

# **Home Government Role in the Process of Outward Foreign Direct Investment: The Case of China and Russia**

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## **Abstract**

The aim of this paper is to examine the role of the home government in the institutional formation of outward foreign direct investment (OFDI) systems in China and Russia. It focuses on the stages of OFDI institutional development since the start of market reforms in these countries, Reference is made to both processes and outcomes involved. It has been uncovered that in each country the state and its agencies have been the principal institutional entrepreneurs in developing the OFDI system. Consequently, the development of OFDI institutions depended heavily on the extent to which state policy was consistent in supporting the regulative, normative and cognitive pillars of the respective institutional systems. The paper brings theoretical propositions and an analytical framework which posits various consequences of political and economic continuity for OFDI institutional development, moderated by the level of institutional entrepreneurship coming from governmental and business sources. Finally a model presenting the role of the home government in the OFDI institutional system development is created and its application discussed.

**Keywords:** China, Russia, home government, outward foreign direct investment, institutional system, institutional entrepreneurs.

## **Introduction**

Outward foreign direct investment (OFDI) from the large emerging economies countries of Brazil, Russia, India, and China (BRIC) has risen markedly in recent years, with China and Russia ranked highest in OFDI outflow and stock (WIR, 2010). Both China and Russia are characterized by an active role of the home government and its institutions in supporting OFDI. While some recent studies have explored this role (e.g., Voss, Buckley and Cross, 2009), surprisingly little is known about the institutional development in these countries. This paper sets to make a contribution in filling this gap through examining the formation and evolution of OFDI institutions in China and Russia. It pays particular attention to the significance for OFDI institutional development concerning the role the home government

vis-à-vis the political and economic specifics in China and Russia. The paper's insights are expressed in the form of propositions, an analytical framework and a model derived from existing perspectives and empirical data. First, a review the scale of OFDI from China and Russia and the relevance of the home government to the phenomenon are presented.

### **Scale of OFDI and relevance of the state**

The rapid growth of OFDI from China and Russia reflects the emergence of a new set of corporate players (Aykut and Ratha, 2004; Goldstein, 2007; Kumar, 2008). Among the BRIC countries, in 2009, Russia topped the ranking with an OFDI stock of US\$248.9 billion followed by China with US\$229.6 billion (WIR, 2010).

Russian OFDI has been dominated by companies owned or supported by the government (Prihodko, Pahomov and Volovok, 2008), and the bulk of China's OFDI is made by the country's large companies administered by Central Government ministries and agencies (Davies, 2010). Russian and Chinese firms are expanding their operations upstream and downstream driven by their financial strength, eagerness to acquire raw materials and technology, and the home governments' strategically informed support for domestic players to engage in foreign mergers and acquisitions. Both China and Russia are currently investing in resources in emerging and developed economies in a global battle for resource acquisition and control. Although estimated 77 percent of China's OFDI stock in 2009 was located in the tertiary sector (Davies, 2010), this observation obscures the significance of investment in overseas extractive and manufacturing industries because much of the OFDI has been channelled towards holding companies that invest into diversified business activities in third countries (OECD, 2008; van Wyck, 2009). By comparison, by the end of 2008, almost 60 percent of Russia's OFDI stock was in the primary sector aiming at resource control beyond the boundaries of Russia and just 17 percent of Russian OFDI was in the tertiary sector (Panibratov and Kalotay, 2009). The pace of increase and the magnitude of Chinese and Russian OFDI is staggering. In 2009, it was respectively 17 and 108 times greater than in 1993. By comparison since 1993, OFDI stock of the enlarged EU and the USA has increased only 8 and 4 fold respectively.

