LUND UNIVERSITY
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Master programme in Economic Growth, Innovation and Spatial Dynamics

Present and prediction of China's OFDI Compared with neighboring economies

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Abstract: China's economic reform has opened fresh flood into global market and its recent performance in overseas investment attracts world attentions. Through a comparison in motivation, location choice and market entry mode with other Asian economies, as well as theoretical explanations from institutional perspective, this study intends to discover their similarities and differences, thus how unique China being in internationalization process. Based upon the results certain conclusions and implications are drawn, and several determining factoring to its future potentials are analysed and discussed.

Key words: OFDI, MNC, Natural resource, Emerging economies

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Abbreviations

ASEAN	Association of Southeast Asian Nations
IFDI/OFDI	Inward/Outward Foreign Direct Investment
MNC	Multi-National Corporation
MOFCOM	Ministry of Commerce of the People's Republic of China
OECD	Organization for Economic Co-operation and Development
POE	Private Owned Enterprise
SAFE	Administration of Foreign Exchange
SOE	State Owned Enterprise
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations

1. Introduction

1.1 Surge of Chinese OFDI in recently decades, some positive facts

One phenomenon of world's attention at present is China's going global. One could easily spot the news of Chinese firms investing in natural resources or acquiring well-known branded firms among media coverage. Here is some demonstration of China's outward foreign direct investment (OFDI) increase in the recent decades from various sources.

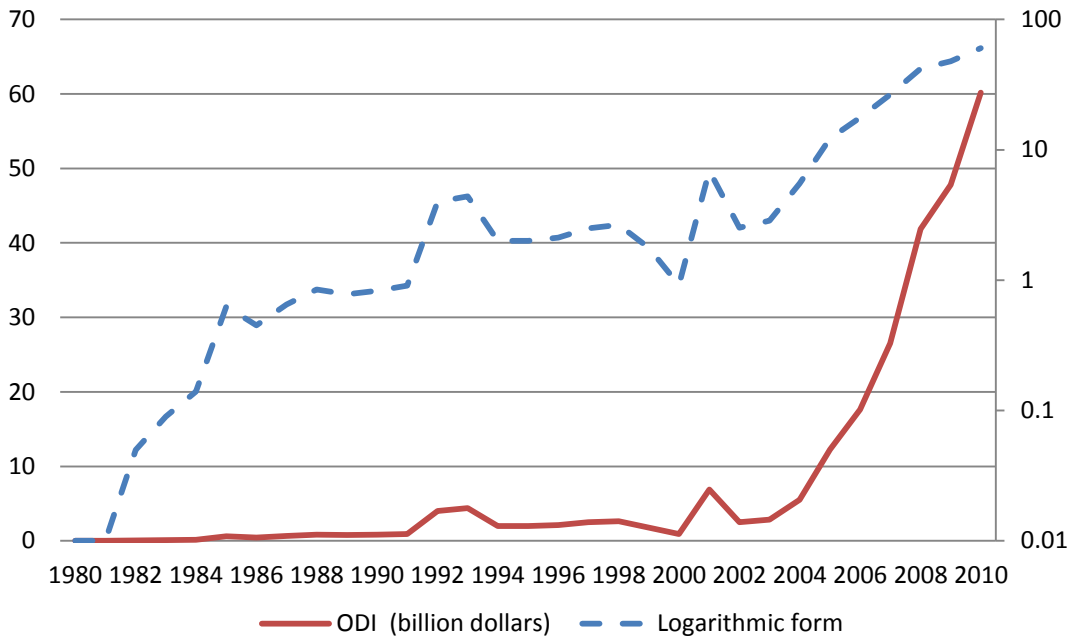
Tab. 1. China's OFDI, 1979 – 2006 (US million $)

Stage 1		Stage 2		Stage 3		Stage 4	
Year	Amount	Year	Amount	Year	Amount	Year	Amount
1979	0.5	1984	134	1993	4,400	1999	1,770
1980	35	1985	629	1994	2,000	2000	920
1981	9	1986	450	1995	2,000	2001	6,890
1982	44	1987	645	1996	2,110	2002	2,518
1983	93	1988	850	1997	2,560	2003	2,855
		1989	780	1998	2,630	2004	5,498
		1990	830			2005	1,2261
		1991	913			2006	17,634
		1992	4,000				

Sources: UNCTAD, UNCTC, MOFCOM & SAFE in Alon et al (2009)

As the table shows above, Alon et al (2009) helps classify the increase process of China's OFDI into four stages, which seems rather closely tied to its economic reform at the same time. The first few years witnessed certain changes, but still at the minimum level. The next dacede from mid 1980s to early 1990s was the true phase in which overseas investment started to rocket in China. Then a worldwide financial crisis came and due to the loss in Asia and Southeast Asian, it experienced a recession a slow recovery. Last it could be spotted from the table that it was the latest decade plus in which China's overseas investment really took off, besides a sudden rise in the beginning of 1990s. To put the data in a curve figure and it would be as below.

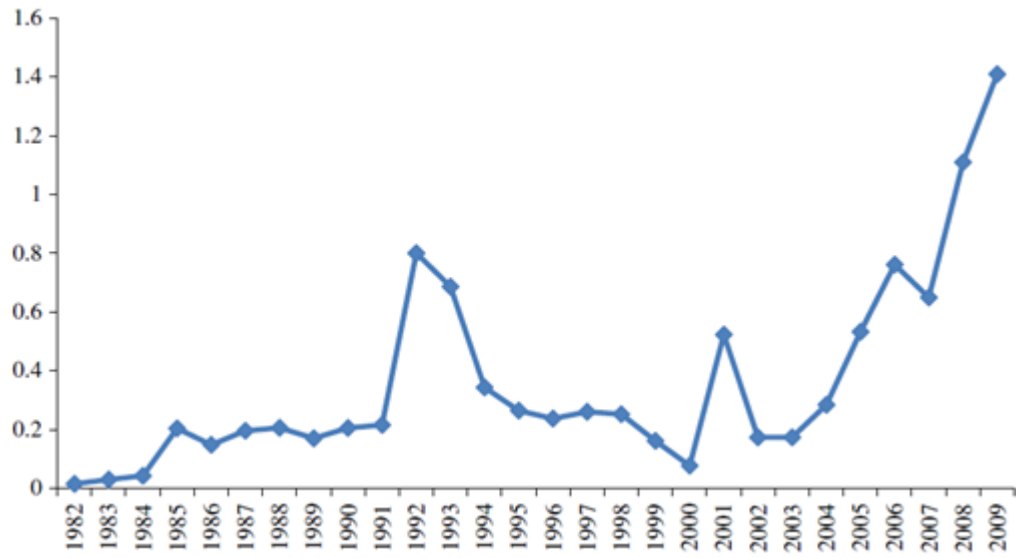
Fig. 1 China's annual OFDI flow, 1980 - 2010 (billion $, current price)



Source: 2010 Statistical bulletin of China's outward foreign direct investment

Probably the figure would be much more staggering if only the last one or two decades is included, due to the small amount almost close to zero in the beginning phase of the history OFDI history. Yet from the logarithmic demonstration, a complete growth path could be identified throughout the whole process. A more intuitive graph would be shown in the next part, when looking into more details for better understanding. Besides absolutely numbers, the rise of China's OFDI could be still noteworthy, removing the effect of total economic scale increase, as the figure shows below.

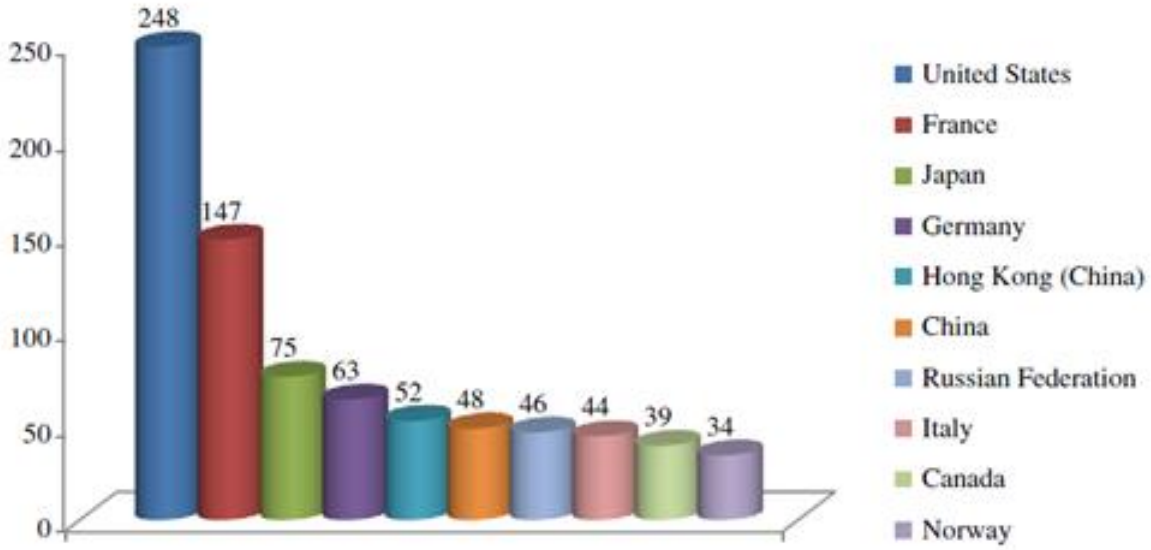
Fig. 2 China's OFDI annual flows as a percentage of GDP, 1982 - 2009



Source: China's statistics year book 2010 in Zhang and Daly (2011)

Because of such dramatic increase, mainland China has already been the 6th largest FDI source country in the world in 2009, behind only United States, France, Japan, Germany and Hong Kong China. Here comes the issue of statistics between mainland China and Hong Kong. As the study goes on, more problems concerning the data of those two would surface and they would be tackled later in the discussion around round tripping effect.

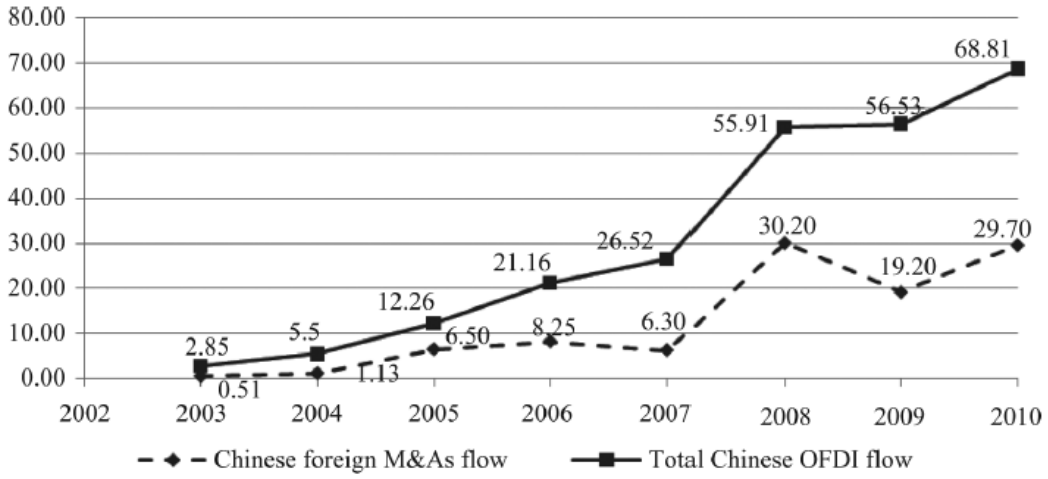
Fig. 3 OFDI flows from top 10 home countries, 2009



Source: UNCTAD in Zhang and Daly (2011)

As a result of such increase, China's OFDI gradually started to attract world attention. One phenomenon often covered by media is the mergers and acquisitions (M&As). From the graph below it is obvious that M&As take a large share in China's OFDI flows, and such entry mode would also be analyzed and discussed later specificly.

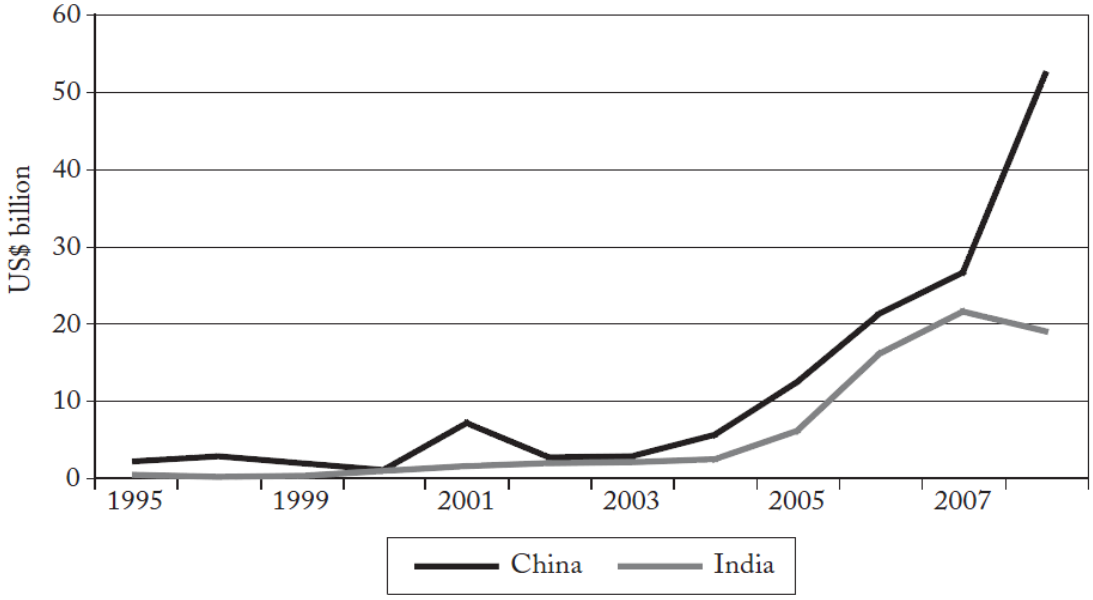
Fig. 4 China's OFDI flows and M&As flows



Source: MOFCOM in Ziyi Wei, (2012)

To dig more into the facts, another question needs to be answered: is the rise of China's OFDI a common phenomenon shared by other countries in the grant wave of globalization, or at least other emerging economies? The answer to that could be ambiguous, both yes and no. Worldwide FDI increase is the truth in the postwar period, fueled especially the rise of industrializing countries in the globalization phase starting from 1970s. But still, in China's case, such a sharp rise in so short a time by so huge an economic scale of world factory is enough draw extra attention. By comparing to India, which in many ways considered as a growing economic giant similar to China, one could easily spot the reason of such ambiguity. The two curve marched quite in pace in prior to 2007, but starting from then, China's OFDI continued to rise at an even quicker pace while India cooled down its overseas investment.

