Chinese Emerging Multinational Enterprises Outward Foreign Direct Investment - its Current Research Issues in Asia Pacific

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ABSTRACT
This paper examines foreign direct investment (FDI) in world. It includes the entry strategies, ownership structure, and other characteristics, deals with the Chinese MNEs. China is now the home of large firms which are now classified as the multinational enterprises (MNEs). MNEs is defines as the firm which have foreign sales and productions. China emerged as the largest investor of the world. The Literature of the international business examines the expansion phase of the MNEs. In 2001 Chinese 16 firms were included in the world’s largest companies; by 2004, 16 Chinese firms were in the list of world’s largest companies among 500. This chain did not break now china has become one of the most prominent investor of the world.

INTRODUCTION
Chinese foreign direct investment (FDI) has become most important phenomena of the world these days. Chinese outbound FDI in 2006 was US$ 21 billion (MOFCOM, 2007), and by 2010 it reached to US$ 60 billion (MOFCOM, 2007) which is a tremendous achievement. Chinese investors are continuously exploring the world opportunities for the investment. Chinese MNEs are in continuous search of market, resources, asset and strategies. What force drives this international expansion of the Chinese MNEs? Too what extend the existing theories on MNEs and foreign direct investment (FDI) deals with the MNEs (Dunning and Lundan, 2008; Gammeltoft, Barnard, and Madhok, 2010; Luo and Tung, 2007; Yang et al., 2009)? Is this sufficient or we have to deals more on the theories of the MNEs and FDI (Child and Rodrigues, 2005; Guillen and Garcia-Canal, 2009; Mathews, 2006; Peng, Bhagat, and Chang, 2010; Ramamurti and Singh, 2009)? This research deals with these issues. Strategies and behavior of the Chinese MNEs (Buckley et al., 2007; Morck, Yeung, and Zhao, 2008; Peng, 2011; Peng et al., 2010).

FLOWS OF CHINESE FOREIGN DIRECT INVESTMENT (FDI)
Chinese FDI outflows have shown a strong positive trend over the last years. In the beginning of the 1990s, outflows were US$ 25.00 million. They assumes that it will be US$ 250.00 million at the beginning of the century (MOFCOM, 2006, p. 53). FDI outflows from China increased more than six times 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). US$ 5.17 billion (24.4%) was equity investment of total, US$ 6.65 billion (31.4%) profits gained and US$ 9.34 billion (44.2%) related to other different kind of outward foreign direct investment (MOFCOM, 2006, p.51).
Figure 1 China’s total Outward Flow of Foreign Direct Investment


As compared to FDI of other countries, China’s contribution is still low but it is increasing day by day. According to the World’s report 2006, China is on 13th ranking in the world’s total FDI flows. That was the half of today’s value and it was the fourth largest from the developing countries. (UNCTAD WIR, 2006, p. 114). In 2005 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). Survey had been conducted by China council for the promotion on International Trade (CCPIT) over 1000 Chinese companies. Survey shows Chinese outward direct investment (ODI) in different regions of the world. Chinese ODI has been increased over the last few years. China’s major investment contributions are in Africa, North America, Europe, and in Asian countries and this trend is gradually increasing.

Figure 2 Chinese outward foreign direct investment (OFDI)

Note: based on five-level Likert scale: 1-completely not open; 2-not open; 3-moderately open; 4-open; 5-very open
Source: China Goes Global 2011, Survey of Outward Direct investment Intentions of Chinese

CURRENT RESEARCH SCENARIO OF CHINESE MNES & OUTWARD FDI
i. Foreign Direct Investment (FDI) of Chinese MNEs

Foreign Direct Investment (FDI) of Chinese MNEs is acquiring global attention in the international market since last decade. It is because of the reason that China has emerged as a major global portfolio investor and, more importantly for Chinese enterprises, outward direct investor at a time when capital is scarce globally. China, for example, now invests heavily outside its borders to ensure such things as natural resource security (John Anderson a, Dylan Sutherland, 2015). Chinese demand for mineral resources, energy, food security, technology and markets is growing. Asia Pacific is playing an important role in this process as the largest recipient of China outbound direct investment (ODI) since China’s ‘go out’ policy started in earnest in 2005. In the case of Chinese investment in Asia Pacific, most of the investment is undertaken by Chinese state-owned enterprises. As a consequence, they can leverage the massive resources available to them, and thus able to bypass some of the stages implicit in the internationalization thesis. These advantages are at the same time creating a problem for Chinese investors in Asia Pacific (Loong Wong, 2012). There is another appealing point of Chinese Foreign Direct Investment (FDI) is that due to state owned enterprise (SOEs) MNE have to face less difficulties because banks give them loans and they have to face less risks. China’s plans to diversify its energy consumption structure and reduce reliance on coal for power generation that is why Chinese SOEs tend to invest more in energy sector than any other sector. In this regard, Asia Pacific is attractive market to attract MNEs. SOEs aim to identify and approach the projects which are more likely to generate profits. As Chinese MNEs are less experienced and establishing themselves around the globe from scratch. The major issues that SOEs are suffering with in Asia Pacific, is that they face an unfamiliar regulatory environment with vastly different accounting rules, legal frameworks, environmental regulations and standards of corporate governance.