Boddewyn and Brewer (1994) express the view that states and governments with different political economies, combined with governmental control and business compliance and/or avoidance of those, impact critically firm internationalization. While China and Russia have moved substantially beyond and away from their previous socialist institutional arrangements, presently the state remains heavily involved in the functioning of their

economies. The high degree of government control of the Chinese economy shows that since inception the Chinese government has played a decisive role in defining the OFDI engagement of firms (Luo, Xue and Han, 2010). During the 1990s the Russian government was not involved in the OFDI process, but since 2000 the state control became stringent and exercised direct control and regulation of the economy (Karavaev, 2002; Prihodko, Pahomov and Volovok, 2008).

Emerging economies are generally characterized by direct and indirect government involvement in business using ownership rights, regulation and control mechanisms within a evolving market system (Peng, 2000). Government OFDI policies reflect a country's stage of development, its comparative advantages, geopolitical position, industrial structure and overall development objectives (WIR, 2006). Institutional arrangements in many emerging economies have come to play important roles in determining OFDI by domestic firms (Peng, 2002; Wright, Filatotchev, Hoskisson and Peng, 2005). As suggested by Aggarwal and Agmon (1990) as well as by Buckley, Clegg, Cross, Liu, Voss and Zheng (2007), while firms have to face strict administrative processes and procedures laid down by their governments for OFDI approval, home institutions support emerging economy firms to compensate for ownership and locational disadvantages when investing overseas (Child and Rodrigues, 2005).

Consequently, the existence of an OFDI institutional system is of principal importance for foreign direct investment through two broadly defined institutional interventions. One is controlling and constraining, with powers to stop or discourage OFDI. The other encourages OFDI through means such as subsidizing OFDI by targeted firms, sectors and industries or negotiating government contracts and favourable conditions for OFDI in host countries. Accordingly, the OFDI strategy of emerging economy firms is embedded in their home country institutional setting and regulated, enforced and controlled by the home government (Scott, 2002).

Given the continuing role of the state in China and Russia, it is appropriate to examine the challenge that the political and economic changes involved in the transformation from socialism have presented to these countries' governments in creating institutional systems for OFDI. Thus, the effects of changes in the polity and economy of the national environment on the formation and evolution of an OFDI institutional system need careful exploration (DiMaggio, 1991; Scott and Christensen, 1995). In the paper, we associate OFDI institution building with the home government and institutional entrepreneurship on the part of individuals and organizations that introduce, establish and develop new institutional rules and

norms redefining OFDI behaviour (DiMaggio, 1988; North, 1990). We focus on the role of regularity and continuity as institutional attributes that reduce uncertainties in the firm's environment (Williamson, 1975).

### **Theoretical Background**

The term organizational field, hereafter is used interchangeably with the term institutional field (Lawrence, Hardy and Philips, 2002), comprises institutions that are shaped on the basis of matters shared by its constituents (Hoffman, 1999). Critical events in the national and global political and economic environment impinge on existing institutional fields, stimulating 'the validity of a long-standing tradition or established activity' (Oliver, 1992: 567). Modifications in institutional fields are driven by institutional entrepreneurs (DiMaggio, 1988) who are individual and organizational strategic actors that build and develop institutions (Hoffman, 1999; Streeck and Thelen, 2005), often having to displace existing institutional provisions (Beckert, 1999; Levy and Scully, 2008). Others are then required to comply with the laws and regulations installed within the field. The former have been called 'field makers' and the latter 'field takers' (Child, Lu and Tsai, 2007).

#### *Change in the creation and expansion of institutional systems*

Institutional theorists differ in their understanding of institutions *per se* (North, 1990; Jepperson, 1991; Thelen and Steinmo, 1992; Bates, Greif, Levy, Rosenthal and Weingast, 1998; Campbell, 2004; Greif, 2004). All the same they all emphasize regularity and continuity as *raison d'être* of the existence of institutions. Regularity indicates the proper control, governance and direction of social entities that are subject to direction or guidelines conforming to certain principles, rules, norms and regulations. Continuity is understood as the state of being uninterrupted in sequence, succession, essence or idea. It can incorporate change excluding such of dramatic, fundamental character that would put an end to a political or economic system. Thus, continuity differs from stability, which expresses the ability to remain in the same place or position despite disturbing influences. Consequently, continuity can denote a condition of the polity and economy whose essence is evolving deprived of noteworthy interruption enabling polity and economy to be conducive to institutional development.

