
Asset-Seeking Investment by Chinese Multinationals: Firm Ownership, Location, and Entry Mode

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Abstract: Chinese outward foreign direct investment (FDI), although still emergent, is rapidly growing, widely dispersed amongst host locations, and increasingly driven by asset-seeking motives. However, characteristics of Chinese Multinational Enterprises (MNEs) differ considerably – not only from counterparts in the West, but also within China’s institutional environment. Drawing on a survey of Chinese MNEs, the paper investigates differences in asset-exploratory behaviour by location and ownership. The results reveal Chinese MNEs are motivated to invest in specific locations for asset exploration: strategic assets in North America, relational assets in Asia, and natural assets in Latin American and Australasia. State-owned enterprises are more likely to possess experiential advantages and to invest for strategic asset-seeking motives, whereas non-state-owned enterprises invest to seek relational assets. Chinese MNEs with advantages relating to technology and experience are more likely to employ full-control modes of entry than those with advantages relating to *guanxi*. Implications for policy and practice are discussed.

Keywords: outward foreign direct investment; China; location; strategic asset-seeking; relational assets; state-owned enterprises; entry modes.

Reference to this paper should be made as follows: Liu, J. and Scott-Kennel, J. (2011) ‘Asset-seeking investment by Chinese multinationals: firm ownership, location, and entry mode’, *Asia Pacific and Globalization Review*, Vol. 1, No. 1, pp.16–36.

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Acknowledgements: The authors would like to acknowledge the encouragement and advice of Prof. Elizabeth Rose and (the late) Prof. John H. Dunning in the early stages of this research, and to thank Mr. Li Chengwen (the former first secretary of the Commercial Consulate Office of China Embassy in New Zealand), former colleague Lu Peinan, and Chinese agent Tianjin Fenghua Advertising Co. for their support in the data collection stage.

1 Introduction

China is the world's "workshop," already surpassing Germany as the world's largest exporter in 2009 (BBC NEWS, 2010). Rapid growth of the Chinese workshop has been fuelled not only by the demand for products from China (where export of high-technology products is rapidly replacing mass-produced goods) but also by the demand for natural resources, skills, and technology from the rest of the world. Such demand is increasingly being met through outward foreign direct investment (FDI) by Chinese multinational enterprises (MNEs), who seek proximity not just to customers in key markets but to a diverse range of assets, from oil to managerial experience and computer technology.

Although China is better known as a recipient of inward FDI, recent high-profile acquisitions of strategic assets abroad¹ have brought outward FDI into the spotlight. Despite recent research highlighting the need to examine the Chinese internationalisation experience as a "special case," and in particular the asset-exploring rather than asset-exploiting motive for investment (Child & Rodrigues, 2005; Rui & Yip, 2008), location and ownership perspectives of outward FDI have received relatively little attention, especially at the firm level of analysis (but see complementary research by Zhan, 1995; Wu & Chen, 2001; Yang, 2003; Deng, 2003; Liu, Buck, & Shu, 2005; Erdener & Shapiro, 2005; Buckley et al., 2007; Lu, Liu, & Wang, 2011).

Thus, this paper explores the institutional reasons behind the emergence and rise of outward FDI from China, focussing on the motivation and location of asset-seeking investment and the differences between firm-specific advantages and strategies employed by state-owned versus non-state-owned enterprises. An

¹ In the years 2002-2004, Chinese cross-border mergers and acquisitions exceeded US\$1 billion annually. Acquisitions of note included the personal computers division of IBM (United States) by Lenovo and PlusPetrol Norte (Peru) by CNPC.

important contribution is to operationalise the relational asset-seeking motivation for investment in the Chinese context. Drawing on a survey of Chinese MNEs, our findings suggest that Chinese outward FDI is both market and asset-seeking in nature and directed to locations that offer strategic, relational, or natural assets which can complement asset deficiencies of Chinese MNEs. Ownership (state or non-state) is associated with existing firm-specific advantages, as well as with those assets sought abroad. The nature of assets sought abroad is also associated with mode of entry.

The paper is structured as follows. First, it briefly reviews the evolution and location of Chinese outward FDI. Second, it highlights key aspects of the institutional environment in China that have influenced outward FDI and the development of different types of Chinese MNEs. Third, it offers a number of hypotheses with regard to the relationships between the location of outward FDI, ownership, motivation for investment, and entry mode. Fourth, it presents the results. Finally, it provides a discussion of the results, conclusions, and implications for policy and practice.

2 Key institutional influences on China's outward FDI

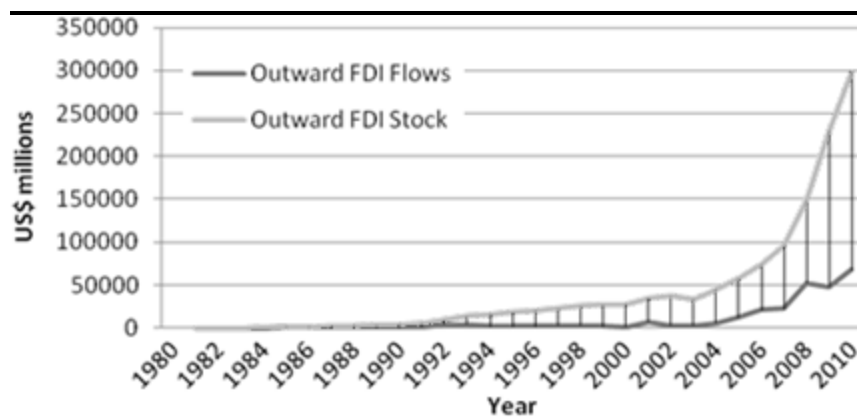
As well as the strategies of Chinese MNEs, the nature of China's institutional environment has played an important role in shaping the flows and location of China's outward FDI. This paper considers the influence of three aspects in particular: regulatory reform; *guanxi* and business networks; and the pervasive role of the Chinese government in business.