Fig. 5 Annual OFDI flows of China and India



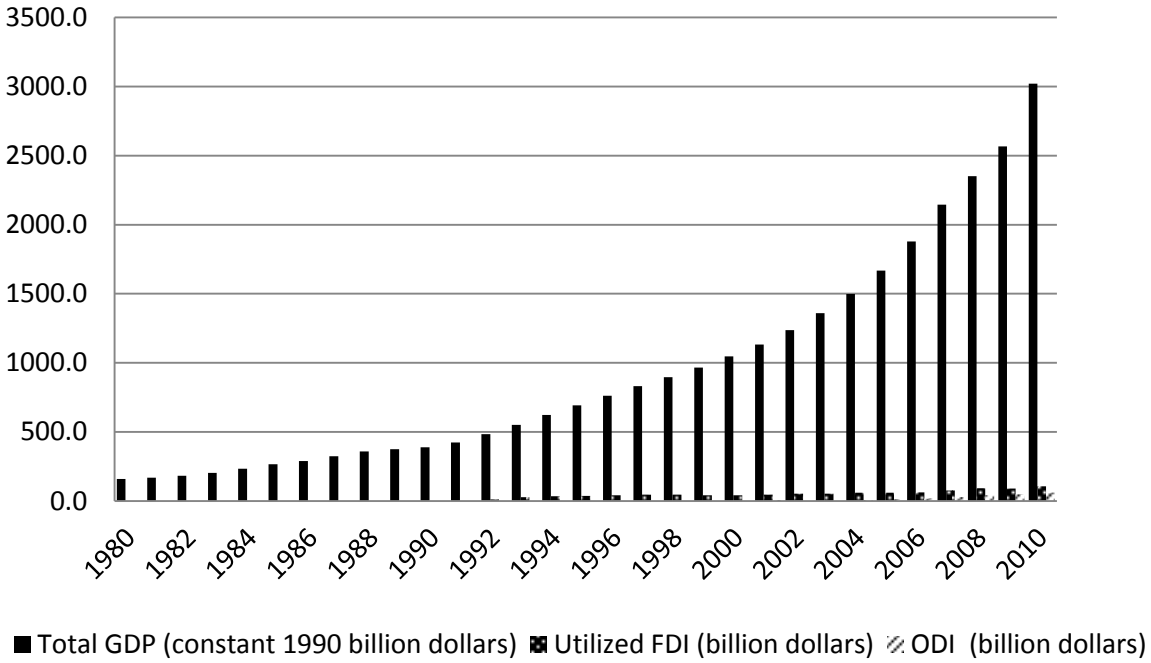
Source: MOFCOM & Reserve Bank of India in Hong, Z.(2011)

So far, we come across certain facts that help understand the rise of China's OFDI is really something in the recent decades, from the perspectives of world economy, of more dynamic economic growth of emerging economies, and even of China's rapidly growing economy itself. Under the phenomenon, there are various explanations to cope theoretically. Hong, E. and L. Sun (2006) offered their opinion that it is an proof of Chinese enterprises that developing countries could overcome their technological disadvantages by establishing R&D centers in developed world, M&As and forming strategic alliances with Western technological leaders, in order to create crucial competitiveness together with their cost advantages at home. How much is that the case? Besides all those growth presentations and benefits with OFDI increase, it is time to turn to the other side of the coin, some doubts about China's OFDI, in order to grasp a whole picture of the issue.

1.2 Facts from the other side of the coin, research question, aim and justification

After all those facts that shows the bright side of China's OFDI growth, the other side of the coin lies in the horizontal and absolute figure comparison with other indicators and other countries. Starting from the figure below, the comparison of OFDI, total GDP and utilized inward FDI could serve the purpose as a beginning.

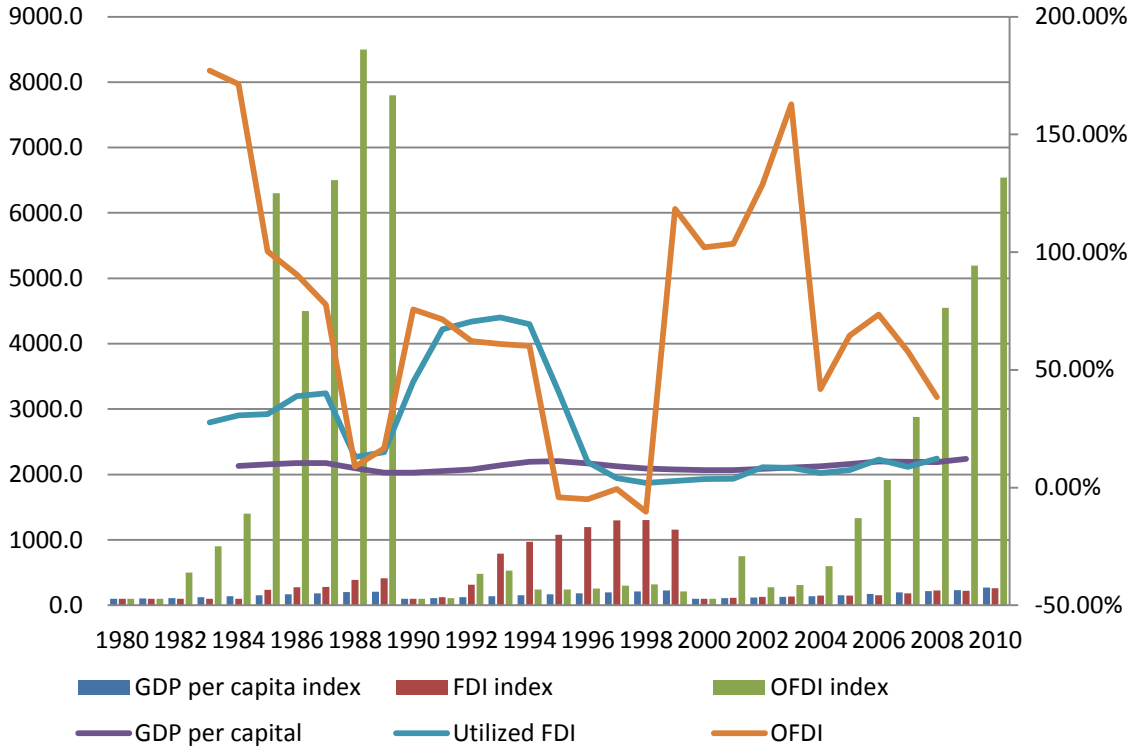
Fig, 6 Historical trends for total GDP, utilized FDI and ODI



Source: China Statistic Yearbook (2011)

Compared to total GDP size utilized FDI or outward FDI flows for China seem almost invisible, which could be a hint that China is still is in a relatively early stage considering its economic scale or compared to other major investor countries as US or Japan. Yet getting rid of the effect of too big the aggregate economic scale, we could still continue to focus on their change rate in separate. The graph below shows the decade index together with five year averaged growth rates for GDP per capita, FDI and OFDI.

Fig. 7 Decade index and 5 year averaged growth rates of GDP per capita, FDI and OFDI



Decade index: all three indicators start as 100 in the beginning of each decade and subject to the left axis while the growth rates subject to the right axis.

Source: China Statistic Yearbook (2011) & own calculation

According to the decade index for the three indicators, GDP per capita stayed rather still in growth rate across 30 years. And that is not so with utilized FDI and out ward FDI. The first decade of 1980 to 1990 might be misleading because the figures then were too small to tell the real trend. But in the two latter decades, statistics could describe a story of inward FDI taking off first and outward FDI increasing later, which confirms the policy sequence of Chinese government's policy change from attracting investment to also encouraging firms to go internationalized. Even if only according to the third decade chart, it could be obvious to witness the ODI rising rapidly. Combination with conclusion drawn from the previous bar chart, one could say China's OFDI is still rather small compared to total economy scale, but it is currently having baby steps in taking off. I assume that is what the vertical analysis could tell. And what might be drawn from horizontal comparison with other economies?

Tab. 2 China's OFDI flow and stock in world

Flow	1982-89 (average)	1990-99 (average)	2000-06 (average)	2003	2004	2005	2006
Amount (USD million)	453	2 323	6 938	2 855	5 498	12 261	17 634
As a share in the world OFDI (%)	0.4	0.8	0.8	0.5	0.6	1.5	1.5
Rank in the world	22	22	23	25	22	17	18
As a ratio in China's GDP (%)	0.1	0.3	0.3	0.2	0.3	0.5	0.7

Stock	1985	1990	1995	2003	2004	2005	2006
Amount (USD million)	900	4 455	17 768	33 222	44 777	57 206	75 026
As a share in the world OFDI (%)	0.1	0.2	0.6	0.4	0.4	0.5	0.6
Rank in the world	32	25	21	25	27	24	23
As a ratio in China's GDP (%)	0.3	1.1	2.3	2.0	2.3	2.5	2.9

Source: MOFCOM, UNCTAD in OECD (2008)

From the table above, one could identify the progress of China's OFDI flows and stock. They are increasing, dramatically in absolutely figures, yet not so rapid in world share or ranking. Again such data confirmed the story of worldwide international investment within the globalization trend of the last half century. China might be standing out a bit more, but the macroeconomic environment really helps fuel the progress.

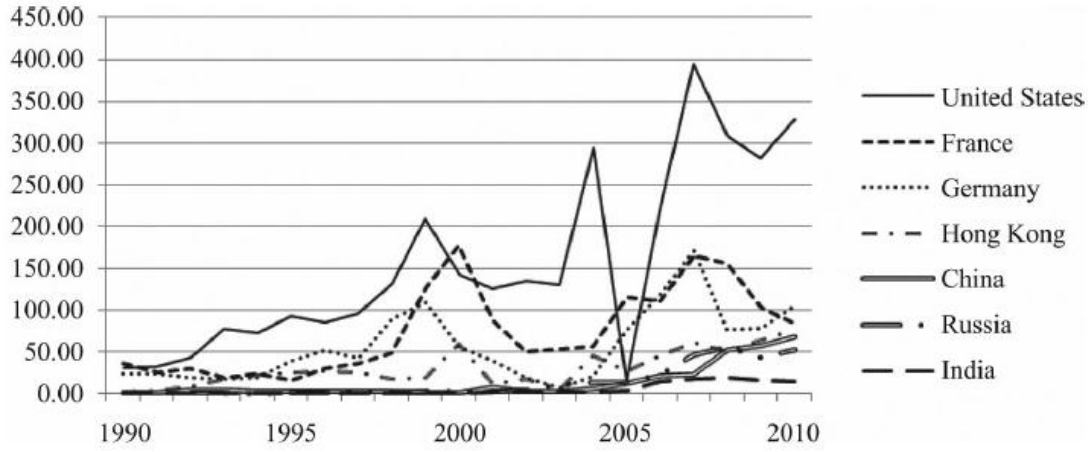
Tab. 3 Comparison of outward FDI among major developed and developing countries

	Annual FDI flow			*Cumulative FDI*		
	2004	*2005*	*2006*	*2004*	*2005*	*2006*
Global total outward FDI flow	561.1	813.1	778.7	9046.3	10,325.2	10,671.9
China outward FDI						
Total	5.5	12.3	17.6	44.8	57.2	75.0
As % of global total	1.0	1.5	2.3	0.5	0.6	0.7
Developed countries						
Japan	—	31.0	45.8	335.5	370.5	386.6
France	—	47.8	115.7	—	—	853.2
Canada	—	47.5	34.1	307.8	369.8	—
Netherlands	—	14.6	119.5	—	—	641.2
Italy	—	19.3	39.7	238.9	280.5	293.5
UK	—	65.4	101.1	1128.6	1378.1	1238.0
Spain	—	54.3	38.8	207.5	332.6	381.3
USA	—	229.3	—	2069.0	2018.2	2051.3
Developing countries						
Brazil		9.5	2.5	54.6	64.4	71.6
Mexico	1.4	2.2	6.2	13.8	15.9	28.0
South Korea	3.4	4.8	4.3	34.5	39.3	36.5
Malaysia	1.4	2.1	3.0	29.7	13.8	44.5
Singapore	5.5	10.7	5.5	90.9	100.9	110.9
Russia	5.1	9.6	13.1	51.8	81.9	120.4

Source: UNCTAD, MOFCOM in Morck, R., B. Yeung, et al. (2008)

From the table above, one could conduct a more specific comparison in abosultely figures between China's OFDI flows and other countries'. In annual flows, China already became the biggest investor within developing economies in 2004, while in accumulative stock it still remained even behind Russia and Singapore in developing countries, letting alone all major develeped economies. Of both indicators, China's world share remained rather limited considering its large economic sized and rapid growth. Why is that the case? I believe the next figure could offer some indications for the question.

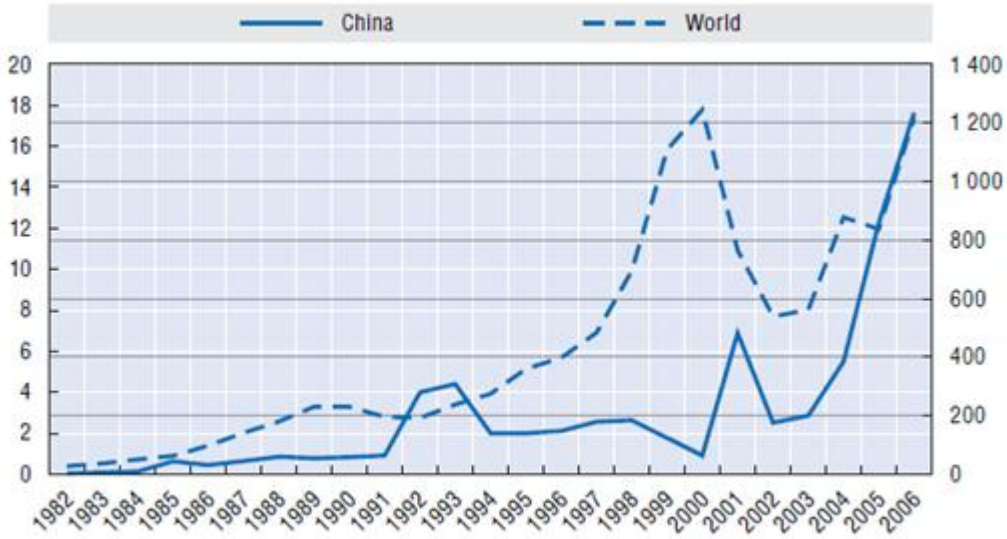
Fig. 8 Annual OFDI flows of certain countries in comparison



Source: UNCTAD in Ziyi Wei, (2012)

Stretching into a long time span, it is quite obviously, as a latecomer, China still could foresee a long way toward major FDI source countries in the lead. It might be pacing at a higher speed, but compared to the much higher accumulative stock held by other forerunners, China's brief OFDI history could undoubtedly reveal its rapid growing pace and complete the whole story, also as the figure shows below intuitively.