Change concerning institutional development has been deliberated commonly in developed economy contexts. Taking a developed economy context, Greenwood, Studdaby and Hinings (2002) have identified six stages of institutional formation impacted by changes

in the environment, which undermined conventional practices or by the entry of new actors who disturb the socially constructed consensus (Thornton, 1995). Examining the Chinese context, Child, Lu and Tsai (2007) in the formation of the institutional field of environmental protection characterized four stages of institutional development. The joining ground between different stage models is the existence of critical events activated by change in the wider environment undermining the status-quo and encouraging the arrival of institutional entrepreneurs who initiate new institutional formations. This in turn leads to the creation of new laws and regulations that are gradually translated into practices and norms of behaviour, which are subsequently diffused within organizational communities.

*Changes in institutional pillars in OFDI institutional development resulting from changes in the political and economic environment*

The main task of home government is to construct the key elements of the institutional system, comprising regulative, normative and cultural-cognitive pillars (Scott, 1995). A regulative pillar is made by policies, laws and regulations that outline the rules to be followed by organizations. A normative pillar generates a code for organizational behaviour based on procedures, standards, conventions, training and education programmes. A cultural-cognitive pillar exemplifies elements that express 'the frameworks through which, meaning is made' (Scott, 1995:40). Thus, the home government and the institutional entrepreneurs may build a three pillar institutional system that can vary across countries as it involves and affects various interest groups and communities. Therefore, the development of the OFDI institutional field is expected to differ between countries because (1) the three pillars are not necessarily built at the same time; and (2) the time order of their development may vary among countries.

*Importance of institutional entrepreneurs and the changing of institutional systems during their development*

Institutional entrepreneurs comprise a diversity of actors promoting and facilitating the development of an institutional system. They are also referred to as field makers, rule makers, strategic actors, powerful agents and institutional designers (Hoffman, 1999; Scott, 1995; Streeck and Thelen, 2005). Institutional entrepreneurs are united by a common issue, but Hoffman (1999) suggests that their purpose may differ.

Institutional theory has regarded the government as a key rule-maker. This is the home government is the guarantor for the framework of regulation and continuity on which the economy is built (Lewis, 1955). Institutional political economists claim that the government acts as a rule-maker who sets the essentials and limitations determining the behaviour of organizations (Boddewyn and Brewer, 1994). Organizations in turn can inform the home government decision-making and play the role of political actors participating in the creation of institutions (Streeck, 1992). The range of institutional entrepreneurs and the role of the government in the development of an institutional field are expected to be influenced by the detailed institutional arrangements in place and on the strength of the home government as a rule-maker. Child, Lu and Tsai (2007) propose that in emerging economies, institutional change is government-driven. Similarly, home governments can define the regulations for OFDI and motivate OFDI activities via targeted financial support for specific projects.

### *Institutional entrepreneurs in the creation and development of the OFDI institutions in Russia and China*

By means of a variety of official sources and publications listed in the Appendix, 856 and 574 institutional activities regarding OFDI have been acknowledged in China and Russia respectively. They consist of official elaborations of laws, rules and policies, official decisions, educational programmes, research and publication activities, and public announcements. As described in Marinova, Child and Marinov, 2012) three stage stages in the OFDI institutional development have been identified in China (pre-institutionalization, regulatory endorsement and theorising and diffusion) and two in Russia (pre-institutionalization and regulatory endorsement). A brief description of the stages in the two countries is presented below.