2.1 Regulatory reform

Fuelled by transition from planned to market economy and by dramatic industrial growth, Chinese outward FDI has emerged rapidly since the 1990s, as revealed in Figure 1 (UNCTAD, 2011). Its emergence is characterised by four periods of regulatory reform, as shown in Table 1 (Cai, 1999; Wu & Chen, 2001; Yang, 2003; Zhang, 2005). The first period (1979–1983) was marked by the emergence of outward-looking and export-oriented (OL-EO) economic policy. The second period (1984–1991) witnessed changes to government legislation (including promotion) which motivated state-owned enterprises (SOEs) to undertake overseas investment (Wong & Chan, 2003). By 1990, the stock of outward FDI had risen to US\$4.5 billion (UNCTADstat, 2011).

The third period (1992–1998) is perhaps the most important from our perspective, as it saw the rapid emergence of outward FDI by non-SOEs. Prior to the 1990s, the right to undertake outward overseas investment was only conferred to a handful of state-owned trading companies and state-funded economic and technical cooperation companies (Cai, 1999; Tan, 2001). Many provincial or municipal trading companies and local manufacturing enterprises began to undertake outward FDI once these restrictions were relaxed. However, due to the poor performance of these enterprises, the Chinese government launched a series of strict approval and monitoring processes in order to disqualify loss-making mainland investors (Wong & Chan, 2003; Wu & Chen, 2001; Zhan, 1995).

The third period is also important, as it saw the increasing dispersion of outward FDI in terms of location (Table 2). Although the reasons for these changes are not widely explored, one possible explanation is that the Chinese government encouraged business enterprises to adopt a market diversification strategy and to choose destination markets other than North America or Europe for exports and FDI, in order to reduce dependence on, and pressure in, bilateral

Figure 1 China's outward FDI flows and stocks, 1981-2010.

Source: www.unctadstat.unctad.org

Table 1 China's outward FDI development in four stages

Stage 1 (1979-1983): Emergence

Case-by-case approval. Investment authorization was only given to state-owned trading companies. No regulations regarding outward FDI. Recorded 76 investment projects with US\$50 million investment value. Average annual FDI outflow was approximately US\$10 million.

Stage 2 (1984-1991): Early growth

Liberalization of restrictive policies; non-state firms were allowed to invest offshore. Recorded 932 investment projects with US\$1,345 million investment value. Average annual FDI outflow was approximately US\$168.13 million.

Stage 3 (1992-1998): Uneven development

Stricter and rigorous monitoring process was applied to regulate outward investment. Recorded 988 investment projects with US\$1,217 million investment value. Average annual FDI outflow was approximately US\$173.86 million.

Stage 4 (1999-present): Rapid expansion

Full implementation of "Going Global" strategy. Accumulated FDI outflow reached US\$44.8 billion at the end of 2004². FDI outflows rose to US\$68 billion in 2010, up from US\$27.8 in 2000. On an approved basis, in 2004, 829 projects were recorded with an investment value of US\$3,711.81 million.

Sources: Wong and Chan, 2003: 279-281; Wu and Chen, 2001: 1237-1240; Zhang, 2005: 6-7; UNCTAD, 2010.

² Data from MOFCOM are not consistent after 2003 due to the implementation of a new outward FDI record system, which began to monitor reinvested revenue and inter-firm loans. For details, see "Regulations on the Approval Procedures for Overseas Investment, Sept. 2004," www.mofcom.gov.cn and www.fdi.gov.cn. At the same time, MOFCOM provided data on an approved basis in 2004; see "Communiqué of China's Outward Foreign Direct Investment 2004," Sept. 2005, available at www.mofcom.gov.cn.

trade negotiations with such regions (DRC, 2003). Since then, China's outward FDI has been more widely dispersed but shows high geographical concentration in certain localities (Wong & Chan, 2003; Yang, 2003), including emerging economies in Asia (in particular Hong Kong and increasingly South Korea, Singapore, and Malaysia) and large industrialized economies, such as the United States, Canada, and Australia (Dong & Ma, 2004; Taylor, 2002).

Table 2 Top 10 destination economies for China's outward FDI^a

Rank	1979-1991		1979-2001	
		Investment value (percent)		Investment value (percent)
1	Canada	360 (25.8)	USA	559 (12.9)
2	Australia	313 (22.4)	Hong Kong	473 (10.9)
3	USA	295 (21.0)	Canada	392 (9.1)
4	Hong Kong	99 (7.1)	Australia	351 (8.1)
5	Russia	49 (3.5)	Peru	200 (4.6)
6	Thailand	38 (2.7)	Thailand	194 (4.5)
7	Chile	21 (1.5)	Mexico	143 (3.3)
8	Macau	16 (1.1)	Zambia	134 (3.1)
9	Brazil	11 (0.8)	Russia	130 (3.0)
10	Malaysia	10 (0.7)	South Africa	111 (2.6)
	<i>Total outward FDI from China</i>	1,396 (100) ^b		4,323 (100) ^b

a. Data is on an approved basis.

b. Approximate due to rounding effects

Source: MOFTEC, The Almanac of China's Foreign Trade and Economic Cooperation, 1993/94-2002.

The current (fourth) period (1999–present) of reform is characterized by encouragement of outward FDI by government, which is reflected in the “going out” policy (Dong & Ma, 2004; Zhang, 2005). This period suggests a dramatic trend towards greater international expansion by Chinese MNEs, with outward FDI stocks reaching US\$ 297.6 billion in 2010, up from just US\$ 27.8 billion in 2000 (UNCTAD, 2011). SOEs still account for the majority of outward FDI, but non-SOEs play an increasingly important role in advancing China's degree of internationalisation (MOFCOM, 2005; Nolan & Yeung, 2001; Lu et al., 2011).