Fig. 9 OFDI flow of China and world total in US billion dollars, current price, 1982 - 2006



The China curve subjects to the left axis while the world curve to the right axis.

Source: MOFCOM, UNCTAD in OECD (2008)

And for the record, not only should its quantity being objectively assessed, the quality also matters in the study. Dylan Sutherland (2009) offered opinion from the other side in viewing China still being a low cost manufacture base and its overseas investment largely attached to

that feature. Evidence exists in the dominance of business services, retail and wholesale trade, transport and mining in OFDI, not manufacture, nor more advanced markets as Europe or North America targetted. Without such features, doubts remain if such OFDI growth could be used as a "springboard" to access "strategic assets", in order to climb in value chain. China's current factor endowment still actually accounts heavily for the growth and gap remains between a trading nation and technological catcher-up.

Also, there is a long-standing fear of China, in different ways. Explained by He, W. and M. A. Lyles (2008), such fear is around China's political regime according to its performance in the international market, which could be related to national security, health or ethical issues. It is rooted or at least enforced by Chinese companies' reputation of market expansion, asset and technology orientation, but not much product quality, safety precautions or intellectual property rights. In that case, very similarly, they also mentioned the past example, which was Japan in the 1980s, being known as a utilitarian economic power seeking global dominance and purchasing US enterprises and real estate. Back then, even the Empire State Building, Rockefeller Center along with many other American icons situated near Time Square were among the purchases from Japanese, therefore there was no surprise of the fear toward Japanese economic expansion, which almost exactly, resembles the case of China currently conducting M&As globally with a high profile.

Combing the facts from both sides, I cannot help wondering what it really indicates from the rise of China's OFDI. Is it a component of a new economic power expanding its influence globally, accompanied by well-established sustainability, or a signature by an industrializing and manufacture economy experiencing certain high growth but also toward its limits, as Japan's bubble economy had in the last couple of decades or Asian economies' "Flying Geese" prodcution transfer in last century. Therefore my goal is to answer that question by examining China's outward FDI, in detail through the comparison with its neighboring forerunners, other Asian economies. In other words, I want to find out answer for the following questions:

- Is China unique and to what extent in OFDI from other Asian economies in the East Asia flying geese model?
- Based on the results, what predictions and implications on China's future OFDI in the coming couple of decades could be drawn from current conditions?

From the theoretical perspective, the existing literature related to the study mainly focuses on four aspects: the classical theories for international business behavior, their application to emerging economies, distinct characteristics of rising economies as China in OFDI and differences among them, which could be seen in the literature review part also. This study is largely tied to the last category so one of its potential contributions could be adding to the few existing researches. However, this study is also ambitioned for revealing the differences and similarities in order to reflect on the ongoing conditions of Chinese OFDI and also draw a bit of prediction of its future potentials. In short to justify the research question, it would be to analyze the uniqueness of a hot spot through the comparison to neighbors and in order to, help foresee its future if possible.

1.3 Methodology, scope and limitations, data and further research

To achieve the purpose, this study conducts a comparative analysis between China and other Asian forerunners, on the OFDI part. The theoretical framework would be Dunning's OLI theory, a combination of ownership, location and entry mode in internationalization in explaining international business to be discussed later in more details in the literature review part, since it is the and classical and standard model for international economic activity. Besides, some of the institutional perspective would also be applied.

The theoretical analysis from multiple perspectives is ambitioned to best capture the sophistication within China's economic development, as well as its distinction from other Asian economies. From classical theories concerning international business to latest explanation for China's dual marketization, each major factor in discussed in specific description. However, in this case one's gain comes from the other's loss. As a qualitative analysis, there is no quantitative result or particular answer, based on a specific hypothesis testing a specific theory. This study is more focused on the understanding of present based on theoretical explanations and practical facts, in order to predict future possibilities.

The data used in the study comes from mainly national statistics or other decent researches. However, due to the round tripping effect, to be discussed later in the comparative analysis, the reliability of data is still limited. For further research, this study would be best followed by OFDI destination countries' project data analysis, to better capture the characteristics of OFDI comparison between Asian emerging economies.

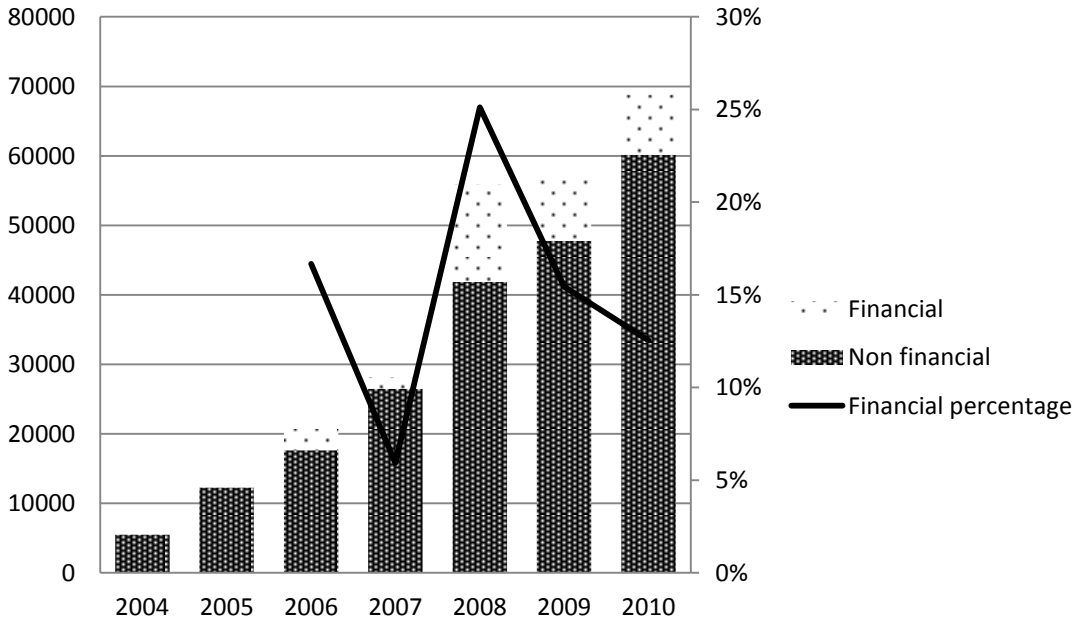
For the following arrangement of this thesis, after the research review, the practical comparison would mainly be on three parts, motivation, location choice, entry mode and local interaction, as well as other factors like institutions. Since the comparison would be qualitative, after the demonstration of both similarities and differences, a final discussion would be draw to show how the results could and could not be leading to future prediction.

2. Research review

2.1 Concept of FDI

To begin with literature review related to this study, a clear definition of FDI concept would be helpful. Stephen Frost (2004) in the research concerning China's investment in Southeast Asia refers to FDI as a long term investment destined to acquire control of the entity by a foreign firm, which holds three aspects as a whole: equity capital, earnings to be invested, and intra company loans. A US Department of Commerce definition is also cited, stating FDI as a sort of ownership or control, by one foreign subject holding at least 10 percent shares of a foreign entity both directly and indirectly. Therefore three issues are concluded to be the key components of the FDI concept: the motivation, the location of investment and the way of it, namely, "why", "where" and "how". As for the subject of this study, a definition of overseas direct investment given by Chinese Ministry of Commerce (MOFCOM) refers to the indicator as enterprises set up or bought by domestic investors in foreign countries and in Hong Kong, Macao and Taiwan, and the economic activities centering on operation and management of those enterprises are under the control of domestic investors. According to the definitions above, if any contradictions concerning the range of what FDI measures, this study would only focus on those investment involving practical management or operation, and would not include pure financial investment not intended to ownership or control. The reason to put that clarification forward is that in certain years Chinese official statistics distinguish between non-financial FDI and total FDI in the statistical reports, as the chart shows below. However, it is believed such classification is based upon economic sectors rather than investment behavior purposes. So this study would adopt the measurement of total FDI in China's FDI statistics.

Fig. 10 Financial and non-financial investment in China's OFDI



Source: 2010 Statistical bulletin of China's outward foreign direct investment

2.2 FDI related literature

Why would firms make international investment for ownership or management? Laurenceson, J. (2008) answered the question in the following two aspects. One is that by building overseas connections firms could internalize imperfect external operations in the value chain thus harvesting benefits. The other one is that by taking advantage of foreign locations as markets and suppliers, in order to further acquire resources and technologies to improve its capacities and capabilities. Together the two constitutes the mainstream FDI theory concerning how FDI helps investors in value creation and location usage.

Concerning the mainstream FDI theories, one has to be mentioned the Dunning's eclectic paradigm, also briefly reviewed by Laurenceson, J. (2008), which concludes the theories into three major points. The first one concerns the ownership advantage possessed by multi-national corporations (MNCs) which directs to the overseas assets that could be exploited. The second factor points to the location consideration that refers to the specialization of different countries working as different actors in the value chain. And the third one relates to the market entry mode, for MNCs as options in managing their business based upon ownership and location considerations. All together the three completes the Ownership-Location-Internalization (OLI) model.

Relating to the OLI model, Song Yi (2011) also discussed ownership, location and internalization as the three advantages for a firm to become a MNC. As for the part of ownership, patent, trademark and managerial expertise are listed as examples. To be more specific, Yan et al (2010) adds the feature of superior productivity of spatially transferable and intangible to such assets. The location issue is illustrated as the choice between export and FDI, and it comes into being when latter would outweigh the former in raising revenues of cutting costs, also mentioned by Yan et al (2010) as the comparative advantage in resource endowments or market capacity. For internationalization, after trading off between export and FDI, one would still need to take in consideration whether foreign licensing instead FDI could be more favorable. While in Yan et al (2010), internationalization is described as a hierarchical organizational structure in turning cross border transactions into intra firm activities, particularly for tangible assets. It is also argued that with the establishment of the former two conditions, the third step could benefit the MNC in profiting instead of open market trade when market failure occurs. As a whole, Dunning's systematic eclectic paradigm provides a full answer of "why", "where" and "how" in explaining international activities and/or conduct cross border transactions to further secure economic purposes at firm level, which directly points to the major subject in this study FDI.

There are also a lot of researches concerning FDI, and some relating to the topic of this study should be mentioned here. Herzer (2010) examined the relation between outward FDI and domestic economic growth and found a positive correlation and bidirectional causality, indicating that the two could work as causer and consequence of each other as a circle, though the net effect of growth effect of OFDI remains theoretically ambiguous. Besides, the concept of horizontal and vertical FDI is mentioned. According to the study, horizontal FDI,

or market seeking FDI, occurs when MNCs decide to establish local production of the same products or services instead of exporting to better pursue foreign market shares, also known as the "pull" factor. As a result of such firm activity, an effect of substitution would take place that domestic production declines due to foreign production generated. However, it is also worth mentioning that in the long run, such investment is expected to help benefit firms' competitiveness through better market performance, which in turn could lead to higher domestic production and productivity. As for vertical FDI, also named the "push" factor, is defined as production factor seeking investment according to price difference in international factor market. Its main driver being the cost efficiency, such investment establishes different production procedure across the countries to most exploit comparative advantages. One more sort of FDI mentioned, is the technology sourcing type, which takes place by acquiring foreign firms or founding foreign R&D facilities, in order to catch up in the technology chain.

More researched would be discussed in the next part concerning China's FDI, yet here some related studies beside mainstream theories are to be introduced to allow for different opinions from different perspectives. Moon et al (2011) examined the economic recession history and found that both inward and outward FDI are positively related to the stabilization of economic growth during financial crises. Such an effect turns to be stronger for FDI stock than flow; however it is believed to have worked on higher FDI countries to experience a milder recession and a more modest recovery. For Witt & Lewin (2007), a rather different perspective gives them another interpretation of FDI as an escape response to institutional constraints. It is argued that between firm level needs and national institutional supply, certain misalignment exists in the international business theories. According to their statement, societal coordination together with slow institutional adjustment is responsible for such misalignment as a phenomenon and further OFDI as a legal escape being an outcome. Their research is more based on industrialized economies, yet I would assume such mechanism could also be applied to emerging economies as China, even as a better fit.

2.3 China as well as other emerging economies' FDI related literature

2.3.1 Mainstream FDI theories and emerging economies' rise

Bhaumik & Co (2011) examines China's OFDI directional pattern and finds out it could be well attributed to major factors in stylized studies, as economic fundamentals or resource endowment of the host countries, of which the former clearly outweighs the latter. It is also found that instead of the trend sometimes demonstrated by media coverage, China's economic investment and cooperation remains preferring destination countries with low level of corruption, namely better institution, though weak evidence does exist for China relating to weak political right countries.

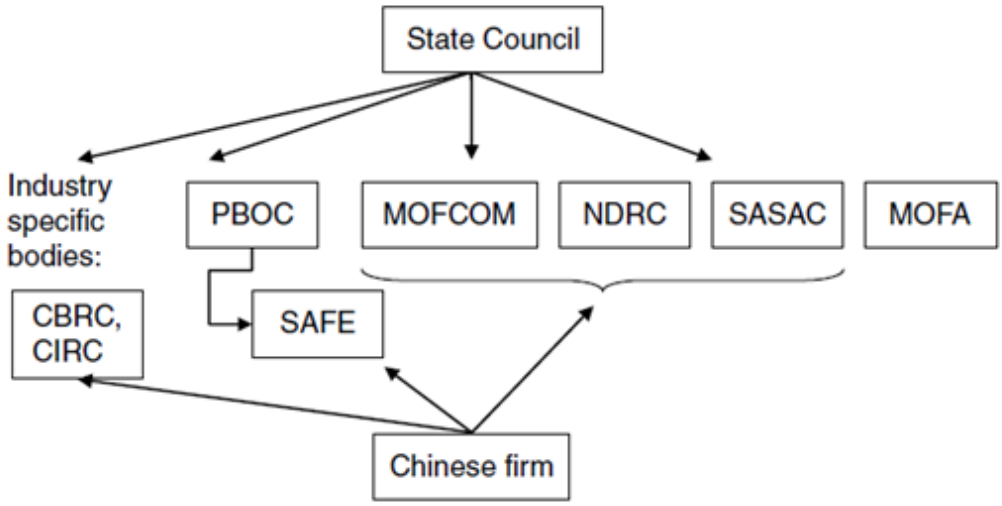
However, to only use mainstream FDI theories to explain China's recent international rise is not a consensus among researchers. Liu, X., T. Buck, et al. (2005) shakes the original hypothesis loose a little and argues only less than half of the variance in China's OFDI could be covered by Dunning's Investment Development Path (IDP) theories without taking

consideration of certain additional features. Therefore classical hypothesis is no longer sufficient enough to accommodate China's international practice and needs to be adjusted to include supplementary variables yet still universal also to other cases within the refined IDP hypothesis scope as educational investment, in order to capture emerging economies' distinct features.