#### ***Institutional stages in China***

##### *Pre-Institutionalization Stage (1984 – 1991)*

The initiation of the OFDI institutional field in China was in the early 1980s as a state-led top-down process with strict regulations and stern limitations directly imposed by the government. The State Council managed the commencement and application of a new economic policy directed towards encouragement of OFDI. Government initiated policies were shaped and applied through strict regulation and highly centralised supervision with

continually growing participation of existing institutions, namely the State Council, the State Administration of Foreign Exchange (SAFE) and the National Planning Commission (NPC). The government imposed strong administrative guidance with low risk investments and limited strategic analysis (Cai, 1999). The main field takers were large state-owned firms, at that time the sole OFDI sources.

#### *Regulatory Endorsement (1992-2000)*

After Deng Xiaoping's 'journey to the South', China experienced focused incremental change that safeguarded regularity and continuity through alteration of the bureaucracy to the application of more copious economic rules. This change stimulated the development of the regulative, normative and cultural-cognitive pillars of OFDI institutions, with a key stress on the regulative pillar. The constructing of OFDI institutions was state-led. New institutions were designed under government leadership to support the OFDI of firms with an increasing range of ownership structures. The political continuity extended the scope of the OFDI activities. At the dawn of the twenty-first century, the Chinese government's role had progressed into a strategic one, providing reassurance and assistance to key firms to globalize (Voss, Buckley and Cross, 2009).

#### *Theorization and Diffusion (2001 - Present)*

The Chinese government concluded the alteration of its participation in OFDI events from providing directions to exercising a more arms-length directing and monitoring function. Thus, in 2000, it formally stated the 'Going abroad' policy founding a clear indication of the types of OFDI it would to assist. Further on in 2004 the Outward Guidance Catalogue registered the ranked industries and host countries with favoured access to finance, tax allowances and supplementary financial inducements. The government's criteria for OFDI necessitate that OFDI must be responsible for benefits for the firm and the country via (1) encouraging China's exports, (2) enhancing the firm's technological competences, and (3) empowering firms to initiate and institute brands to gain foreign recognition (Buckley, Cross, Tan, Voss and Liu, 2008).

In 2009, power with reference to OFDI activities was dispersed to local provincial branches of the Ministry of Commerce (MOC) and a new governing agenda was familiarized that considerably reduced the authorisation time for OFDI projects.

The main institutions involved concerning OFDI regulation in this stage are MOC and SDRC. The number of field takers has increased and they now includes the best performing companies with all types of ownership structure and various sizes.

### ***Institutional stages in Russia***

#### *Pre-Institutionalization (1987 – 2003)*

Constant economic decline during the 1980s, together with exogenous political pressures, damaged significantly the political and economic *status quo* in Russia. This process over time dented the regulative institutional pillar and the entire institutional system became unstable and later dysfunctional. The subsequent change process fundamentally damaged the three institutional pillars and totally stripped existing institutions of their tasks. Consequently, disorder and disarray in the political and economic environment emanated to cause discontinuity. These events gave birth to almighty oligarchs who performed outside the institutional system. The overall disarray led to the economic downfall of 1998, which caused major political and economic discontinuity.

Through the Soviet era the institutional field of OFDI in Russia served the needs of overseas investments made solely and exclusively by the state, and in the 1960s and 1970s there were significant OFDI outflows. The transformation processes led to the appearance of businesses with the participation of private capital. This situation necessitated the re-building of the OFDI institutions, which process started in 1989. Nevertheless, after 1991, the anarchy in the polity and economy held up the functioning and further development of the OFDI institutional field despite the recognized need for OFDI institutional development (Karavaev, 2002).

After the mid-1980s, certain Soviet firms and individuals started generating cooperative funds on an illegal basis with the purpose of investing outside the country. As a response to this process the Soviet Council of Ministers in 1989 issued a decree for the regulation of investment activities by Soviet firms overseas. In 1991, the Law for the Regulation of Russian OFDI was approved but not implemented because of institutional dysfunctions. In the 1990s capital flight from Russia reigned because of the impotency of the institutional system. The official attitude of the Russian government to this criminal OFDI was negative, considering it harmful for the Russian economy. However, no measures were taken to stop it. In 1999, new laws on OFDI were approved in an effort to curb unlawful flight of money from the country.