2.2 *Guanxi and business networks*

Asian societies are characterised by the prevalence and importance of informal norms based on mutual trust, where personal connections and ethnic linkages are deeply embedded (Boisot & Child, 1996; Hamilton, 1996; Shenkar, 1994; Yeung, 1997). Such relationships can prove to be more stable and reliable than fledgling institutions and regulations. This is particularly evident in China. Gradual economic transition in the absence of political reform, coupled with ambiguous legislation on proprietary rights, has increased institutional uncertainty (Nee, 1992; Tan & Tan, 2003). The growth of firms has been influenced by various institutional and regulatory constraints, which ultimately induce firms to extend their connections to various official bureaucracies in an attempt to secure requisite resources (Child & Pleister, 2003; Park & Luo, 2001; Peng & Heath, 1996).

Guanxi, the system of social networks and influential relationships in Chinese society, plays an important role in developing business relationships and supporting the growth of organizational operations in Asia, partially thanks to the widespread overseas Chinese community throughout the region (Chan, Cheng, & Szeto, 2002). As a result, business connections are inevitably intertwined with personal relationships and foster the growth of network- or hybrid-type business firms (Yeung, 1997). While such an environment may inhibit market entry by firms from industrialised nations that rely on well-established and legally supported institutions, it may serve as an advantage for market entry by Chinese enterprises into other Asian nations, due to their similar institutional, social, and cultural backgrounds. In such an environment, personal connections and special relationships are typically used as the substitutes for formal institutional arrangements, or they are employed intensively to compensate for resource deficiencies (Xin & Pearce, 1996).

2.3 *Government involvement in business*

Widespread involvement and pervasiveness of the state sector in international activity distinguishes China from other emerging economies in Asia (Wang, 2002). During reform, the Chinese government continued, to a large extent, to exert effective control over resource allocation and reward mechanisms. China's economic reform has maintained the leading position of the state sector in international trade and investment, while simultaneously allowing various new forms of business entities to grow and develop through international market participation (Li, Vertinsky, & Zhou, 2004: 1145).

As suggested above, reform efforts were based on direct government policy intervention and guidance, to support the growth of China's exports and the introduction of advanced technology and management skills (Wang, 2002). The central government also led the construction of a "national team" of 120 state-owned industry groups to engage deeply in international markets. The government provided preferential arrangements for these enterprises, in the form of financial support, profit retention, and managerial autonomy (Wong & Chan, 2003; Wu, 2005). The emergence of different types of Chinese MNEs as a result of this government involvement is explored later in this paper.

3 **Characteristics of Chinese MNEs**

The following discussion centres on how the characteristics of Chinese MNEs, namely their (lack of) firm-specific advantages, type of ownership (private or government), influence their international investment behaviour. Specifically, we consider the motivation for outward FDI including strategic, natural and relational asset exploration, the location of investment abroad and the mode of entry.

3.1 *Firm-specific advantages and motivation for outward FDI*

As with other latecomer firms, Chinese MNEs appear to have relatively poorly developed firm-specific advantages (Rugman & Li, 2007). Many Chinese MNEs not only face the "liability of foreignness" but the "liability of newness" as well (Li, 2003). Once outside familiar home territory, where competitive positions may have been secured by government support, *guanxi*, or local knowledge, many Chinese MNEs retain only the cost advantages that are secured by their home base (Nolan, 2002). Even these are further dissipated as more activities

are undertaken abroad. In comparison to technological leadership, cost advantages are an insignificant contributor to a firm's competitiveness in international markets. Sustainable competitiveness, therefore, would appear to rest on the ability of Chinese firms to acquire new advantages and augment existing ones.

This may well explain why, in addition to investing for seek market-seeking reasons, Chinese MNEs are investing in diverse locations to seek, rather than exploit, assets (Rui & Yip, 2008; Deng 2003; Yang 2003; Cui & Jiang, 2009). If a firm is poorly endowed with experience, knowledge, and capability, it is more likely to seek location-specific assets, such as technology, skills, and management experience, abroad (Li, 2003; Fosfuri & Motta, 1999). The Chinese government has actively encouraged indigenous enterprises to explore international markets in order to secure a supply of natural resources, consolidate export markets, and learn from advanced technology and management skills (Wang, 2002; Wu, 2005; Zhan, 1995; Zhang, 2005). Therefore, the rapid growth of Chinese outward FDI in general could be interpreted as exploration (rather than exploitation) of complementary assets that are vital to building firm-specific advantages and sustaining competitiveness (Deng, 2009). Exploration includes investments motivated by the direct acquisition of assets, as well as the gradual adoption, assimilation, and augmentation of real and potential advantages. Therefore, our first hypothesis is as follows:

Hypothesis 1: Chinese MNEs undertaking outward FDI are motivated not only by market-seeking reasons but also by asset exploration.

3.2 Asset exploration and location of investment

The need to acquire, accumulate and augment firm-specific advantages makes location choice crucial for Chinese firms. A number of studies offer support for this assertion, finding that enterprises from China attempt to access offshore resources to sustain their competitiveness (Deng, 2003; 2009; Wong & Chan, 2003; Wu, 2005; Wu & Chen, 2001; Yang, 2003; Cui & Jiang, 2009). Asset-seeking investment may also explain why, in contrast to what classic FDI theory might suggest, Chinese MNEs undertake a large proportion of all overseas investment in geographically distant countries, where risks, cultural differences, and costs are considerably greater. The concentration of Chinese investment in diverse locations, coupled with ownership disadvantages, suggests a need to explore the issue of location of Chinese outward FDI in more depth. If Chinese MNEs are more likely to explore rather than exploit advantages, location attractiveness is more likely to be determined by its asset endowments. Yet, although existing research finds MNEs from emerging economies more likely to be motivated to undertake outward FDI in response to host country "pull" factors (Chen & Chen, 1998a; Makino, Lau, & Yeh, 2002; UNCTAD, 1998; Buckley et al., 2007), the research offers little explanation, at the level of the firm, about where Chinese MNEs invest to seek different types of assets (Wei, 2010).