Still within the regime of mainstream theories, yet Kang, Y. and F. Jiang (2012) pushes forward into with institutional factors. In their findings, it is institutional factors that demonstrate the highest significance, complexity and diversity, together with economic factors, in determining China's OFDI location choices. Although those frameworks of institution concerning FDI location choices are usually based upon industrialized economies, they remains applicable in their study to the China's case, yet still certain modification and extensions are necessary to complete the theoretical hypothesis. When it comes to the influence of institutions, the work of Alon, Chang, Fetscherin, et al. (2009) is truly worth mentioning, due to its relevant theoretical discussion and specific practical analysis.

Firstly North's description of institutions is referred to as the definition of both formal and informal rules within economic interactions within and between economies. Institutional factors could work on economic activities as well as economic environment, especially in the context of emerging economies where institutional constraints stand out even more than industrialized countries. Market imperfections and social regulatory pressure are argued to the two major channels in which institutional factors work on micro level firms. Especially in the case of China experiencing grant social reform starting from 1980s, they managed to cut out a specific institutional framework from its OFDI practice as below.

Fig. 11 Institutional actors in China's OFDI framework



Arrows from Chinese firms indicate organizations they have to report to and apply for OFDI approval while Arrows from the State Council to authority departments indicate the hierarchical monitoring structure.
CBRC: China Banking Regulatory Commission
CIRC: China Insurance Regulatory Commission
MOFA: Ministry of Foreign Affairs

Source: Alon, Chang, Fetscherin, et al. (2009)

The evolution history of China's institutional change and OFDI development could be discussed later in details, but here it is still worth mentioning they also stated that from the earliest phase 40 years ago when overseas investment being only allowed for a few national political strategic SOEs, to "open door" policies starting from late 1970s and later booming under international spotlight, the establishment of more specialized administrative and bureaucratic bodies represented an internal trend of deregulation and decentralization throughout China's political progress.

2.3.2 China's distinct feature in OFDI study

After reviewing one side agreeing on mainstream or classical theories to explain Emerging economies' FDI as China, now it would be necessary to hear from the other side, claiming certain uniqueness exists distinguishing more recent international regime from the past or classical mode. Buckley, Cross, et al. (2008) argued Chinese MNCs could not be viewed as apprentices or chasers anymore, for instead of conducting FDI mainly in developed economies for information or access to support domestic export or acquire advanced knowledge or know-how from joint venture partners, a growing portion of them already demonstrate the ability to function transnationally, pursuing knowledge, resources and capabilities to accommodate their international activities and enhance their international competitiveness in global market. Therefore, it is argued that their emergent practice has been beyond the historic or classical international business behavior as described by Dunning's theories. Alon, Child, Li & McIntyre (2011) also highlights the debate between "Chinese theory of business" and "theory of Chinese business", to address the progress of recent China's uniqueness in international investment being recognized. No monopoly explanation is found to be satisfactory so they call for an eclectic, multi-level and perhaps Eastern oriented framework to better capture the current practice of those emerging MNCs.

So in what ways does China or other emerging economies differentiate themselves from the Western experience? The first factor to mention here is their political feature embedded in economic activities. In classical literature review, Blanchard, J.-M (2011) proposed the two school debate of "Beijing as Puppeteer" versus "Business of business is business", to highlight the public recognition of political influence in China's international investment. For example, Song Yi (2011) regards developing country firms' political connections as non-negligible in OFDI establishment. China being supposed to be of state controlled capital market, weak institutions and high political rents, firm level political ties with governments or state controlled banks could be a dominate advantage to reduce financial costs and acquire OFDI access in order to cut down the investment cost. Wang, C., J. Hong, et al. (2012) also proved the crucial role of government support as well as industrial structure in OFDI through a firm level Chinese dataset. In comparison, the effect of technology or advertising resources proved not so significant, as institutional and industrial environment possess dominate roles in China's OFDI.

Besides political influence, another player in China's OFDI performance might be ownership, still attached to its political regime. There is a rather large part of state owned enterprises (SOEs) in China's economy, and its influence could be even far larger concerning OFDI. Yan, Hong & Ren, (2010) regards state ownership as a proxy for policy support and finds it crucial in firm level primary resource and capability shaping and institutional supporting for OFDI initiation, particularly towards resource and R&D oriented investment. For the difference between SOEs and private owned enterprises (POEs), Ramasamy, B., M. Yeung, et al. (2012) found the former more attached to countries with rich natural resources and weak political institutions while the latter closer to local markets. They also argued for the latter existing theories might be sufficiently to explain, yet modifications are clearly necessary when it comes to understand the MNCs in Chinese SOEs.

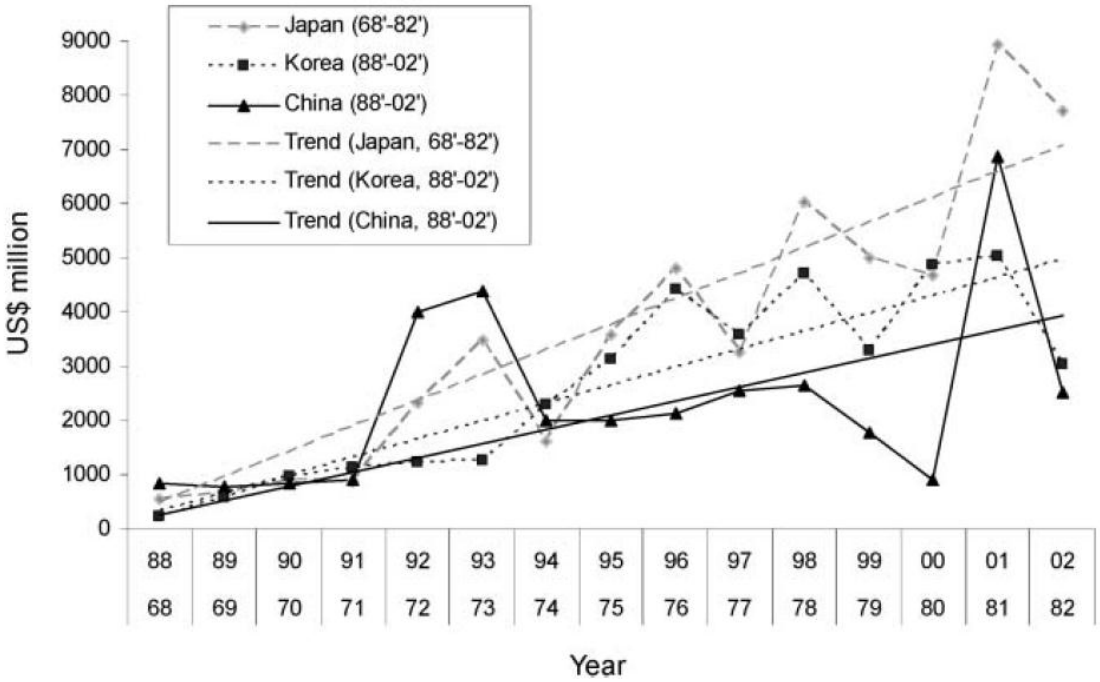
To go even further beyond former monopoly frameworks, Li, Xiaofei (2008) illustrates a "merchant state dualism" in researching the features of motivation, sector and geographical distribution in China's OFDI. Such mechanism is explained as a hybrid relationship between state control and merchant autonomy, when trying to identify a most suitable model to fit contemporary connections between Chinese government and business activities, in which business being both the instrument of policy purposes and career of merchants. To put it in a dynamic way, some could say it is a process of both business politicalized and state corporatized. To achieve such a process, another factor to be mentioned might be its economic history. Li, Xiaofei (2008) also helps to conclude past three decades witnessing a grant shift of China's economic regime from a closed to market oriented, from central planned to capitalized, from state fully controlled to private economy booming. It would be almost impossible to deny the impact of such transformation on contemporary configuration.

2.3.3 Other OFDI comparative studies between China case and other emerging economies

From a political economy perspective, Alon, Chang et al (2009) mentioned in the 1980s Japanese MNCs' global expansion caused huge irrational fears. Then a couple of decades later, very similar situation turns up in front of emerging Chinese firms dedicated to go global challenging Western positions in international business.

So to what extent are China and its neighboring forerunners really alike? Li, Xiaofei (2008) believes in contrary to 20th century experiencing the process of China becoming one major actor in world economy, 21st century shall be witnessing the emergence of China similarly in the same arena.

Fig. 12 Historical OFDI comparison among Japan, Korea and China

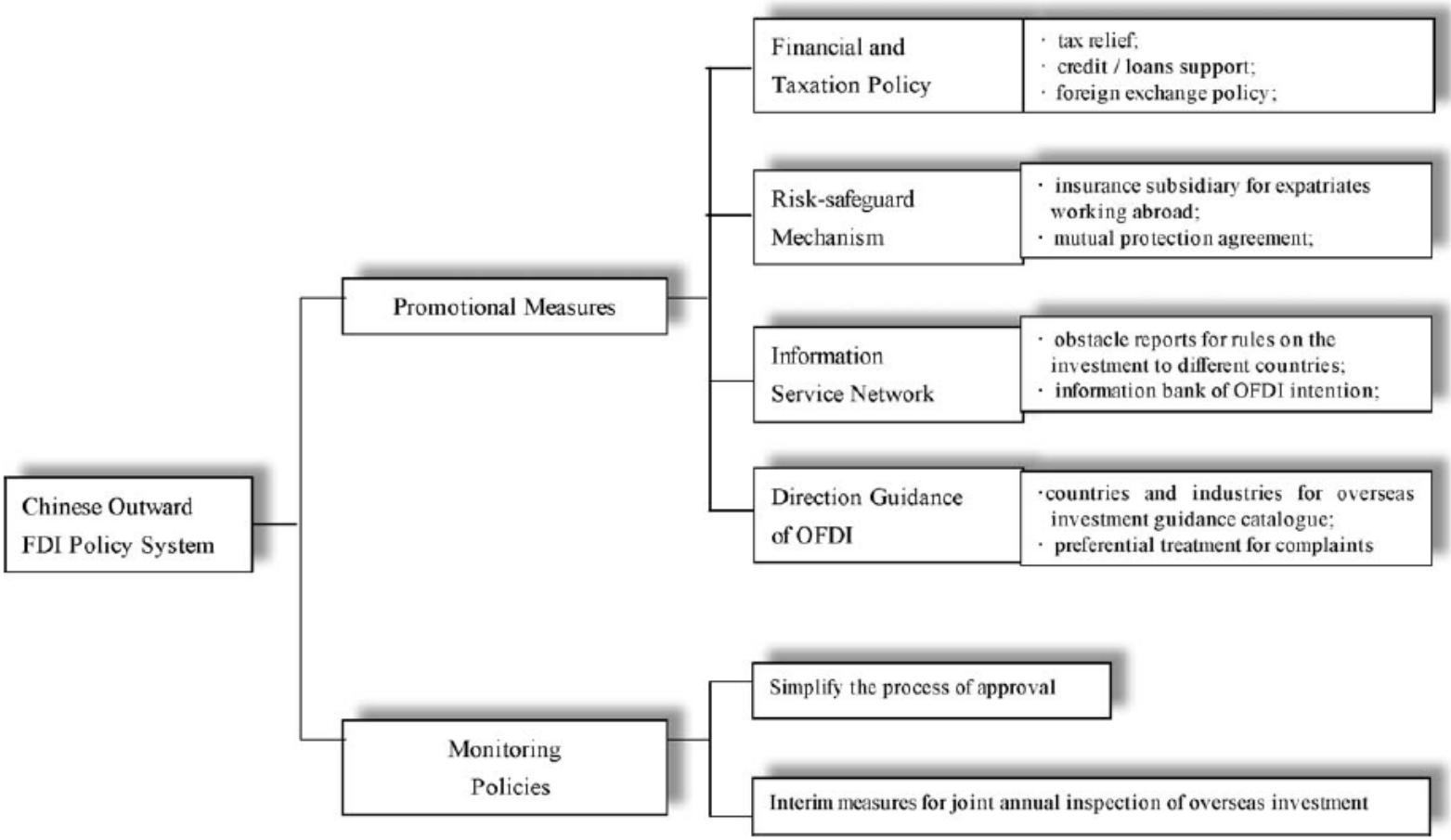


Source: Eunsuk Hong and Laixiang Sun (2006)

The figure above provides a comparison of Japan, Korea and China in different historical periods, of which Japan led the other two countries with 20 years. One could easily identify similar growth patterns among the three, but there are also unexpected differences. One should be noticed might be their different pacing. Among the three Asia neighbors, Japan was the most rapid in OFDI expansion while China was actually the slowest. Undoubtedly those three countries possess distinct historical context and macroeconomic environment, both domestic and internationally, which would be discussed later in the prediction related chapter. Still as a later-comers, pointed out by Yang, X., Y. Jiang, et al. (2009), Chinese MNCs face more critical international competitive environment since there was already a wave 20 years ago of emerging MNCs to join the global force in acquire knowledge and strategic assets. But here, the similarity seems still outweighs the difference, considering the growth pattern they shared.

Yang, X., Y. Jiang, et al. (2009) also researched into the comparison between China and Japan in OFDI increase and found industrial features, firm resources and institutions could sufficiently explain why they differ in international behaviors by MNCs. From the perspective of industry, both countries adopted related policies to drive domestic firms to expand overseas. What differs is the process. China's OFDI is partly driven by its IFDU and the state willingly actively creates policy favors for IFDI while in Japan IFDI has long been restricted by the state. As a result of such process, Chinese MNCs are mostly SOEs or at least state controlled whereas POEs dominates the Japanese force in multinational economic operations.

Fig. 13 China's policy regime concerning OFDI



Source: Luo, Xue, et al. (2010)

When it comes to policy promotion, it is not only IFDI that enjoys the state favor but also OFDI. The classification above from Luo, Xue, et al. (2010) might offer a clear view on how Chinese state actively promotes domestic firms to go abroad and expand business and keep monitoring at the same time. Also one thing that needs to be kept in mind is such promotion is biased and SOEs dominates the beneficiaries leaving few POEs to participate, despite the decentralization and market reform has been performing for over four decades in China.

