, part of global business undertaking. The traditional theory on MNEs offers valuable tools to analyse their activities.

However, the particular Chinese characteristics in this process are eye-catching, and make the emerging of Chinese MNEs a special phenomenon. According to this contribution's analysis, the most important differences of Chinese MNEs compared to Western MNEs going international are not to be found in their motivations, but in the special characteristics of their home country in terms of the Chinese institutional and cultural context and with regards to home country resources. Especially, the by far largest outward investments by Chinese MNEs are undertaken by SOEs, and all investment projects follow a scheme that ensures that they are in strict line with government policies. Motivations of Chinese firms to internationalize and the government interest in this are to large extent in one line and institutionally intertwined.

Chinese particularities are so strong and the motivations of government, state, and business so deeply integrated and interlinked that it seems doubtful to conclude that Chinese MNEs emerge with traditional motivations, but Chinese characteristics. Indeed, the emergence of Chinese MNEs is expression of a broader development in the sphere of today's international business landscape: It is the P.R.C going global.

Abbreviations

ABC	Agricultural Bank of China
ASEAN	Association of Southeast Asian Nations
BOC	Bank of China
CCB	China Construction Bank
CNOOC	China National Offshore Oil Cooperation
CITIC	China International Trust and Investment Corporation
CNPC	China National Petroleum Corporation
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Services
HK	Hong Kong
ICBC	Industrial and Commercial Bank of China
IDP	Investment Development Path
IMF	International Monetary Fund
JV	Joint-venture
M&A	Merger & Acquisition
MIGA	Multilateral Investment Guarantee Agency
MNE	Multinational Enterprise
MOFCOM	(Chinese) Ministry of Commerce
NDRC	(Chinese) National Development and Reform Commission
P.R.C	People's Republic of China
SAFE	(China's) State Administration of Foreign Exchange
SAIC	Shanghai Automotive Industry Corporation
SAR	Special Administrative Region
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
Sinopec	China Petroleum & Chemical Corporation

SOE	State Owned Enterprise
TNC	Transnational Corporation
TVE	Town and village enterprise
UNCTAD	United Nations Conference on Trade and Development
WBG	World Bank Group
WIPO	World Intellectual Property Organization
WIR	World Investment Report

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