In terms of different motivations for asset-seeking investment, however, there are a number of well-established explanations that can be applied to Chinese outward FDI. Assets of a strategic nature can help cement the firm's competitive position—both at home or abroad (Chen & Chen, 1998a, 1998b; Dunning, 1995; Dunning & Narula, 2004). *Strategic* assets include technology, market opportunities, skills, human capital, management expertise, reputation, and brand names (Barney, 1991; Amit & Shoemaker, 1993; Wesson, 1999). MNEs may acquire such advantages outright or locate in close proximity to location-

specific or location-bound resources in order to augment existing ownership advantages (Wesson, 1999). Recent studies on FDI from Asian newly industrialising economies (NIEs) have turned their attention towards the value-creating functions of MNEs, through effective exploration and organisation of location-bound assets (Makino et al, 2002; Tallman & Shenkar, 1994).

Other firms rely on organising a combination of their own advantages and those of collaborative or supply chain partners (Yeung, 1997). *Relational* assets can be defined as advantages derived from social capital (i.e., personal and business relationships) and offer a conduit to markets and the development of strategic assets (Dunning, 2002). Social capital with friends, family, and ethnic groups may serve to reinforce business connections (Dunning & Narula, 2004; Hamilton, 1996; Johanson & Mattson, 1988; Nohria & Garcia-Pont, 1991; Peng, 2001; Yeung, 1997). The Chinese tradition of focussing on relationship building provides an inherent social and cultural catalyst for Chinese firms to explore international markets through network relationships. This is particularly true in South-East Asian economies with large overseas Chinese communities. Historical, social, and cultural ties with China are expected to encourage trade and investment in these economies (Chen & Chen, 1998b; Erdener & Shapiro, 2005). Indeed, Buckley et al. (2007) find Chinese outward FDI positively related to the proportion of ethnic Chinese in the population of host economies. Socio-cultural networks also offer an attractive channel for acquisition and augmentation of complementary firm- and location-specific assets (Contractor & Lorange, 2002; McEvily & Marcus, 2005; Srivastava, Shervani, & Fahey, 1998; Zaheer & Bell, 2005). Thus, we propose that locations offering network relationships are another key factor determining the geographical concentration of China's outward FDI.

Finally, outward FDI for the purposes of seeking *natural* assets should not be overlooked. Although China's workshop is fuelled, primarily, by low-cost labour at home, it also requires raw materials from abroad, including oil, gas, metals, timber, and so forth. Continued and reliable supply of such material is central to the survival of the firm. By way of support for this assertion, Cross et al. (2007) and Cheung & Qian (2009) both find outward FDI from China positively related to natural resources in host economies.

Yet, although we know that Chinese outward FDI is widely dispersed and motivated by asset-seeking reasons, the current literature offers little in the way of confirmation that Chinese MNEs are actively seeking these three different types of assets in different locations. If we consider the countries and or regions where Chinese outward FDI is most prevalent, we notice that Southeast Asia has been replacing developed countries (such as North America) as the major FDI location choice for Chinese MNEs since the mid 1990s (MOFTEC, 1993/4-2002). At the same time, countries with abundant natural resources are attracting a high proportion of FDI from China (see Wang, 2002; Wong & Chan, 2003; Wu, 2005). Previous studies show that FDI motivations and location choice are interrelated and associated with the host countries' economic development level (e.g., Makino et. al, 2002). Furthermore, countries at similar development levels may also vary significantly in types of assets attractive to FDI investors (Chen & Chen, 1998b).

As macro-level research shows mixed results in the relationship between Chinese outward FDI and host country characteristics (Buckley et al. 2007; also, see the review by Wei, 2010, for similar studies), it would appear that a firm-level approach might be useful to better understand how locations differ according to the assets most likely to attract Chinese MNEs. We propose that economies attractive to Chinese MNEs (for reasons other than markets) include: 1) those with sophisticated consumer markets that are known for technological developments and innovation (and thus more likely to base competitiveness on

strategic assets); 2) those with natural assets; and 3) those that have socio-cultural ties with China. Some countries, such as Canada and Australia, could potentially be included in Categories 1 and 3, and Hong Kong, arguably, could be represented in all three³. However, for the purposes of simplicity, we hypothesize that Chinese MNEs will be attracted to specific regions based on their predominant traits:

Hypothesis 1a: Chinese MNEs undertaking outward FDI in North America are motivated by strategic assets.

Hypothesis 1b: Chinese MNEs undertaking outward FDI in Latin America and or Australasia are motivated by natural assets.

Hypothesis 1c: Chinese MNEs undertaking outward FDI in Asia are motivated by relational assets.

3.3 Firm-specific advantages and ownership

As a result of the institutional context in which they evolved, China's MNEs are characterized by diverse ownership structures, including those typically associated with a market economy (private enterprise, limited-liability, and joint-stock companies) as well as those more closely associated with a centrally planned economy (including the state-owned and collective-owned enterprise). Although the dominant position of the latter in the national economy has been eroded over time by increasing market competition, they are still an important force internationally (Wong & Chan, 2003; Wu, 2005). Market-oriented ownership forms have developed their own idiosyncrasies since emerging in the mid-1990s, in conjunction with the transformation of institutional arrangements and the government's regulatory regime.