Besides the policy attitude and process, Yang, X., Y. Jiang, et al (2009) also argue that the economic size and sophistication of domestic market should largely impact on the OFDI of China and Japan. Instead of global markets, Chinese firms rather prefer their huge domestic one due to huge population and economy size. So attempting to become global brands through either own establishment or M&As and to transfer technology and managerial know-how are often their primary purposes in international expansion, in order to enforce their competitiveness at home competing with other leading global brands. In contrary, Japanese firms are more market oriented with their advanced technologies and marketing strategies to enter and compete in overseas markets instead of transferring core technologies from international subsidiaries home, due to limited market size.

Wang, M. (2000) also found more differences between China case and its neighboring forerunners despite shared growth pattern. In contrary to cost reduction and market penetration, China's OFDI is more oriented in natural resources, export promotion and technology acquisition, which turns out to be a location combination of both neighboring countries and counties on the other hemisphere, both emerging economies and industrialized societies, both weak political righted countries and well established institutional economies, in which major recipients stand out on all continents besides Antarctica for various comparative advantages.

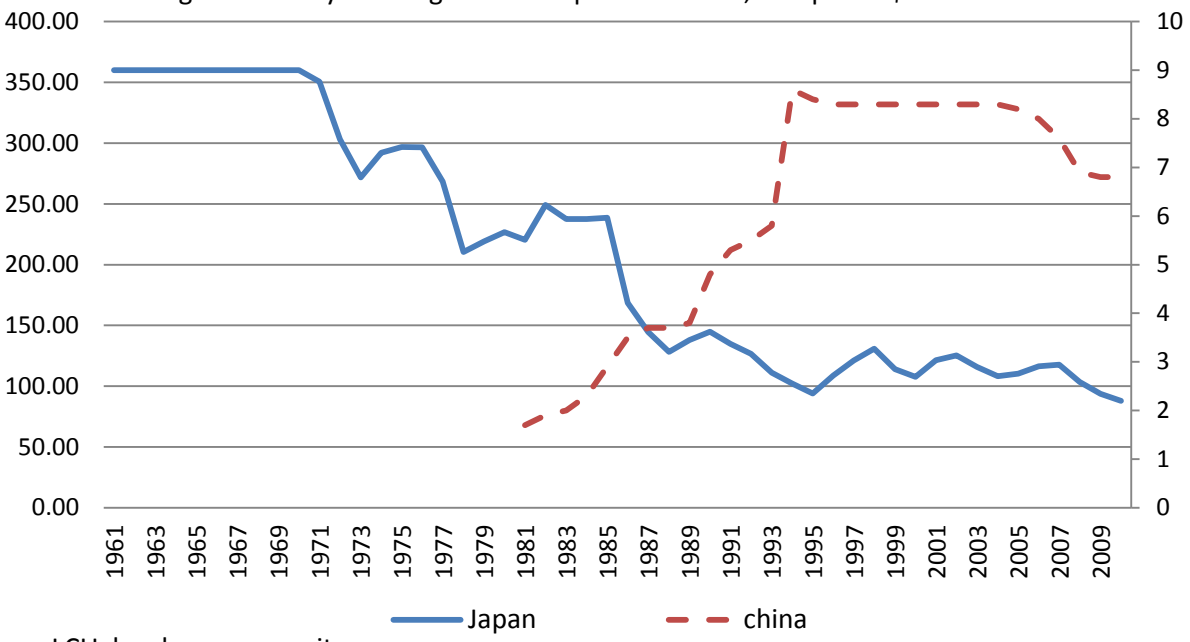
3. Motivations behind OFDI

3.1 Push and pull factors

The motivations between OFDI could be of all kinds. But strictly speaking, not all firms are "motivated" to become MNCs, some are to a certain extent "forced" to be. And that brings the distinction of push and pull factor behind overseas investment. OFDI out of the former is also known as defensive OFDI, concerning its major feature in maintaining cost advantage in order to defend current market shares, and the later also known as expansionary due to the common target of penetrating and acquire new market shares. Many particular motives could be classified into the two categories, but the boundary is not always clear and sometimes could be ambiguous.

Back to the comparison of China and its neighbors, their positions between the two factors have been under focus. Deng, P. (2004) argues it is the push factors as appreciating currencies, increasing current account surpluses, upcoming labor shortages, rising operating costs as well as limited domestic market sized that matter most behind most East Asian economies, but not China. Instead, natural resource security, foreign exchange income, new overseas markets, advanced technologies, managerial know-how and strategic assets, which usually appear in the range of pull factors, are the driving motives behind Chinese. The evidence rests partly in the high concentration of Chinese OFDI in world's most advanced economy as US and most resource-rich countries as Australia and Africa. As for one of the major push factor, economic efficiency is not among China's primary purpose conducting international business, mainly due to its sufficient supply of low cost labor and cheap lands, despite the reversing trend in recent decades. When facing such cost rising problems in coastal regions, Deng, P. (2004) argues, Chinese firms are more willing to transfer their production to vast inland regions rather than abroad, thus creating a small "flying geese" model just within China itself.

Fig. 14 Curreny exchange rate of Japan and China, LCU per US$



LCU: local currency unit.

The Japanese curve subjects to the left axis and Chinese curve the right.

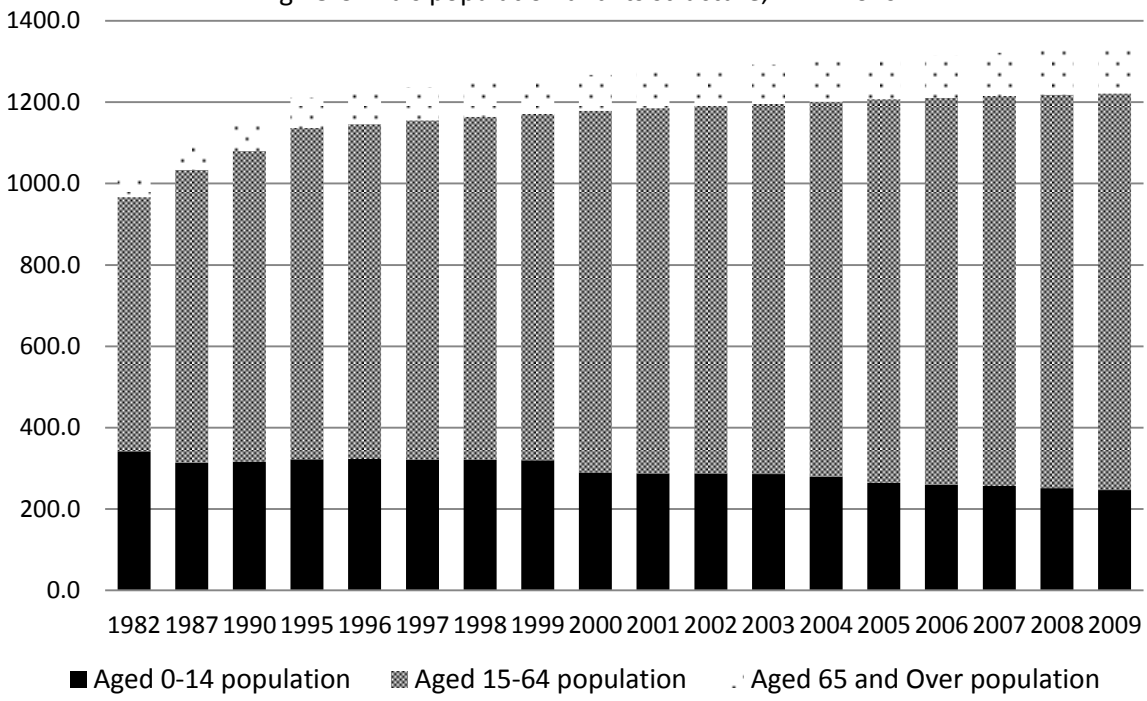
Source: WDI 2011

The distinction between particular different motives would be discussed in the next section, but here what could also be drawn from the analysis above is that China is not that distinct without facing push factor as rising cost. The figure above could to some extent demonstrate the change patterns of currency value of Japan and China and when they impacted on OFDI. In prior to 1970s and mid 1990s respectively for Japan and China, currency exchange rate stayed still or depreciated rapidly, in order to stay or gain a competitive position in international trade, with current account surplus and foreign reserve rising rapidly. However, Japanese currency started to appreciate in 1970s and Chinese in 1990s damaging their

currency exchange advantages in trade, which are exactly the times both countries started to outsource FDI, as the figure 12 demonstrates. That could somehow confirm the push factor by currency exchange appreciation on China as well.

As for the rising labor cost, there are certain interesting aspects around the issue. It could be a motive pushing firms to go abroad, a problem when establishing foreign productions, or even an advantage in conducting international business. Cui, Jiang & Stening (2011) explained that Chinese MNCs could actually sustain their cost advantages in overseas production by establishing linkages with domestic supply chain networks or transfer their home cost and quality control expertise to foreign branches. And how is that possible? One of the explanations could be that China distinguishes itself from Japan or Korea that after a couple of decades experiencing rapid economic growth, China maintained its economic growth structure, which is mainly contributed by fixed capital investment rather than consumption, thus maintaining low labor costs, and manufacture competitiveness as well.

Fig.15 China's population and its structure, in millions



Source: China' statistic yearbook 2011

But maintaining control on rising labor cost mainly a demographical result. Economic growth should eventually lead to income rise and then labor cost rise. However despite the political or economic regime impact, China's demographical factor largely impacted on the process. Within the total population, the proportion of age 15 to 64 kept growing supplying sufficient labor force for China's growing economy and helped sustain the low wages, due to the baby boom in 1950s and 1960s. That should somehow be one cause behind its OFDI rise since the domestic labor market could not accommodate the rapidly growth labor force, which is also partly confirmed by Liu & Lu (2011), who argue through typical horizontal south to south OFDI in neighboring countries, as the China case in ASEAN, new market shares and enforced scale economy could sufficiently benefit home country employment, especially in the service

sector. However, from the figure above one could also notice the growing proportion of senior population and lowering proportion of teenagers under 14, as a result of China adopting the “one-child-policy” in 1970s. In that sense, the huge current labor force is gradually turning into seniors without enough fresh blood entering work force to support. It is almost the identical case Japan had experienced and in this way there would be no limitless labor supply thus low cost advantage for China once such process reaches its limit. Would that be the major push factor for future China? That would a question remained for future prediction.

3.2 Major motivations

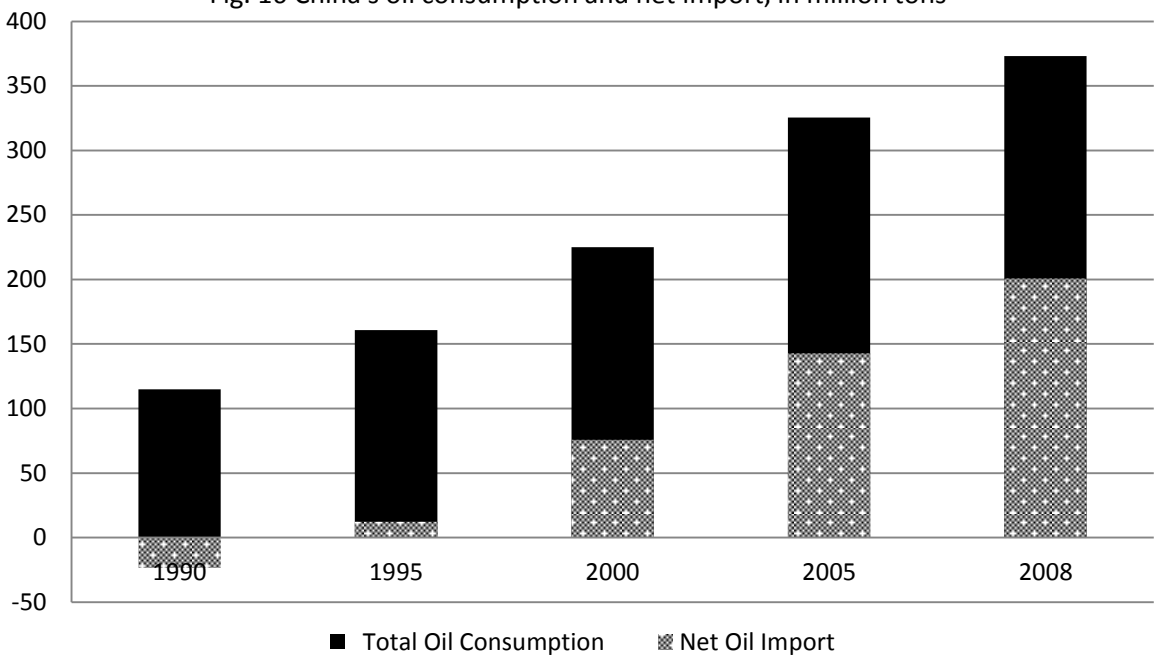
There are various motives to be listed for driving OFDI, either expansionary or defensive. Hobdari et al. (2010), based on the assumption that Chinese firms being driven by global competition to participate into international business by establishing foreign production networks as a globalization strategy, classify four sorts of strategies of the relation between foreign subsidiaries and their parenting headquarters: horizontal integration for foreign subsidiaries in the same or related final goods industry as their parent corporates, vertical integration for natural resource orientation, lateral integration for subsidiaries in different stages of the value chain but same industry, and diversification for subsidiaries in irrelevant industries from their parent companies. Undoubtedly there is more than one way to classify the ongoing practice. OECD (2008) proposed five types for China’s multi-faced OFDI in which natural resource, product markets, strategic assets of mainly technology, brands and logistics network, diversification and efficiency are the major purposes. However, the classification work is easier in theory than in practice. In real world, as mentioned by both, all four sorts of strategies could unavoidably co-exist in Chinese OFDI. The crucial thing would be to identify the priorities so the comparison could be possible and convincing.

Yet one issue worth mentioning here is the strategic asset as an OFDI goal. Deng, P. (2007) argues it is the primary motivation behind Chinese OFDI in industrial economies. To interpret the concept, strategic assets are viewed as the resources crucial to competitiveness but only or easier accessible in global market instead of home country. Due to the tightening competition both domestic and global, Chinese firms also face the situation of being pushed toward unfavorable positions in value chains and develop a hunger for those strategic assets to enrich them to become global competitive MNCs, which is also inspired by the state policies. However, what exactly are among the strategic assets?

Natural resource, especially energy and minerals, is one case. Take Africa, one of China’s major OFDI destinations, for example. Sanfilippo, M. (2010) stated that Africa is one typical place where China is pushed to by the urge to secure natural resources as crude oil for economic growth. Biggeri, M. and M. Sanfilippo (2009) also confirmed such interaction through three major channels: FDI, trade and economic cooperation. China’s OFDI is fueled by domestic economic growth as well as macroeconomic stability, and such growth, which turns China into the “world factory” in turn demands enormous amount of inputs which China has recently been more and more relied on external access besides labor force. Energy and primary commodities dominate in the fundamental infrastructure investment and industry sector, as well as China’s shortages. Currently China is already one of the biggest

importers in the world hunting for oil, gas, ore, copper, iron and steel, plastic and also agricultural products.