### *Regulatory Endorsement (2003 - Present)*

Since year 2000 the government has gradually restored its regulative role, the resulting political and economic continuity ensured OFDI institutional building based on learning via constant modification. In 2003, meetings of Russian government officials took place led by then president Putin in which support for firms investing overseas was discussed and measures put in place. In 2004, the key OFDI policy concerns of the Russian government were identified comprising consolidation the world geopolitical and economic position of the country; gaining control over global resources; and improving the technological base of Russian industry. In 2005, the government programme for massive political support of big Russian firms in designated huge scale OFDI schemes was approved. In 2007, the Ministry of Economic Development organized a national event on OFDI and initiated the creation of a government led institutional structure to support OFDI from Russia. In 2008, then president Medvedev proclaimed an initiative for fast expansion of Russian firms out of the country and the State Duma (Russian Parliament) ratified a law clarifying the strategic directions of Russian OFDI with the key involvement of government institutions, namely the Russian Central Bank, the Union of Industrialists and Entrepreneurs, the National Centre for Government-Private Business Relationships. The Ministry of Economic Development has put together all laws and measures for the advancement of the OFDI regulative system informed and helped by eighty inter-governmental commissions that defined the priorities and for OFDI collaboration. With a decisive government intervention in 2009, 2010 and 2012 many conferences on OFDI were held in Russia.

### **Discussion**

Close observation of OFDI institution building in China and Russia shows how this process has been heavily influenced by the governments of the respective countries and therefore by the continuity or otherwise of the political system. While certain institutional independence from the political arena has developed over time in mature political democracies such as the USA and UK, this has not characterized institutional building in China and Russia.

The on-going control of the state in OFDI ruling in both China and Russia cannot be attributed to their socialist inheritance, as the similar degree of state regulation is not found in other post-socialist economies, e.g. the Czech Republic, Hungary, Poland and Slovenia. Somewhat, it can be attributed to be a heritage of historical and cultural nature reflecting the fact that supreme power in both states has always been central and personalized, with the legacy of the Emperors and Tsars being inherited by totalitarian leaders in the

Communist era. In times when the state withdrew from its supervisory and regulative function disarray resulted since there remained no substitute institutional system to fill the gap, observe the Yeltsin period (1991-1999) in Russia and the early stage (1966-1970) of the Cultural Revolution in China.

The key institutional builder in China has continuously been the Communist Party, which secured political continuity, whereas in Russia the Communist Party was banned in 1992, which disrupted institutional functioning and caused major political discontinuity. Although the two countries have adopted market mechanisms in their functioning and private business ownership, the key role of the state has continued. This is noticeable by the arrangement of (1) central government playing defining role in the functioning of the state despite some decentralization of operational powers together with (2) preservation of ownership of key firms in state hands or under state control.

In China, over time field-makers increased to comprise newly designed government agencies, industrial associations and firms. Recently in both China and Russia, the government has a vision and mobilise resources effectively. Thus the top-down approach to institutional system development has given general direction to institutional building. However, in a state of total uselessness of the government, institutional entrepreneurs will appear from outside the government. They then create their own informal activities for OFDI acting like swashbucklers.

Table 2 affords a framework that sets out all possible combinations of the factors describing political and economic eventualities and the likely consequences of these for OFDI institutional development in different country settings.

**[Table 1 in here]**

Government-defined institutionalism in China of OFDI activities has been characterised by political continuity, whereas in economic terms there were periods of continuity as well as discontinuity. OFDI institutional formation in China evolved over time from configuration 2b to 1b in Table 2 to subsequently reach configuration 1a. The process of OFDI institutionalization in Russia has charted a very complicated path.