Differences in resource allocation, domestic protection, and incentives offered to promote internationalisation by the Chinese government are substantial and significantly influence the competitive position of SOEs relative to non-SOEs (Park & Luo, 2001; Nee, 1992). SOEs have not only benefited from entrenched oligopolistic positions in domestic markets but occupy relatively advantageous positions internationally as well (Li, Lam, & Moy, 2005; MOFCOM, 2004, 2005; Wang, Xu, & Zhu, 2004). Regulatory arrangements and approval procedures in the 1980s allowed SOEs to enjoy early-mover advantages in international business operations (Cai, 1999; Wang, 2002; Zhan, 1995). Although liberalization of China's FDI regulatory regime allowed investment by non-SOEs in recent years, investment capital and operational capability requirements associated with the approval procedure favour larger and or state-owned enterprises (Wong & Chan, 2003; Zhang, 2005). State-owned enterprises are further supported by the preferential treatment of the Chinese government with regard to the allocation of resources (e.g., finance). Due to the pervasiveness of the centrally planned economic system, which has afforded government protection and privileged authority to those undertaking outward FDI, SOEs have accumulated considerable physical resources and international experience. They account for the largest share of China's human stock and R&D activities (Lo, 1999; Perotti, Sun, & Zou, 1999; Ralston et al., 2006).

In contrast, non-SOEs are often subject to fierce competition in domestic markets, encouraging them to be more flexible and efficient in their operations. However, they are often smaller in size, less experienced, and constrained by the

³ This approach builds on similar arguments made by Deng (2003).

limited availability of finance, which exacerbates their need for technological advancement (Tan, 2001; Nolan, 2002; Wong & Chan, 2003; Dong & Ma, 2004). Technology and experience appear to support further international expansion efforts. Lu et al. (2010) find R&D intensity positively related to strategic asset-seeking investment, and export experience as well as home-country competition linked to market-seeking outward FDI.

Because authorisation to conduct any international business activities was conferred only to the state sector prior to the 1990s, the international business operations of non-SOEs are relatively new (Zhang, 2005). As a consequence, they tend to lack knowledge specific to international business operations and international markets. Although they tend to enjoy more autonomy with regard to business operations and management efficiency, their relative weakness, derived from such discriminative regulatory arrangements in the early stages of outward FDI, has affected their ability to conduct intensive international market activities (Li et al., 2004; Perotti et al., 1999). Such disadvantages cannot be fully eliminated in a short period of time, because the accumulation and development of firm-specific advantages, such as technological competencies and management expertise, is expensive, time-consuming, and risky (Child & Pleister, 2003; Perotti et al, 1999; Wang & Yao, 2002). As a result, non-SOEs are likely to possess fewer firm-specific advantages relative to SOEs:

Hypothesis 2: Chinese SOEs possess more firm-specific advantages than non-SOEs.

3.4 Asset exploration and ownership

As per our earlier hypotheses, we might expect both SOEs and non-SOEs to seek assets abroad to compensate for their own relative deficiencies. Strategic assets, such as technology skills and management know-how, are important for competitiveness for both types of Chinese MNEs, but the exploration and accumulation process is generally time-consuming, expensive, and risky. Effective management of strategic assets by investing companies also requires sufficient knowledge and expertise. We might also expect, therefore, that due to the differences in existing firm-specific advantages, SOEs and non-SOEs might adopt very different means to acquire, absorb, and assimilate such advantages. Specifically, the government support and larger-sized as well as better-developed capabilities of the SOEs are more likely to enable them to pursue strategic assets aggressively through direct acquisition and development (Nee, 1992).

In contrast, non-SOEs are more likely to be able to seek such advantages abroad *indirectly*, by developing relational assets first. Constrained by “hard” finance and the development of firm-specific advantages from weaker positions, non-SOEs invest intensively in relationship development for the survival and growth of the firm (Park & Luo, 2001; Wang & Yao, 2002; Xin & Pearce, 1996). Relational assets can provide rapid entry into international markets at lower cost and risk, thus facilitating smaller, less experienced, or poorly resourced firms to overcome the liabilities of newness and foreignness (Chen & Chen, 1998a, 1998b; Erdener & Shapiro, 2005). The following two hypotheses explore these relationships further:

Hypothesis 2a: Chinese SOEs undertaking outward FDI are more likely to be seeking strategic assets.

Hypothesis 2b: Chinese non-SOEs undertaking outward FDI are more likely to be seeking relational assets.

3.5 *Firm-specific advantages and mode of entry*

It is also more likely, for the reasons outlined above, that differences in firm-specific advantages will enable Chinese MNEs to undertake FDI via more risky and resource-intensive entry modes, such as wholly-owned subsidiaries and acquisitions, which would afford them full control and returns over their investment (Cui & Jiang, 2009). More specifically, firm-specific advantages in experience and technology, relative to competitors at home, are likely to support full-control modes of entry (Anderson & Gatignon, 1986); firm-specific advantages related to *guanxi* intensity suggest that the firm might adopt a similar approach abroad, but through a partial mode of entry, such as an alliance or joint venture. Hence, our final hypotheses are as follows:

Hypothesis 3a: When undertaking outward FDI, Chinese MNEs that have firm-specific technological or experiential advantages are more likely to choose a full-control mode of entry.

Hypothesis 3b: When undertaking outward FDI, Chinese MNEs that have firm-specific advantages related to guanxi intensity are more likely to choose a partial-control mode of entry.

4 Method

The following discussion outlines the methodology used for this research study. Specifically, we provide details on the method of data collection, measurement of the variables used in the analysis, and a profile of the survey respondents.

4.1 *Data collection*

A common difficulty associated with the investigation of China's outward FDI lies in the unavailability of comprehensive official statistics and records, particularly at the firm level (Wei, 2010; Rui & Yip, 2008). In order to address this limitation, primary data was gathered through an anonymous mail survey. The questionnaire asked Chinese MNEs about their choice of FDI location, motivation by region, firm-specific competencies, firm characteristics, and general background information.

Drawing on the available literature, the survey questionnaire was developed initially in English. It was then translated into Chinese (Mandarin) by one of the authors (a native Chinese speaker) and by two native Chinese speakers based in China who were collaborating on the project. The three translations were compared, combined, with the best fit between the interpretation and terminology of English and Chinese versions sought through discussion and review. The final version was checked and tested by a third native Chinese colleague. Finally, to ensure linguistic validation, the questionnaire was translated back into English and subsequent inconsistencies were addressed.