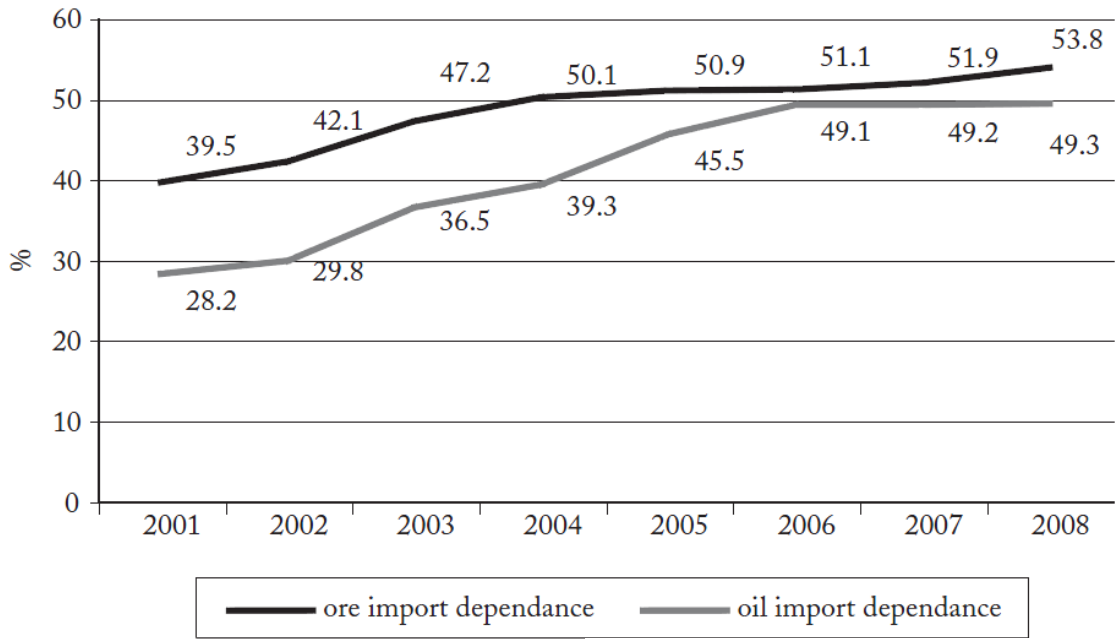
Fig. 16 China's oil consumption and net import, in million tons



Source: Chinese Statistic Yearbook 2011

Figure 16 and 17 from the aspect of oil and ore, show how China relies on international trade. In fact by 2010, the combination of minerals, agriculture and energy industries had accounted for 16% of China's total OFDI stock and still rapidly growing, which has even stirred fear that China might be exhausting world's natural resource reserve.

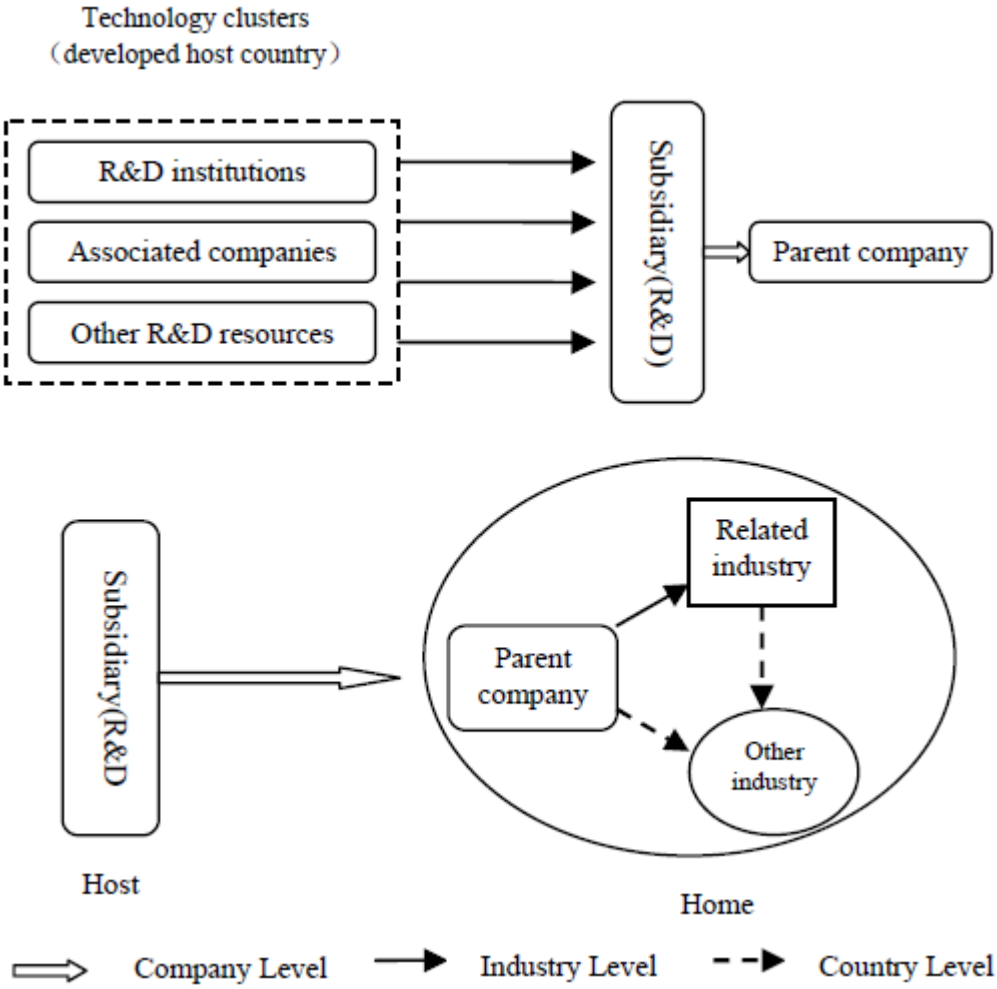
Fig. 17 China's ore and oil dependency ratio, 2001 - 2008



Source: Hong, Z.(2011)

Besides natural resource, another key factor in strategic assets is technology. The figure below is concluded by Liu, W. (2010) in demonstrating how Chinese MNCs reverse technological spillover from foreign subsidiaries back home at firm, industry and country level, indicating a significant role OFDI plays in stimulating domestic technological progress and enlarge technological capacity.

Fig. 18 Firm, industry and country level of reverse technology spillover



Source: Liu, W. (2010)

One more crucial motive in China's OFDI is overseas market. Sanfilippo, M. (2010) viewed some African countries as good markets to accommodate China's low cost production, especially with higher income. What is more, it is mentioned that China's OFDI and aid share quite a few factors in decision making when it comes to location choice. That could probably confirm the effect of state "going out" policy in both political and economic fields, the combination of which target destinations with rich natural resource endowment or adequate market potential.

Tab. 4 Japanese OFDI motivations over time

Periods	Motivations
1950s	Mainly natural resource seeking
1960s	NA
1977	Overseas market (54.5%) Natural resource seeking (15. 8%) Globalization of production (12.5%) Cheap labor (9.8%) Export to 3rd country (3.5%) Host country's preferable policy (2. 1%) Others (1.7%)
1990	Overseas market (30. 9%) Patent & information collection (13.2%) Cheap labor (10. 8%) Export to 3rd country (10. 4%) Host country preferable policy (6.2%) Dividend profit (5.7%) Buying back to Japan (5. 3%) Natural resource seeking (5.2%) Others (5.7%)
1998	Overseas market (30. 3%) Global network building (18.6%) Patent and information collection (12%) Cheap labor (8.2%) Buying back to Japan (4.7%) Export to 3rd country (4.6%) Commodity R&D (3.7%) Host country's preferable policy (3.5%) Others (14.4%)

Source : Wang (2000)

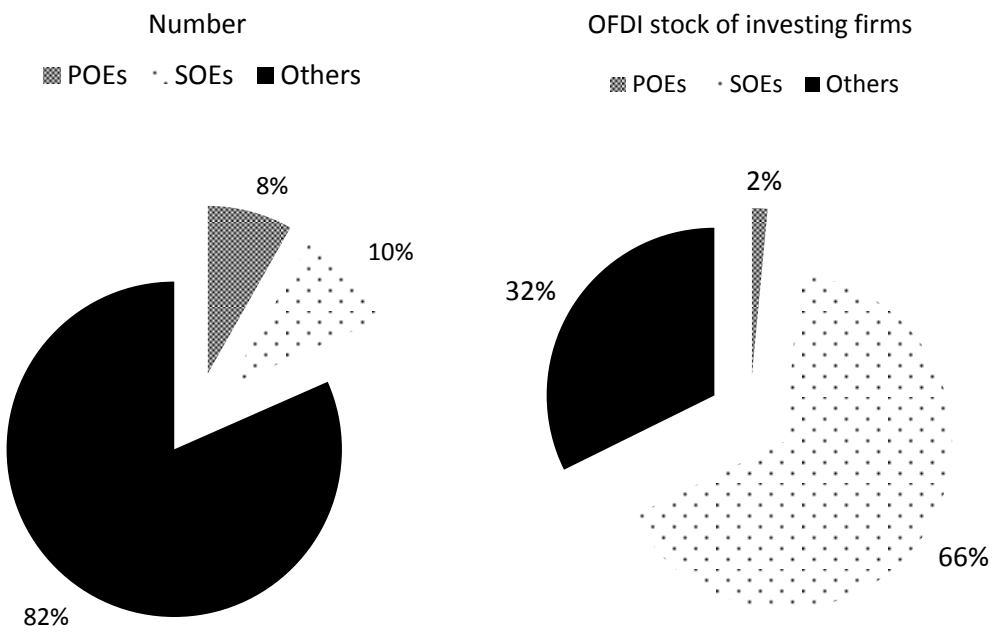
In comparison, the table above shows the historical trends in Japan's motivation of OFDI. From 1950s to 1990s, Japan's primary motive shifted from natural resource to overseas market, and its second motive came to strategic asset in 1990s. Other major goals shifted from production globalization in 1970s to patent/information access and cheap labor in 1990s and global network in 1998. One could say Japan historical pattern well demonstrates a typical OFDI evolution history, with one or two particular motive dominating one stage at one time, especially the transformation from natural resource orientation to market and related network reflecting its OFDI climbing the value chain toward sophistication. In contrary, China's OFDI seems more diversified and more industry inputs orientated. I suppose that indicate China's short history of international investment on one hand and its rapid rate of evolution in attempt to catch up with the help of domestic economic performance and more globalized macroeconomic conditions on the other hand.

3.3 Other motives

As mentioned in the literature review part, there are other explanations on China's OFDI. In fact, considering its huge economic scale, rapid growth history, complicated structure and ambiguous economic regime, it would be rather difficult to rule out those other factors in analyzing OFDI, sometimes even to distinguish them. Firstly from the perspective of institutions, Ziyi Wei, (2010) regards China's weak institutions, particularly state controlled capital market, insufficient law enforcement, weak intellectual property rights as one crucial driving force forcing Chinese firms to go abroad pursuing sounder institutional environment. From the perspective of policy promotion, state information network, risk avoiding security and financial support are the major elements that help promote trade related OFDI. Actually things get a bit confusing and contradictive. In China, institutions to a large extent work under policies, and here Chinese firms seem to receive different preference from state related institution institutional environment.

To explain such a puzzle, it would be necessary to bring out the distinction between SOEs and POEs. Titan Alon (2010) argues there is institutional discrimination which makes SOEs in advantage at the cost of POEs. Particularly, financial preference, privileged monopoly over state network and licensing leave POEs no equal market positions to compete with SOEs domestically but to seek strategic resources overseas. As for SOEs, Liu & Lu (2011) argues that long term IFDI and technology transfer have accumulated domestic firm specific abilities, together with financial support from state controlled banking and insurance system preparing them the competitiveness in large scale overseas investment in global market. However, the mechanisms different, the results are rather distant. Among the top firms of accumulated OFDI stock, SOEs or state controlled firms had occupied all top 20s by 2010. As the figure below shows, SOEs accounted only for 10.2% of total investing firms, slightly over POEs, however the accumulated OFDI stock by SOEs accounted for 66% of China's total and POEs only 2%. If including other corporations with large state owned shares, such statistics might be show an even larger gap between SOEs and POEs, which conduct overseas investment with different motives behind.

Fig. 19 Number and OFDI stock of China's investing firms



Source: 2010 Statistical bulletin of China's outward foreign direct investment

4. OFDI location choice

4.1 Location choice attached to motivations

The first thing concerning OFDI location choice is that it works as the result of motivations. For the distinction of expansionary and defensive FDI, Gao, Yan. (2009) finds the former in Chinese OFDI, closely attached to advanced industrialized markets, sometimes also for better technology and the latter in Chinese overseas investment more orientated in emerging economies with industrialization going on. To be more specific, Yan, Hong & Ren (2010) argues the correlation between policy support and natural resource or R&D targeted investment, foreign relational assets and trade orientated OFDI, natural resource endowment and economic openness and manufacture production establishment to be significant, with financial capacity as the exception, to be significant to all kinds.

Yang, H., Y. Chen, et al. (2010) concluded the two major factors of social environment and bilateral relations to be of highest importance in attracting Chinese OFDI. What are also pointed out are the specific geographical choices for different motives behind Chinese OFDI. Central Asia, Africa, Southeast Asia are labeled with rich natural resource and cheap labor, corresponding to the resource needs of Chinese MNCs; countries close to China with market potential as Russia or Japan stand best conditions according to market seekers; Western Europe, North American and Australia with cutting edged technology and strong human resources demonstrate the best potential to be destinations of strategic asset orientated investment; certain industrialized economies or countries with industrialization similar to

China possess better industrial conditions for efficiency targeted investment; ASEAN countries with geographical, political, economic and cultural proxy advantage could provide stability for this specific investors. Alon, Chang et al (2009) also illustrates similar arguments. Because of common purposes as market, natural resources and technologies instead of asset exploitation, Chinese MNCs tend to weigh firm strategic purposes over host country political risks or cultural difference.

4.2 Difference between SOEs and POEs in OFDI location

There is great diversification even among Chinese MNCs and distinction between POEs and SOEs stand out clearly according to their difference in motives and firm features. Liang, Lu, et al. (2012) conclude that in contrary to SOEs, POEs value managerial expertise more and compared to Foreign Invested Enterprises (FIEs) they target more on natural resources. Such comparison might be a practical demonstrate of comparative advantages, since SOEs have better access to natural resources because of their size and state support and FIEs possess competitive advantages largely on organizing capabilities, therefore those POEs could only pursue those assets or capabilities they each hold no most advantage upon. Take the so-called organizing capabilities for example, POEs struggle between FIEs and SOEs with weaker organizing capabilities than the former and better than the latter. Therefore, the competitive positions in domestic market are reflected in overseas investment, which is the channel for POEs to acquire external assets, resources and capabilities.