China and Russia are not the sole cases of the chief role of the government in institutional creation. Certain emerging economies such as Vietnam, Kazakhstan, the United Arab Emirates, Saudi Arabia, Iran, Belarus, Venezuela, Bolivia and Zimbabwe amid others also exhibit state-dominated institutionalism (Goodstein and Velamuri 2009). At the same

time other emerging economies such as Brazil, India and South Africa, demonstrate a limited role of the government in institutional development. Whereas in the first setting of economies the process of institutional building is predominantly or exclusively top-down, institutional building in the latter group can be expected to be bottom-up.

Based on Table 1 a model has been developed (see Figure 1) that sheds light on the role of the government in OFDI from emerging economies.

### **Insert Figure 1 Here!**

Considering the two main factors of the development of the OFDI institutional system, political continuity and stability as well as economic continuity and development various starting points can be observed. The government of an emerging economy can tend to be totalitarian or democratic. If the government is totalitarian with a national strategy for economic development there will be a top-down development of OFDI institutional system. This situation can be associated with the first steps in the development of OFDI institutional system in China. Further on its development has been supported by a sustained economic growth coupled with development of private businesses together with state owned firms. Thus, state and private business interests become integrated and the role of business entrepreneurs increase which somewhat decreases the role of the government in the development and functioning of the OFDI institutional system. The case of Russia since the first presidency of Putin brings evidence about the involvement of the government in the creation of OFDI institutional system but the role of the government has been less than in the initial stages of the creation of OFDI institutional field in China. On a later stage the economic development in the country gradually involves private businesses in the expansion of the OFDI institutional system in Russia. By comparison the case of India is somewhat different. The government in this country is more democratic but the state is rather detached from the creation of an OFDI institutional system and its initiation and advancement is mostly due to the incentives of private businesses. Rather similar situation is observed in Brazil although some stepping in by the government is being witnessed recently.

### **Conclusion**

This study backs the view that governments play a key role in the process of OFDI institutionalization in emerging economies.

Following Boddewyn and Brewer (1994), we have advanced an appreciation of contextual significance of political and economic continuity/discontinuity in OFDI institutional development.

It has been clearly presented that institutional change is government-driven in certain emerging economies. Thus the study calls consideration to the query whether China and Russia are unusual cases among emerging economies in view of their top-down government-led OFDI institutional system formation and the nature of institutional entrepreneurs involved in the process. Examination of other emerging economies where OFDI plays a decisive role in the internationalization of their businesses would therefore be of interest. As institutional structures differ amongst emerging economies, it can be anticipated that their government policies and institutional specifics impact OFDI activities a variety of ways. Investigations of such nature would improve the comprehension of OFDI institutional arrangement from emerging economies founded on a profounder understanding of the role of their governments and institutions.

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## **Appendix: Main Documentary Sources Used**

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- [www.interfaks.ru](http://www.interfaks.ru).

China:

- China Daily, [www.chinadaily.com.cn](http://www.chinadaily.com.cn);
- Investment Service Platform China, [www.fdi.com.cn](http://www.fdi.com.cn);
- Ministry of Commerce, the People's Republic of China, [www.mofcom.gov.cn](http://www.mofcom.gov.cn);
- National Development and Reform Commission of China, [www.ndrc.gov.cn](http://www.ndrc.gov.cn);
- [www.china.org.cn](http://www.china.org.cn);
- State Administration of Foreign Exchange, [www.safe.gov.cn](http://www.safe.gov.cn);
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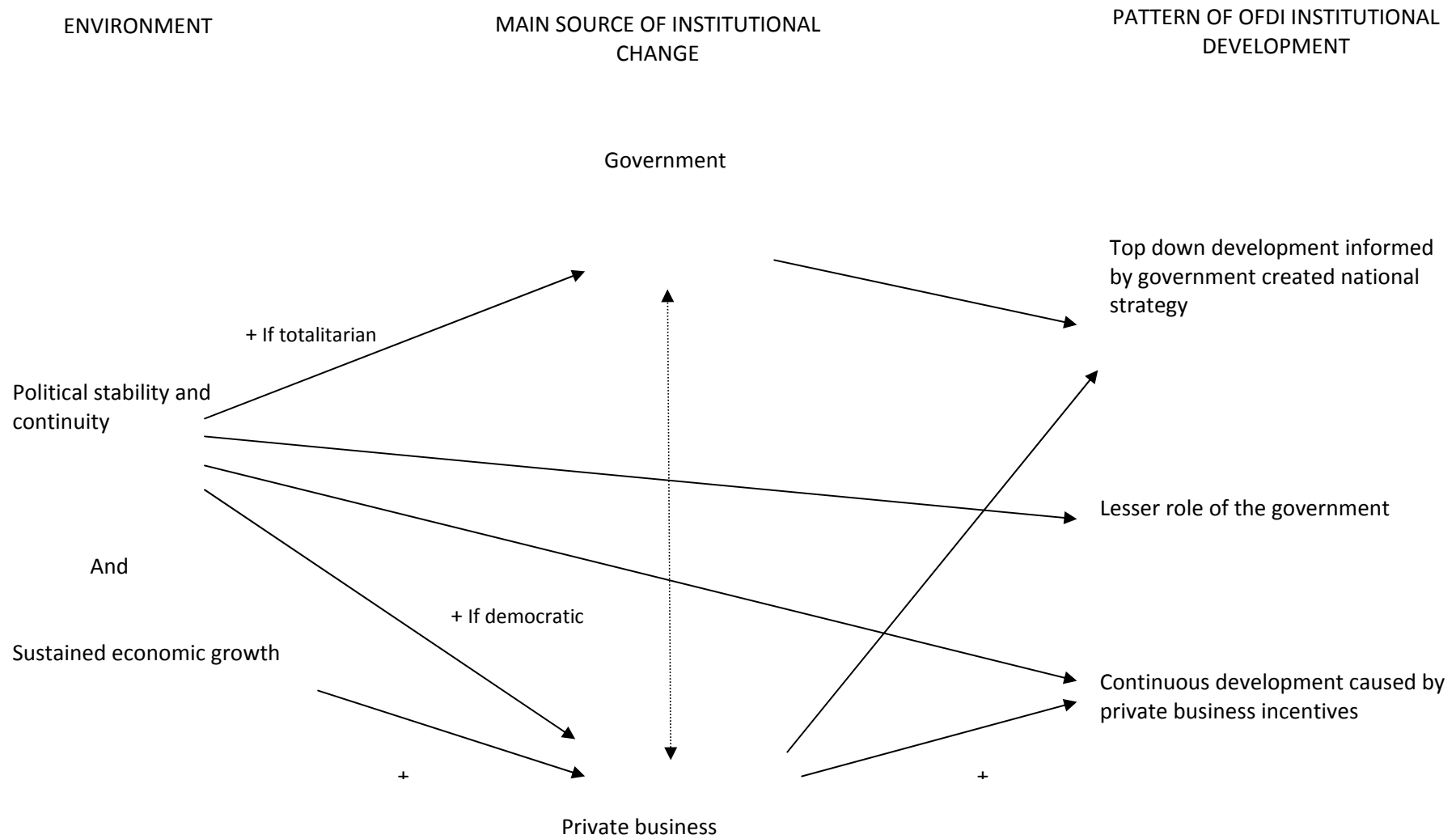




**Table 1. A Scheme of Political and Economic Continuity/Discontinuity, Institutional Entrepreneurship and OFDI Institutional Development**