The data collection period lasted eight weeks and took place during December 2006 and January 2007. As no comprehensive list of Chinese MNEs undertaking outward direct investment was available at the time of the study, enterprises active in international business were selected from several publicly available sources. These included all 564 enterprises from the lists of outward investing firms from China, available at the China Ministry of Commerce (MOFCOM, 2004, 2005) and the Foreign Economic and Trade Committees of municipal and provincial governments. In order to increase the sample size to

the target of 2,000 firms, the largest and most internationally oriented (including both private- and government-owned) firms were then selected from the following lists: 214 enterprises from the *2004 Top 500 Import and Export Enterprises from China* list (also available from MOFCOM); 223 from the *China 2004: The Most Competitive 500 SMEs* list (China News Agency Evaluation Centre, 2004); 403 from the *Largest 500 Private enterprises of China (2004)* list (All-China Federation of Industry and Commerce, 2004); 157 from the *China Excellence Database* (China Enterprise Confederation, 2004); and 381 from the *China National Credit System – China International Business Database (IBD)*. Duplicates, provincial branch units, subsidiaries, and firms with no postal address were not included in our selection, making a total of 1,942 Chinese enterprises.

The survey was addressed directly to the General Manager, although Vice Managers or Department Managers were also deemed suitable respondents. The survey was sent by post, and respondents were contacted by telephone two weeks later as a reminder. A follow-up email was sent to non-respondents a further two weeks later. At the conclusion of the study, all responses were sent by our collaborative colleagues in China to the researchers by express mail service.

4.2 Measurement

The variables used in this study relate to location choice, ownership, entry-mode motivation for FDI, and firm-specific advantages. FDI location includes North America (the U.S. and or Canada); Latin America and Australasia (Latin America, Australia and or New Zealand); and Asia. Ownership is divided into state and non-state-owned enterprises⁴. Mode of entry distinguishes high-control, high-risk entry modes, such as wholly owned subsidiaries, from low-control, low-risk collaborative modes of entry, such as joint ventures (Makino et al., 2002; Pan & Tse, 2000). These three variables were coded as dummies, as follows: *1* when the respondent has existing investment in the region, and *0* otherwise; *1* for Chinese SOEs and *0* for non-SOEs in China; and *1* for a wholly owned subsidiary, and *0* otherwise.

Motivations for FDI included *market-seeking* as well as *strategic*, *natural*, and *relational asset-seeking*. For each region, respondents were asked to rate to what extent each item was the main reason for their FDI, using a 7-point Likert scale ranging from 1 (not at all) to 7 (completely). Market-seeking items included *local market opportunities*, *local market growth rate*, *supportive local government policies*, *high quality local infrastructure*, *stagnant market growth in China*, and *intensive market competition in China*. Strategic asset-seeking included *local technology*, *management skills*, and *human capital*. Relational asset-seeking included *local network connections* and *ethnic linkages*. Natural asset-seeking was measured by using the composite score on three items: *local natural resources*, *local labour supply*, and *decline of resource supply in China*.

⁴ SOE refers to the registration classification of a Chinese enterprise at the China Industrial and Commercial Administration Bureau. In order to eliminate the influence of ownership transformation since the mid-1990s, this classification excludes those enterprises that are partly owned by the Chinese government but at the same time are able to sell their shares to the public. Collective-owned enterprises also belong to the state sector, but previous studies find they are largely autonomous and thus tend to recognize them as similar to non-SOEs (e.g., Nee, 1992; Park & Luo, 2001). Therefore, in line with these studies, they are grouped into the non-SOE category in this study.

Firm-specific advantage was measured by firm *technological capability*, *experience*, and *guanxi*. Three items measured technological capability: namely, the extent to which the MNEs depended on *research and development*, *manufacturing know-how*, and *human resources*, relative to competitors in China (measured by a 7-point Likert scale, as above). Experience was also measured by three items: *marketing know-how*, *business experience*, and *market experience*. *Guanxi* questions, measured by the same Likert scale, asked to what extent the relationships with the following in China helped the MNE to achieve a competitive advantage: *buyers*, *suppliers*, *competitors*, *government*, *industrial authorities*, and *other government authorities* (i.e., taxation bureaus or banks).

The measures above draw on those used in previous research (Park & Luo, 2001). Although results from self-reported data should be interpreted with some caution (Makino et al., 2002), they are used due to the unavailability of firm-level information in China (Davies & Walters, 2004). High correlations have been observed between subjective assessments and objective measures of firms' strength in previous empirical studies (e.g., Makino et al., 2002), and subjective measures are particularly desirable for measuring firms' capabilities (Chen & Chen, 1998b; Luo & Peng, 1999; Park & Luo, 2001; Rajan & Pangarkar, 2000).

4.3 Respondent profile

A total of 58 responses generated a 3 percent response rate to the survey, which, although somewhat disappointing, is not unlike response rates of similar surveys conducted in China. In terms of domestic location, respondent firms were based in Beijing (15 firms), Tianjin (12), Shanghai (5), other coastal regions (17), and inland regions (9). By ownership, 14 enterprises were registered as SOEs. The remaining 44 enterprises were registered as collectively owned (5), limited-liability (30), share-holding co-operatives (6), partially foreign-owned (2), and privately owned by Chinese investors (1). These 44 enterprises were classified as non-SOEs. Half the respondents (29) had foreign direct investment abroad in one or more of the three regions of interest (see Table 3). Of these, 19 were classified as non-SOEs and 10 as SOEs.