Titan Alon, (2010) also discussed the issue from the perspective of institutions. Because of the institutional disabilities, Chinese private firms are more attracted to countries with large economic size and more economic openness, in order to gain a better institutional environment without those constraints in the domestic market. In contrary, SOEs tend to target more heavily on economies with complexity in stability or institutions for the purpose of natural resources or patented technologies. Besides, institutional disabled POEs often turn to overseas Chinese as networks due to the lack of international business experience and policy preference, which further distinguishes from public sector MNCs.

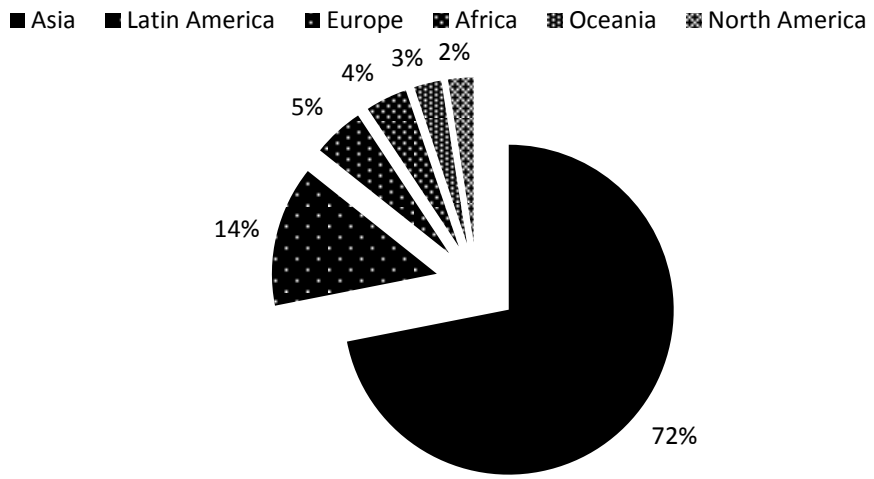
4.3 China's OFDI location features and comparison with neighboring countries

Comparing with industrialized economies, Zhang and Daly (2011) found China closely attached to destinations with important trade relations, good economic performance and growth, economic openness and rich resource endowment, which to some extent distinguish itself from western investors. When comparing with other emerging economies, as India in Jing-Lin Duanmu, Yilmaz Guney (2009), Chinese OFDI demonstrates the difference of valuing geographical distance and OECD membership, despite the common features of market scale, economic growth, export destination and tax favors.

The principle of comparative advantage is demonstrated in overseas investment as well as international trade. According to Gattai (2009), the essence of OFDI is toward skills and technologies that are not accessible in domestic market, even with IFDI. European Union (EU), with which such specialization is especially the case, Chinese OFDI tends connect a country with its specific comparative advantage as machinery in Germany, automobile in UK and design in Italy, in order to acquire the specific externality as intangible asset in host countries. To establish M&As, European firms with financial troubles, competition niches,

former partners or contractor with previous understandings could best partners of complementarity of Chinese MNCs with financial excess but in shortage of technology and managerial expertise.

Fig. 20 Regional distribution of China's OFDI, stock by 2010



Source: 2010 Statistical bulletin of China’s outward foreign direct investment

So what are the actual destinations of China’s OFDI? The figure 20 shows the regional distribution of accumulated stock by 2010 and the table 5 tells the story from 2003. The statistics vary a bit because of different sources but the rough percentage and ranking order stay the same, so there should be no severe problem in credibility. In interpretation, the first thing stands out is the dominance of Asia, which even kept growing from slightly over half in 2003 all the way till three fourth in 2010. Combining with the second largest receipt, two regions account for about 85% of China’s total OFDI stock, indicating a large extent of concentration. Besides, Oceania, Europe and Africa were receiving rapidly increasing investment. Oceania ranks first in OFDI increase, with an over 13 times growth within 5 years from 2005 to 2010 and 86 billion dollars stock by 2010, mainly in Australia, Papua New Guinea, New Zealand with rich natural resources as oil and minerals. Europe, with a 12 times increase over same 5 years and 157 billion dollars by 2010, diversified received investment among countries as Luxemburg, Russia, Germany, Sweden, UK, Netherlands, Finland and so on. Africa, with 130 billion dollars and 8 times increase after 5 years, received investment in South Africa, Nigeria, Zambia and many other countries with natural resources or market potentials.

Tab. 5 Regional shares of China's OFDI stock

Region	2003	2004	2005	2006	2007	2008	2009	Stock by 2010
Europe	5.3	3.1	4.2	3.4	5.8	1.6	5.9	3.5
North America	2	2.3	2.6	1.5	4.3	0.65	2.9	2.1
Oceania	1.1	2.2	1.7	0.8	2.9	3.5	4.4	2.6
Asia	52.5	54.6	35.6	43.4	62.6	77.9	71.5	75.5
Latin America	36.5	32	52.6	48	18.5	6.6	13.0	12.4
Africa	2.6	5.8	3.3	2.9	5.9	9.8	2.5	3.8
Total	100	100	100	100	100	100	100	100

Source: Chinese statistic yearbook, various years in Hong, Z.(2011)

In comparison with other Asia neighboring countries as shown in the table below, China shares the common feature of Asia concentration, yet 75% remain too high considering six continents, however the reason could be explained later. What China seems unique in OFDI location choice are the large volume in Latin America and recent high growth in Oceania, Europe and Africa. The former could also be attributed to the same reason as high Asia concentration, and the latter should be the result of China's hunger for energy, industrial inputs and agricultural products as the "world factory". Again, overseas investment motivations reflect domestic market positions, and location choices reflect motivations.

Tab. 6 OFDI location choices by selected Asian developing countries and regions, flow in 1996, billion $

	South Korea	Taiwan	Hong Kong	Singapore	Malaysia
Total scale	13.7	27.3	112.2	37.5	12.3
Location choice	China and ASEAN 44%	China 35%	China	ASEAN 47%	ASEAN 33%
	North America 31%	ASEAN 20%	ASEAN	Europe 20%	Oceania 25%
	Europe 15%	North America 16%	North America	Other Asians 16%	North Africa 16%
	South America 4%	Other Asians 6%	Europe	Others 17%	US 9%
	Others 6%	Europe 3%	Oceania		China 9%
		Others 20%			Others 8%

Source: Wang, M. (2000)

4.4 Tax heaven issue round tripping effect

Tab. 7 Top 10 countries/regions of China's OFDI stock, 2010

Rank	Country or region	Stock (billion US$)	Percentage
1	Hong Kong	1990	62.8%
2	British Virgin Islands	232	7.3%
3	Cayman Islands	172	5.4%
4	Australia	78	2.5%
5	Singapore	60	1.9%
6	Luxemberg	57	1.8%
7	US	48	1.5%
8	South Africa	41	1.9%
9	Russia	27	0.9%
10	Canada	20	0.6%

Source: see fig. 20

Take a glance at the top 10 receipts of China's OFDI stock, and one could easily spot Hong Kong, British Virgin Island and Cayman Islands, as three major offshore tax heavens dominating the list. In fact as the table shows below, these three not only occupy large share of China's overseas investment, but also its IFDI. Considering their quantity involved within, this could be a shock to the credibility of statistics and also the related study results. And what does this issue mean to this study then?

Tab. 8 China's FDI concerning three major offshore financial centers, 2005

	Value of FDI from China (USD million)	As a share of total FDI from China (%)	Value of FDI to China (USD million)	As a share of total FDI into China (%)
Hong Kong, China	3 420	27.9	17 949	29.8
British Virgin Islands	1 226	10.0	9 022	15.0
Cayman Islands	5 163	42.1	1 948	3.2
Total – 3	9 809	80.0	28 918	47.9

Source: MOFCOM and National statistics in OECD (2008)

First of all, considering the huge amount of FDI both from China and into China through those tax heavens, there is a "round tripping" effect or known as "money laundry", about how Chinese capital flowing out to these tax heavens and flowing back home. According to Yun Schüler-Zhou, Margot Schüller, (2009), such effect would damage China's aggregate FDI statistics by adding non-existing investment. Therefore the real total amount would be less and growth rate slower. However, the real scale of such effect is unclear yet. In Ziyi Wei, (2010), it is mentioned by measuring the gap between China's IFDI statistics and source countries' OFDI statistics, such round tripping effect could take as much as 40 percent of China's OFDI. That might not be exactly the actual number, but being at so large the scale could already to certain extent damage the analysis of its OFDI.

To give reasons for such activity, Ziyi Wei, (2010) proposed the host countries' specific features in correspondence to China's specific disadvantages. It is mainly China's capital market imperfections, along with other institutional disadvantages, that leave certain institutional environment overseas as tax heavens vital to Chinese firms in terms of their survival and profitability. There are also explanations pointing to domestic high tax rate and corruptions, to underline the crucial role of tax heavens in China' OFDI. Nevertheless, the issue remains a limitation to this study and calls for further research with destination data.

5. Entry mode and local interaction of OFDI

5.1 Entry mode comparison

Usually there are at least two ways of market entry modes concerning OFDI. One is M&As, the other is greenfield investment, including joint ventures and wholly owned enterprises. By of distinction of different ways, mergers or other ways with a local partner usually takes less time and could fit in the local market easier with help from local firms providing market skills and operational know-how. As for wholly owned enterprises whether acquired or established as greenfield investments, they usually stay integral and allows full control for the investor on subsidiaries, but might call for time and more cost to penetrate local market in the process of localization.

In China's overseas investment, according to Yun Schüler-Zhou, Margot Schüller, (2009), the former way of M&As stand outs impressive. Asia and Latin America dominate and receipt destinations of total investment, yet it is industrialized economies with more sophistication that attract more M&As in China's OFDI as Europe, North America and Australia. Furthermore, against the even distribution trend within overall OFDI trend, the M&As statistics show more concentration in industries as mining and manufacture, along with an equity orientation concerning the overseas target firm or partners.

Tab. 9 entry mode of China's OFDI, percentage of total number

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Wholly owned	30	32	42	46	52	62	55	58	58	58	61
Joint Venture	70	68	58	54	48	37	45	42	42	42	39

Source: SAFE in Buckley, P. J., A. R. Cross, et al. (2008)

Certain conclusions might be able to drawn from the tables above and below. According to table 9, the type of wholly owned investment were taking over in the 1990s with the shares of joint ventures in total number decreasing, confirming Chinese MNCs' preference in equity participation, especially in natural resource or manufacture related industries. However, the reliability of data might be impaired because it measures number of investment projects instead of value, which brings out the table below showing the rapid increase of M&As in OFDI value percentage amounting almost 85% by 2006.

To explain the high share of M&As in China's OFDI, the motives behind might be attributed to since entry modes as well location choices work for the motivations in OFDI. Wu, Hoon & Yuzhu (2011) argue that M&As work as short cuts for Chinese MNCs move themselves up the value chain, when acquiring shares or whole firms in developed countries for advanced technologies or rich natural resource endowment countries for industrial inputs. M&As surely is the easiest and most straightforward way to gain access to those strategic assets.

Tab. 10 M&As in China's OFDI, in million dollars

	1988-89 (average)	1990-19 (average)	2000-20 (average)	2003	2004	2005	2006
China's deals	109	430	3 561	1 647	1 125	5 279	14 904
As a ratio in total OFDI flow (%)	13.9	16.7	43.6	57.7	20.5	43.1	84.5

Source: MOFCOM & UNCTAD in OECD (2008)

In comparison with other Asian economies, as the table shows below, one might identify the fluctuations of M&As investment in more sophisticated economies as Japan, Korea, Singapore and Taiwan, in contrary to the continual rise of mainland China. One factor behind such phenomenon might be that China was still in an earlier stage with steadily increasing M&As, considering its economic scale and per capita income compared to those economies, for which its relative small amount could be the evidence. The other reason goes back to the different motives. Stated by Deng, P. (2004), instead of common purpose of export platform in OFDI from other Asian emerging economies, Chinese MNCs do not possess so strong a desire transfer domestic production overseas to satisfy both domestic and foreign markets at competing costs. In fact, as mentioned in the motivation chapter, cost efficiency is almost never a primary motive in China's overseas investment, comparatively speaking, strategic assets seeking might rather be, which is currently best corresponded with M&As.

Tab. 11 M&As in OFDI by selected Asian country, in US million $

	1990	*1995*	*2000*	*2001*	*2002*	*2003*
China	60	249	470	452	1,047	1,647
Japan	14,048	3,943	20,858	16,131	8,661	8,442
Hong Kong	1,198	2,299	5,768	3,012	5,062	4,168
India	–	29	910	2,195	270	1,362
Indonesia	49	163	1,445	–	197	2
Malaysia	144	1,122	761	1,375	930	3,685
Philippines	–	153	75	254	2	1
South Korea	33	1,392	1,712	175	98	662
Singapore	438	892	8,847	16,516	2,946	5,018
Taiwan	1,385	122	1,138	161	74	253
Thailand	18	144	5	699	87	176

Source: UNCTAD in Hong, E. and L. Sun (2006)

5.2 Local interaction: case of Africa

Biggeri, M. and M. Sanfilippo (2009) argue OFDI, trade and economic cooperation or aid are the three pillars of Chinese MNCs involving international business, as probably the most effective channels to interact with global markets in post-liberalized age. However recent rapid growth of M&As in OFDI gains Chinese MNCs world attention with media focus. After market entry, their interaction with local governments, firms and other market entities comes across certain blame and accusations, in which Africa stands out as a hot spot. In Elirehema Doriye (2010), Chinese firms are viewed of energy, minerals and agriculture products seekers in some of world's poorest countries in Africa. Firms from western countries like US or UK generally practice convention that investment and aid are linked to local institutional reform, as a kind of foreign supervision with commercial incentive. China, however, is willing to cooperate with a few state governments in Sudan or Guinea in order to purchase natural resources and food without the constraint of institutional reform attachment due its non-intervention policy in foreign affairs.

With OFDI coming from western industrialized economies as a part of aid and supervision, Chinese investment act more in the way of pure business in Africa, sometimes even obviously opportunistic. According to Hong, Z.(2011), the role of Africa is more like a platform for Chinese MNCs to conduct vertical integration and create entities based on home network supply instead local market ,meeting the demands of local state rather than ordinary consumers, copying production model from China instead of fitting in local socioeconomic community. One example is rather clear: along with Chinese investment

usually are large sum of Chinese labors exported to coordinate the invested projects instead of local labor, which is not common among western MNCs. Such isolation away from local community results in disrepute and even resentment again Chinese OFDI.