Configuration	Wider environment		Institutional entrepreneurship		Consequences for OFDI institutional development
	Political continuity/discontinuity	Economic continuity/discontinuity	Government Entrepreneurship	Business Entrepreneurship	Regularity and continuity in OFDI-related institutions
1a	Continuity	Continuity	Yes	Yes	<ul style="list-style-type: none"> <li>Strategically informed support of institutional development; Regularity and continuity in OFDI institutional development; Top down and bottom up institutional development.</li> </ul>
1b	Continuity	Continuity	Yes	No	<ul style="list-style-type: none"> <li>Strategically informed support of institutional development; Regularity and continuity in OFDI institutional development; Top down institutional development but no bottom up initiative.</li> </ul>
1c	Continuity	Continuity	No	Yes	<ul style="list-style-type: none"> <li>No strategically informed support of institutional development; Incentive for bottom up OFDI institutional development; If the government is not supportive of OFDI, there could be a tendency towards illegal capital flight.</li> </ul>
1d	Continuity	Continuity	No	No	<ul style="list-style-type: none"> <li>No strategically informed support of institutional development; No incentive for bottom up OFDI institutional development; Regularity in the existing OFDI institutional system may exist, but no continuous OFDI institutional development (inward looking economy).</li> </ul>
2a	Continuity	Discontinuity	Yes	Yes	<ul style="list-style-type: none"> <li>Strategically informed support of OFDI institutional development to increase the internationalization of domestic businesses to boost the economy; Regularity and continuity in OFDI institutional development; Top down and bottom up institutional development.</li> </ul>
2b	Continuity	Discontinuity	Yes	No	<ul style="list-style-type: none"> <li>Strategically informed support of OFDI institutional development to assist economic growth; Possible institutional regularity but problematic continuity.</li> </ul>
2c	Continuity	Discontinuity	No	Yes	<ul style="list-style-type: none"> <li>No strategically informed support of institutional development; Possible flight of capital due to the economic instability and the lack of government initiative for OFDI institutional development; Undermined regularity and discontinuity in the institutional system.</li> </ul>
2d	Continuity	Discontinuity	No	No	<ul style="list-style-type: none"> <li>Usually dictatorship with economic stagnation, no OFDI institutional development</li> </ul>
3a	Discontinuity	Continuity	Yes	Yes	<ul style="list-style-type: none"> <li>Improbable configuration as economic continuity is highly unlikely without political continuity; Political discontinuity may trigger government changes, but any institutional government entrepreneurship will be short lived thus reducing regularity and continuity in the OFDI institutional system; The economic stability cannot be long lived either; Possible flight of capital.</li> </ul>
3b	Discontinuity	Continuity	Yes	No	<ul style="list-style-type: none"> <li>As above, but flight of capital unlikely due to lack of individual/group entrepreneurship.</li> </ul>
3c	Discontinuity	Continuity	No	Yes	<ul style="list-style-type: none"> <li>Improbable configuration as economic continuity is highly unlikely without political continuity; Political discontinuity may trigger government changes which coupled with lack of government entrepreneurship will make any OFDI institutional development driven by individuals and groups rather unstable and ineffective; No regularity and continuity in the OFDI institutional system; The economic stability cannot be long-lived either; Possible flight of capital.</li> </ul>
3d	Discontinuity	Continuity	No	No	<ul style="list-style-type: none"> <li>Economic continuity will not be sustained; No OFDI institutional development.</li> </ul>
4a	Discontinuity	Discontinuity	Yes	Yes	<ul style="list-style-type: none"> <li>Highly volatile political and economic environment where the government and individual/group entrepreneurial initiatives cannot be sustained; Institutional development will be hampered.</li> </ul>
4b	Discontinuity	Discontinuity	Yes	No	<ul style="list-style-type: none"> <li>Highly volatile political and economic environment where short-lived government initiatives cannot lead to regularity and continuity in the development of the OFDI institutional system.</li> </ul>
4c	Discontinuity	Discontinuity	No	Yes	<ul style="list-style-type: none"> <li>Flight of capital in a discontinued political and economic environment; No regularity and continuity in the institutional system for OFDI.</li> </ul>
4d	Discontinuity	Discontinuity	No	No	<ul style="list-style-type: none"> <li>Completely dysfunctional state.</li> </ul>

Figure 1 Model for the role of the home government



- The vertical line expresses relational channels between host government and private business interests