Table 3 Location of outward FDI by Chinese MNEs (n=58)

	<i>North America</i>	<i>Latin America/Australasia</i>	<i>Asia</i>	<i>No OFDI in these regions</i>
SOE	7	4	6	4
Non-SOE	5	4	12	25
Total*	12	8	18	29

*Note: Some enterprises invest in more than one region.

5 Results

The following sections outline the analyses conducted and the results for each of the hypotheses listed earlier by MNE characteristics.

5.1 Firm-specific advantages and motivations for outward FDI

A paired-samples t-test of group means confirmed that asset exploration is an important motivator for outward FDI by Chinese MNEs, although market-seeking investment was the most important for the Chinese MNEs in our sample (see Table 4). Further pairing of the data by individual asset-seeking motives reveals that market-seeking, followed by strategic and relational asset-seeking

motives for investment, are significantly more important for Chinese MNEs than natural asset-seeking motives. Our results also reveal that market-seeking is not significantly more important than either strategic or relational asset-seeking investment (note that these non-significant results are not shown due to space constraints). This result lends support to our first hypothesis, but more importantly, it provides justification to investigate further the asset exploration of Chinese MNEs.

Table 4 Motives for outward FDI by Chinese MNEs (n=26)

<i>Motives</i>	<i>Mean</i>		<i>t</i>
Markets – Assets	4.21	3.48	1.96 ^α
Natural assets – Markets	2.85	4.21	-2.60*
Natural assets – Strategic assets	2.85	3.86	-1.99 ^α
Natural assets – Relational assets	2.85	3.74	-2.17*

Note: Due to space limitations, only significantly different pairs are shown.
Significant at the $\alpha = 10\%$ level, * = 5% level, ** = 1% level

5.2 Asset-seeking FDI by location

Independent t-tests comparing the mean scores for Chinese MNEs investing in each region versus those not investing in that region, by type of asset, strongly suggest that they invest in different locations to seek different types of assets. Chinese MNEs investing in North America, although not significantly more likely to do so for strategic resource-seeking reasons, were significantly *less* likely to do so for both natural and relational resource-seeking reasons, thus lending some indirect support to Hypothesis 1a. However, Chinese MNEs that invest in South America and Australasia were significantly more likely to do so for natural assets, and those investing in Asia were significantly more likely to do so in order to tap into relational assets, thus providing support for Hypotheses 1b and 1c (see Table 5).

Table 5 Asset exploration motives by location (n=26)

<i>Assets</i>	<i>FDI locations</i>		
	<i>North America</i>	<i>South America & Australasia</i>	<i>Asia</i>
Natural	-2.29*	3.05**	-0.70
Strategic	0.43	-1.77 ^α	0.16
Relational	-2.57*	-1.23	3.43**

Significant at the $\alpha = 10\%$ level, * = 5% level, ** = 1% level

5.3 Firm-specific advantages by ownership

Independent sample t-tests also reveal that Chinese SOEs are significantly more experienced than non-SOEs, but have neither significantly higher technological capability nor *guanxi* intensity (see Table 6). These results suggest that SOEs have firm-specific advantages in China related to marketing know-how as well as business and market experience, consequently lending some support for Hypothesis 2, but are not gaining significantly more advantages than non-SOEs with regard to technology or relationships formed with other firms in China.

Table 6 Firm-specific advantages by ownership

<i>Firm-specific advantages</i>	<i>Mean</i>		<i>t(df)</i>
	<i>SOE (n=8)</i>	<i>Non-SOE (n=18)</i>	
Technological capability	4.38	3.87	0.894 (24)
Experience	6.19	5.06	2.347*(24)
<i>Guanxi</i> intensity	4.33	4.74	-1.099 (24)

Significant at the $\alpha = 10\%$ level, * = 5% level, ** = 1% level

5.4 Asset exploration by ownership

A paired-sample t-test for each asset exploration motivation, by form of ownership, reveals that Chinese SOEs are significantly more likely to be motivated to undertake FDI to seek strategic over relational assets, thus providing support for Hypothesis 2a (See Table 7). Non-SOEs were significantly more likely to undertake FDI to seek relational over natural assets, lending support for Hypothesis 2b. The analysis found no differences between natural and strategic asset-seeking motives for investment between SOEs and non-SOEs.

Table 7 Asset exploration motives by ownership

<i>Motives</i>	<i>SOE (n=9)</i>			<i>Non-SOE (n=19)</i>		
	<i>Mean</i>	<i>T</i>	<i>Mean</i>	<i>t</i>		
Strategic – Relational	3.83	3.08	2.54*	3.89	3.90	-0.27
Natural – Relational	3.03	3.08	-0.61	2.81	3.90	-2.35*
Natural – Strategic	3.03	3.83	-0.78	2.81	3.89	-1.86

Significant at the $\alpha = 10\%$ level, * = 5% level, ** = 1% level

5.5 Firm-specific advantages by mode of entry

Finally, we are interested in the relationship of Chinese MNEs' ownership advantages to whether a full- or partial-control mode of entry is adopted in foreign markets. Independent sample t-tests for entry mode by each firm-specific advantage suggest that Chinese MNEs with technological or experience (strategic) advantages are more likely to adopt a full-control mode of entry, providing support for Hypothesis 3a (see Table 8). In contrast, Chinese MNEs with stronger relational advantages are more likely to adopt a partial-control mode of entry, lending support to Hypothesis 3b. These results lend support to the idea that firm-specific advantages do influence the degree of control over foreign operations.