ii. Decision Making of Choice of Location

The decision making of choice of location is one of the most essential decisions that MNEs need to make in their process of internationalization. This is because of one of the reason that location is costly to alter, and also has a fundamental impact on the efficiency and effectiveness of firms’ overseas investment (Bartik, 1985; Li & Park, 2006; Wei & Liu, 2001). Researchers have addressed this question with various approaches, most of which are generated from the motives and rationale of FDI (Luo, 2002; Vernon, 1966). Most research in the literature of FDI location only focused on FDI from developed economies, less is understood about the determinants that attract FDI from emerging markets, such as China. Traditionally, location choice of MNEs has been tested on the basis of aggregated data. The fixed attributes of the host country are treated as exogenous stimuli to attract FDI inflows (Blonigen, Davies, & Head, 2003; Brainard, 1997; Carr, Markusen, & Maskus, 2001; Dunning, 1981).

iii. Quality of Headquarter-Subsidiary Relationship

The quality of the HQ-Sub relationship as a construct that consists of the assessments of four aspects within the HQ-Sub relationship, including the levels of communication effectiveness, commitment, mutual trust and satisfaction between headquarters and subsidiary, and it is regarded as an instrument of competitive advantage that affects an MNE’s performance (Kostova, 1998). Communication effectiveness directs us to the scenario in which there should be an open, continuous, and interactive communication in a relationship (Menon, Bharadwaj, & Howell, 1996); commitment surfaces the temperament of the firms to make them suffer the temporary sacrifices to sublime the long term benefits from the relationship (Dwyer, Schurr, & Oh, 1987); mutual trust leads to explore the inclination to rely on a partner in whom one has confidence (Nell, Ambos, & Schlegelmilch, 2011); and satisfaction refers to the extent to which both partners in a relationship are satisfied (Smith & Barclay, 1997). This study suggests that the quality of MNEs’ HQ-Sub relationships could be explored on the basis of the responses to both regulative and cultural distances between home and host countries. These are the fundamental factors which leave the impact on the quality
of the HQ-Sub relationship of Chinese MNEs and are contingent upon the internal legitimization process of the subsidiaries within the MNE through the institutionalization of headquarters’ practices. Current research elaborates that the larger regulative and cultural distances may instigate interactively & collaborative approaches that regulates the inter-firm and intra-firm relationship between headquarters and subsidiaries in Chinese MNEs in a positive manner, as opposed to the negative impact on the inter-organizational relationship (Eden & Miller, 2004) due to the conflicting demands within MNEs (Xu & Shenkar, 2002).

iv. Entry Modes

Entry Mode decision-making of Chinese MNEs in Asia Pacific depends upon of multiple factors including market-seeking, resource-seeking, asset-seeking, as well as a newly identified permanent residency or welfare-seeking motivations. Internationalization has been widely considered as the dominant tendency of our time (Mathews, 2006), and entry mode choice as one of the most critical decisions during the international expansion, one of the key strategic decisions during the firms’ development (Brouthers and Brouthers, 2001; Luo, 2001). FDI entry mode choice of a Chinese firm is primarily influenced by the variables related to the firm’s strategic host industry and its strategic intent of conducting FDI. (Li Sui & Fuming Jiang, 2009) used the survey data of a sample of 138 Chinese firms, and they suggest by keeping in view the results that a Chinese firm prefers entry modes of the wholly owned subsidiary when it adopts a global strategy. Being inexperienced and late comer Chinese MNEs in OFDI scenario, it faces severe host industry competition, and emphasizes assets seeking purposes in its FDI. On the other hand to minimize the risk joint venture is preferred when the firm is investing in a high growth host market like Asia Pacific.

FINDINGS & CONCLUSION

China has emerged as world’s strongest economy and has incredible contribution in the OFDI but still China is new in the OFDI. There are many research issues which are playing their part. Institutional theory argues that Chinese firms are under institutional pressure to adhere to the formal and informal rules in their institutional fields, and to become isomorphic (DiMaggio & Powell, 1983; Scott, 1995). The attempts by Chinese MNEs’ to bridge their knowledge gaps may encourage them to overcome the conflicting institutional demands, and thus lead to higher levels of interaction and collaboration between their headquarters and subsidiaries as a means of reducing uncertainty, acquiring resources and solving problems (Hardy & Phillips, 1998). This study can provide the relevant information to policy makers by revealing which home country institutional dimensions are more effective in enhancing MNEs' capacity to reap superior performance from international operations. (Hunter and Schmidt, 1990). Although Chinese MNEs are less experienced enterprises in the Australian market, this research work will contribute in reforms of strategies for the purposes of Outward Foreign Direct Investment and internationalization of Chinese MNEs.

REFERENCES


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