

China's foreign direct investment growth



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Proposal

Introduction

Within the 20th century, Globalisation has drawn worldwide attention due to increased global integration, economic growth, market expansion and intensive competition of multinational companies. Multinational enterprises (MNEs) have always been the primary player in the global markets. A few decades ago, MNEs from developed countries played a dominant role in global economy, as called “ first movers” (Li 2003). In recent years an increasingly important trend of globalisation is the significant growing number of MNEs from developing countries (Li 2003; Amighini, Rabellotti and Sanfilippo 2010). MNEs from emerging countries such as China have accelerated their expansion speed to invest overseas are specified as “ later comers or new comers” (Li 2003; Mathews 2006). Chinese MNEs constitutes the largest share of all emerging country investments and its foreign direct investment (FDI) has experienced an approximately 12-fold increase in 10 years (Alon, Anderson, Munim and Ho 2018). The massive investments and proactive participation in the global market from emerging country MNEs are highly likely to have a tremendous impact on global integration and market restructure. China as the world’s economic powerhouse has been the centre of attention to be studied in relation to its significant growth of outward FDI.

Literature review

Many scholars tried to use the existing MNE theories, which they observed from developed country MNEs to explain and examine the emerging of outward FDIs from developing country MNEs. They have focused on the

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competitive advantages of emerging country MNEs possessed by using different theories, including ownership-location-internalization (OLI) theory (Dunning 1993; Dunning, Kim and Park 2008), linkage, leverage and learning (LLL) model (Mathews 2006) and resource-based view (Erramilli 1991; Mathews 2002).

Competitive advantage is defined as a characteristic, feature or opportunity that an organisation possesses that will make it more attractive than its competitors (Grant, Butler, Hung and Orr 2011). Dunning's Ownership-location-internalization theory claimed that in order to invest overseas successfully, the companies must have some ownership advantages that can compensate the additional cost of setting up and operating a foreign value adding operation (Dunning 1993). For instance, the competitive advantages that developed country MNEs acquired are mostly derived from unique products and processes as well as highly recognised brands. MNEs from developed countries normally invested in developing countries to benefit from low cost labour and other cost advantages which they don't have in their home countries (Holtbrugge and Kreppel 2012). However, Wei (2010) and Alon et al (2018) pointed out that many scholars have challenged OLI theory by highlighting that the latecomer MNEs from emerging countries are lack of such ownership advantages before they invest overseas, instead of exploiting foreign existing market resources and assets, MNEs from emerging countries are aiming to explore new resources, skills and knowledge to gain their needed competitive advantages. Athreye and Kapur (2009) even elicited that Chinese MNEs do not attempt to exploit competitive

advantages, but to address and diminish their competitive disadvantages by learning and operating in global markets.

Another theoretical view is the linkage, leverage and learning (LLL) model. This model demonstrated how new comer MNEs use their FDIs and global connections to leverage their resources, and simultaneously to learn about new sources of competitive advantages and to become international competitors through the LLL paths (Amighini, Rabellotti and Sanfilippo 2010; Alon, Anderson, Munim and Ho 2018; Sun 2009; Fang, Liefner and Tao 2013). Moreover, a firm's competitive advantages heavily rely on its " absorptive capacity" which specified the ability to recognise, assimilate and exploit external knowledge (Cohen and Levinthal 1990). Thanks to the inward FDIs from developed countries, those MNEs generated certain level of knowledge or technology spillovers, which allow Chinese MNEs to learn and implement the new knowledge into their operations (Kotabe and Kothari 2016; Yusuf 2003; Meyer 2004). Niosi and Tschang (2009) pointed out that Chinese MNEs has gradually worked its way up into higher-level production that includes high technology products and software by absorbing and utilizing new knowledge. Furthermore, Chinese MNEs proactively engage in networking activities with local governments, firms and universities to leverage new knowledge from both home and host countries (Peng 2012). For instance, the " ethnic Chinese" business are consistently cooperate and integrate with each other. The new comers can learn, follow and cooperate with the existing ones (Gugler and Boie 2008).

The third theory is the resource-based view which research into the role of a company's resources and competitive capabilities in crafting strategy and in

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determining company profitability (Grant, Butler, Hung and Orr 2011; Guillen 2000). This view emphasises the uniqueness of each company and suggests that the key to success is not through providing or operating the same products as others, but rather than through identifying and utilizing the uniqueness and differences of their own. The MNEs' competitive advantages would be the crucial resource to help organisations formulate their global strategies and organisational goals. But as has been discussed, Chinese MNEs are lack of firm specific advantages (FSAs) compared to MNEs from developed countries, Wei (2010) argued that emerging country MNEs are characterized by weak firm specific advantages and strong country specific advantages. The most salient FSA Chinese firms possess based on home country is the low cost labour which can transformed to low manufacturing cost (Wei 2010; Holtbrugge and Kreppel 2012; Jin 2004). Chinese government also plays a significant role to engage and manipulate MNEs outward FDIs (Gugler and Boie 2008; Levy 2009). The FSA Chinese MNEs acquired based on host countries are varied in terms of investment locations: Chinese MNEs invest into developed countries for strategic assets purposes such as brands and high technologies; but invest into developing countries for natural resources seeking (Amighini, Rabellotti and Sanfilippo 2010).

To date, the existing theories may not adequately explain the emerging MNEs from China as it is based on developed country MNEs' behaviours. A more comprehensive analysis of MNEs from China can push the extension of the existing theories or the creation of new theories to conform. Despite this, the study of Chinese MNEs competitive advantages can provide some

valuable experience and insights for newcomers on how to overcome their disadvantages in similar situations.

The aim of this paper is to:

1. Examine what competitive advantages the Chinese MNEs have in both firm specific and country specific (home and host) perspectives in order to participate in outward FDIs.
2. How do Chinese MNEs utilise and exploit their competitive advantages/disadvantages to compensate, catch up or even transcend with developed country MNEs?
3. How do Chinese MNEs utilize their competitive advantages to transit from imitation to innovation and internalise in terms of LLL theory and RBV theory?

Methodology

Although the historical theoretical framework is commonly used to examine the newcomer of MNEs from developing countries, it indeed provided some valuable wisdoms and knowledge for later study. Unlike the MNEs from developed countries, the Chinese MNEs exhibit some distinctive characteristics in terms of firm specific advantages and country specific advantages. The Eclectic Paradigm's motives for FDI would be used as guidance to examine Chinese OFDIs. A quantitative survey would be conducted for this research in order to gain a complete and comprehensive understanding of Chinese MNEs' expanding strategies. A questionnaire would be produced and distributed to Chinese MNEs to collect relevant and valuable information.

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