Table 8 Firm-specific advantages by entry mode

<i>Firm-specific advantages</i>	<i>Mean</i>		<i>t(df)</i>
	<i>Full (n=14)</i>	<i>Partial (n=12)</i>	
Technological capability	4.64	3.31	2.94(24)**
Experience	5.52	4.69	2.24(24)*
<i>Guanxi</i> intensity	4.22	5.07	-2.76(24)*

Significant at the $\alpha = 10\%$ level, * = 5% level, ** = 1% level

6 Discussion and conclusions

The institutionalized, mature, and liberalized market system characteristic of Western economies remains far removed from China's dynamic and often

turbulent business environment, which is still shaped by *guanxi* and government influence, and dominated by state sector enterprises. We argue that such an environment has, in turn, shaped the FDI activities of Chinese MNEs, who seek not only markets but also assets abroad. Thus, this paper incorporates the unique institutional influences on China's MNEs from a late-comer perspective. It takes the rapid international expansion by Chinese MNEs as a starting point and investigates the complex interactions between asset-exploration motivations, location choice, firm-specific advantages, ownership, and mode of entry.

Our results show that Chinese MNEs are motivated to undertake outward FDI to seek both markets and assets, which is indicative of both asset-exploiting and asset-exploration motives for investment. We also find that different assets are sought in different locations. Relative to other regions, Chinese MNEs are less likely to seek natural and relational assets in North America and more likely to seek natural assets in Latin America and Australasia, and relational assets in Asia. There are also differences by ownership in their motivations for investment. Chinese SOEs are more likely to have invested abroad to seek strategic rather than relational assets. Non-SOEs are more likely to have invested abroad to seek relational rather than natural assets. SOEs also appear to have a competitive edge over non-SOEs, based on their level of international experience. Firm-specific advantages are associated with the different types of entry modes adopted in international markets. Technological and experiential advantages are positively associated with full-control modes, whereas *guanxi* intensity is associated with partial-control modes.

Our findings provide an alternative viewpoint to classical FDI theories, which emphasize the minimisation of transaction costs in cross-border production. Accordingly, FDI is chosen as a substitute for market failure, through the transfer of organizational governance across national boundaries. A major weakness of this perspective is the failure to recognize opportunities for capability building through FDI by focussing on asset-exploiting FDI and rather than asset-exploration (Madhok, 1997). Unlike many previous studies (e.g., Makino et al., 2002), this paper assumes the market-seeking motive and focusses, instead, on asset-seeking by Chinese MNEs.

Increasing emphasis on the role of externally sourced assets, particularly through relationships, has been investigated theoretically (e.g., Dunning, 2002), and to a lesser extent empirically, at the firm level (for a review of Chinese outward FDI including such studies, see Wei, 2010). By integrating the resource-based and network perspectives from the viewpoint of Chinese MNEs, this paper makes a contribution by distinguishing between the importance of relational and strategic asset-seeking motives. It further contributes to our understanding of Chinese FDI by specifically considering location, ownership, and mode of entry. Given the relationship orientation of Asian countries (Hamilton, 1996), the need for strategic asset accumulation in China, the traditional dominance of SOEs in international business, and the fast-growing individual enterprises nurtured through economic transition, such distinctions can be considered particularly helpful for investigating the rapid growth of Chinese outward FDI in future studies.

7 Implications for policy and practice

Understanding the importance of ownership-advantage augmentation and value creation associated with FDI provides a number of insights for policy and practice. China now occupies several positions, from a host country's policy perspective. First, it is likely to remain the "workshop" of the world in the immediate future. In this role, it will continue to provide cost advantages to

firms that relocate there, but also will continue to channel resources from other locations. This is an issue of considerable concern to many policy makers, particularly as demand rises in China itself (WorldWatch Institute, 2006). Second, China's rising trade imbalances and export capabilities (e.g., the export of high-technology goods to the United States) may erode the export competitiveness and leadership positions of developed economies. Countering this will be the rise of labour costs in China, job shifts associated with FDI away from China, and possibly the imposition of tariffs or non-tariff barriers on Chinese exports.

Third, international sourcing of assets also implies that relationship building will become more crucial in FDI activities. International business activities and modes will be increasingly relationship-oriented, with Chinese partners increasingly involved in global alliances as their capabilities develop. A major point of difference will be the dispersion of activity, which is likely to be attracted not only to countries rich in strategic assets, in the industrialized regions, but also to countries rich in natural and relationship assets, where Chinese MNEs may occupy a relatively advantageous position, due to government backing, their understanding of how to do business in institutional voids, and ethnic linkages with overseas Chinese communities.

From a firm's perspective, the interplay between firm and host-country advantages is proving to be a very effective means of upgrading advantages at home. MNE activities, including direct acquisition of strategically important assets, such as management expertise and technical know-how or fostering international linkages to enhance competitive positions in regional or global markets, appears to be making a considerable contribution. Extensive employment of personal and ethnic connections, through relationships and partial-control entry modes, appear to be employed by investors with less international market experience, such as non-SOEs. This extends the benefits of FDI, from Chinese SOEs who have the advantage of active government support for their international activities, to Chinese MNEs emerging from the private sector. The confirmation of relationships as an important medium for capability building and international market entry provides a valuable and feasible alternative for outward investors from China. As the institutional environment in China appears to affect the firm-specific advantages and international market-entry behaviour of Chinese firms, a concentrated effort by Chinese government to support the growth of non-SOEs these would ensure a levelling of opportunities abroad.

This study provides several implications that are worthy of further investigation. First, with regard to Chinese MNEs, distinguishing relational asset-seeking motives from other asset-seeking motives is one way to investigate the factors underlying the regional distribution of outward FDI from China. To a certain extent, the finding of relationship-related motives may be applicable to studies of FDI by firms from other emerging economies as well, given that they are also likely to seek and acquire strategically important resources from external sources to enhance their international competitiveness. Second, relational assets constitute one special type of strategic assets, which means that it is difficult to assign a clear-cut boundary between them. Relational assets may be the intermediate, rather than the ultimate, goal of outward FDI. This implies that relational assets are often utilized and deployed in order to gain access to other strategically important physical or intangible resources. More efforts are required to examine whether relational assets are truly distinctive from strategic assets and can be investigated independently. Third, given the low response rate of this study, further data collection is desirable, either through more responses or examining issues in-depth through case analysis.

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