In explanation or even defense for Chinese MNCs' behavior in Africa, here are three hypotheses. Argued by Biggeri, M. and M. Sanfilippo (2009), the commercial flows between China and African countries are not unilateral. The former exports manufacture goods at low cost in domestic market while the latter supplies natural resources and primary commodities which are also based upon domestic market conditions. As a result, certain counties become both the biggest exporter to China and largest market for Chinese firms at the same time. Such increasing trade reflects comparative advantages of each, and direct investment does well. Therefore it is the natural resource and market potential of Africa that hold the complementarity in the Sino-Africa business.

Secondly, back to the distinction between Chinese SOEs and POEs. Sanfilippo, M. (2010) identifies the contradictory attitude in Chinese firms toward macroeconomic stability and political institutions in host countries. Those factors usually have a fundamental impact on location choice, while some Chinese MNCs seem to possess an ambiguous risk preference toward them. As discussed in the location choice section, POEs are more drawn to industrialized economies with sound institutions while SOEs more tend to access less developed regions as some African countries with natural resources or other critical assets despite the political and institutional risks involved. In those cases, business activities could come with political consideration attachments. Hypothetically whatever political purposes are involved in SOEs activities, it seems no righteousness to lay blame on overall Chinese firms.

Also according to Haglund, D. (2008), it is the combination of host country weak regulations and Chinese MNCs' opportunism that causes harm to local socioeconomic community and sustainable development. Without the hotbed, there might be no chance for unpleasant business behavior to grow. The evidence lies in the fact that Chinese MNCs demonstrate perfect capability to follow international common rules and local regulations when conducting business in developed countries with strong regulations and supervisions. Certain behaviors of even SOEs in China's OFDI are purely opportunistic, with economic incentives to minimize cost, avoid tax, which sometimes could also be seen on western investors, due to the common nature of maximizing profit in capitalist market. Plus the lack of supervision and transparency in certain African economies, investment might turn out conflicting with the interests of local shareholders, consumers or regulators.

To conclude this part, as in Hong, Z.(2011), one might need to take into consideration of the macro background that the rise of Chinese MNCs plays a shock to the established international business order. Some of them might lead a challenge toward western conventions in cross border investment, but most are within the boundary of pure business. Sometimes even Chinese firms could be the victims of the unpleasant image created by their state or some SOEs. It is not intended to defend for China's image here; even some policy makers did recognize the problem of seeking short term economic profit at the expense of long term political interests. But as Milton Freedman says, business of business is business.

The other factors involved with commercial activities are better to be removed, not labeled onto the latter.

6. China's OFDI status and prediction related discussion

6.1 OFDI induced development

After the major comparison on motivation, location, entry mode and local interaction of China and Asian neighboring economies based on the OLI paradigm, it might be necessary to clarify the association between OFDI and aggregate economic conditions, particularly how the former reflects, and impact on the latter. Despite some arguments about how OFDI would hallow out domestic economy with production and employment transferred overseas or crowd out international trade with foreign subsidiaries, the prosperity of international presence usually goes along with domestic economic development.

Zhao, Liu, et al. (2010) identify the positive impact from China's OFDI on domestic productivity. In the empirical analysis concerning almost two decades from 1991 to 2007, each 1% increase of OFDI is found to induce 0.55% rise in total factor productivity of home economy, of which 0.33% growth in technical efficiency and 0.22% in technological progress. Mainly through technological efficiency increase rather than spillover sourcing, China's OFDI has been benefiting domestic productivity growth. Chen, Hsu & Wang, (2012) also find the positive connection between Taiwan's OFDI and domestic exports, especially in traditional sectors to China, probably because as a result of host country acquiring production transfer and export base establishment. Also, according to Liu & Lu (2011), China's OFDI induces trade growth especially capital export thus promoting the employment of almost all the industries related to export, all the way vertically from raw materials to works in process. Concerning the trade issue, Lim, S, & Moon, H (2001) even argue there is no crowd out effect between OFDI and trade. If there is certain replacement, it would only be some transfers among macro statistical categories from the perspective of policy makers, but often better outcomes from the point view of micro firms thus no actual conflict between their interests.

However, it is to say there is certain causality from OFDI to economic development. From the survey results in Weng, Y., C. H. Yang, et al. (2010), only one third of Taiwanese MNCs benefit from OFDI, which could serve as a lesson that firm specific advantages and disadvantages based upon comparative advantage principles are crucial in OFDI decisions. Therefore the future partly depends on China's current move in OFDI, according to the discussions below.

6.2 China's OFDI overall status in stage theories and sector distribution comparison

Through the comparison of China and neighboring Asian economies, one could gain some hints on China's OFDI status according to the others. In fact, there are certain stage theories indicating China's OFDI evolution status as well as other countries'. The table below shows one of them comparing the past history of China and Japan. Despite an earlier starting point of Japan, both countries share a similar history of state deregulation in OFDI evolution.

Tab. 12 OFDI development stage comparison between China and Japan

Japan			China		
Stage	Period	Characteristics	Stage	Period	Characteristics
One	1950–1978	Government restriction on imports and direct investment, OFDI concentrated on resource-seeking.	One	1978–1990	Preliminary international business activities.
Two	1979–1985	Revision of the Foreign Exchange and Foreign Trade Control Law. Restrictions on internationalization lifted.	Two	1991–2000	Large SCEs granted OFDI permit. Increasing international IPO and M&As.
Three	1986–Present	Cost reduction and market expansion OFDI. Asia took over as the second largest recipient of FDI.	Three	2001–Present	Entry to WTO. Internationalization further accelerated.

SCE: state controlled enterprises
IPO: initial public offering

Source: Yang, X., Y. Jiang, et al. (2009)

The description of history above is not unique, yet there is certain consensus concerning China's OFDI history in the last approximately 30 years. In the statement of Honglin Zhang, K. (2009), it all started in late 1970s when the state adopted economic open policy. However in the earliest stage, OFDI initiation was insignificant and largely experimental accompanied by strong supervisions and weak capital support. SOEs occupied almost all the OFDI access partially as a result of the planned economy back then. More deregulations came with Deng Xiaoping's southern tour in 1992 and the "going global" strategy adopted in 1999, accompanied by the Asian financial crisis in 1997 and China's entry into World Trade Organization (WTO) in 2001. Therefore those opportunities helped the 1990s to see the first wave of Chinese MNCs starting up and the fluctuations in annual flows due to the unstable macroeconomic environment, but sill the average value tripled compared to the 70s. With the fundamentals established, China's OFDI thrived in the 21st century with the rapid growth history rarely saw in the past, also as a result of deepened globalization. As information became easier accessed and capital market more liberalized, some new Chinese MNCs started to step out of SOEs' shadow and entry world market, with competitiveness in

different manufacture industries as electronics and communicating technologies. As for those state controlled MNCs, policy preference drove them into natural resource industries, export related services, overseas R&D facilities and M&As to acquire strategic assets as brands and technologies.

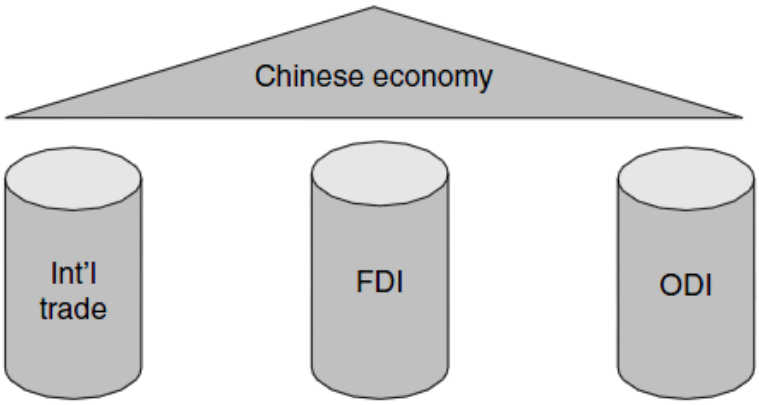
Tab. 13 OFDI stage model and China's status

	Stage 1	Stage 2	Stage 3	Stage 4
Income per capita (US$)	< 400	400 - 1500	2000 - 4750	> 5000
IFDI	Insignificant	Rapid growth	Slow down	Slow growth
OFDI	Insignificant	Slow growth	Rapid growth	Slow down
Net outward flow	0	> 0	≈ 0	< 0
China's status	Pre 1978	1980 - 1999 IFDI outpacing OFDI	2000 - 2030	Post 2050

Source: Modification from Dunning (1993) and Wang, M. (2000)

Some other stage theories, as the table shows above, even include certain predictions of future potentials according to income per capita growth, which actually corresponds to the last table in time division. The prediction of future might be of different opinions, but its capture of China's current stage is convincing is rapid surge of OFDI and the slowdown in IFDI growth. However according current income per capita, and both IFDI and OFDI conditions, one could say China is already ahead of schedule according to usual stage theories. In Alon, Chang et al (2009), due to the strong and continuous domestic economic development and the eager to catch up and compete with western MNCs, Chinese firms are accelerate their internationalization process by jumping through traditional stages. The proactively conduct M&As or establish J&Vs to access networks with foreign partners and overseas strategic assets. In the current stage, OFDI has been one of the three pillars together with trade and IFDI, to fuel China's strong growth ever since the start of the new century.

Fig. 21 Three pillars of Chinese economy since 2001



Source : Alon et al (2009)

Tab. 14 China's OFDI by sector

Industry	2003	2004	2005	2006	2007	2008	2009	Stock by 2009
Mining	48	32.7	13.7	40.4	15.3	10.4	23.6	16.5
Manufacturing	21	13.8	18.6	4.3	8	3.2	4.0	5.5
Financial services	–	–	–	16.7	6.3	25.1	15.5	18.7
Non-financial services	28	48.2	67.7	37.7	69.4	57.2	56.5	58.6
Leasing and business services	10	13.6	40.3	21.4	21.2	38.8	36.2	29.7
Wholesale & retail	13	14.5	18.4	5.2	24.9	11.7	10.9	14.5
Transportation & storage	3	15.1	4.7	6.5	15.4	4.8	3.7	6.8
Building & real estate	1	–	–	1.8	4.6	1.9	2.3	3.7
Other services	1	5	4.3	2.8	3.3	3.1	3.4	3.9
Others	3	5.3	0	0	1	1	1	1
Total	100	100	100	100	100	100	100	100

Source: Chinese Statistic Yearbook, various years in Hong, Z.(2011)

Such leapfrog is also reflected in the sector distribution of China's OFDI compared with other Asian economies in some ways, which the tables above and below might give some indications. Compared with other Asian economies, in the description by OECD (2008), natural resource and services as finance, whole sale and retail still dominate China's OFDI, most of which are trade related, leaving rather shares for manufacture. Such feature distinguishes China from the others, especially those more industrialized economies as Hong Kong, Taiwan and Singapore, which already experienced the manufacture export orientation period. However, one could also say China is adopting a different strategy. Instead of transferring manufacture industries to other countries or regions with lower costs, China sustained those industries to accommodate huge domestic labor supply. But in order catch up with MNCs with much longer history, Chinese firms also spared no effort in acquiring strategic assets as natural resource, brands and technologies in the value chain through M&As. To give explanations for the first choice, Alon et al (2009) identifies the situation that Chinese firms face, which concerns the large amount in total, but rather limited per capita domestic natural resources, of which large shares located in remote areas to transport from or deep beneath the earth too difficult to reach. But being one of the world's large manufacture product exporters as well as largest urbanizing economy, China develops such a hunger for enormous amounts of high quality industrial inputs as energy and raw materials that mere trade would never be able to satisfy due to regulations in source country or fluctuations in international market. Therefore by stage theory, China is still holding to its comparative advantage in manufacture, and without the stage of production transfer common in the flying geese model, China is already attempting to leapfrog in the value chain by strategic asset seeking activities in OFDI.

Tab. 15 OFDI sector features of selected Asian developing countries and regions, 1996

	South Korea	Taiwan	Hong Kong	Singapore	Malaysia
Firm type	Large chaebols	Mainly SMEs with a few large firms	SMEs in manufacture and large business groups in finance, property or infrastructure	Mainly large firms	Large resources based firms
Sector/ industries	Manufacutre 56% Commerce 20% Mining 6% Other 18%	Manufacture 60% Finance 25% Commerce 6% Others 9%	NA	Finance 50% Manufacture 25% Commerce 10% Real estate 7% Others 8%	Finance and real estate 52% Manufacture 19% Agricultural industries 16% Others 13%
Manufacture OFDI locations	USA, UK, Indonesia, Vietnam, Malaysia, The Philippines	China, Malaysia, Thailand, Vietnam, Indonesia, The Philippines	China, Indonesia, Singapore, Thailand, Vietnam	Malaysia, HK, Indonesia, China, Thailand, India, Vietnam	China, Indonesia, The Philippines, Cambodia

Source: Wang, M. (2000)

6.3 Conclusive future prediction factors and Institutional reform

From the analysis and discussion through the comparison with other Asian economies, it could be concluded that China seems more diversified in motivation and location choice, if Hong Kong excluded from Asia. I would suppose that is the result of China's later comer position and rapid pace in internationalization. Combined with its preference in M&As, such comparison could give an impression of China's eager to catch up through leapfrogging in global market. How would such present strategy influence on its future? The analysis in comparison also underlines that the major decisive factors concerning China's OFDI future are rising labor cost, different patterns between SOEs and POEs, M&A conditions and localization issue. With an aging society around the corner, China is becoming more similar to Japan, yet the outcome of whether economic fundamental harm or structural upgrade urge remains doubtful; with M&As and localization issue attracting world attention, the capability of Chinese MNC to access strategic assets and fitting in local market and community also depends on their actual actions.

Within the process, the last determining factor brings out the crucial player of central state, because of its support for Chinese MNCs is fundamental and cannot be ignored. As the largest shareholder and operator of China's overseas investment, its future orientated policy direction could lead to straightforward impact on the actions of Chinese firms both SOEs and POEs, and actually its attitude toward those two economic ingredients is exactly the key to future directions, because of their almost disparate patterns in OFDI activities, and important roles representing the trends of status quo or potentials, vertical or horizontal, catcher-up, leapfrog or unique.

The role of SOEs is partially related to its political institutions and economic regime. According to table above and as analyzed earlier, by 2010 SOEs still occupies 66% of China's total OFDI with only 10% of total investor firms. Of all the SOEs, enterprises under the direct control of central government stand out with over 80% shares of annual OFDI flows ever since 2004, leading a huge gap from other local enterprises including POEs. As a matter of fact, according OECD (2008), China's 10 largest Chinese enterprises ranked by outward FDI stock by 2006 are all central SOEs, with three oil firms in the lead, and others industries as

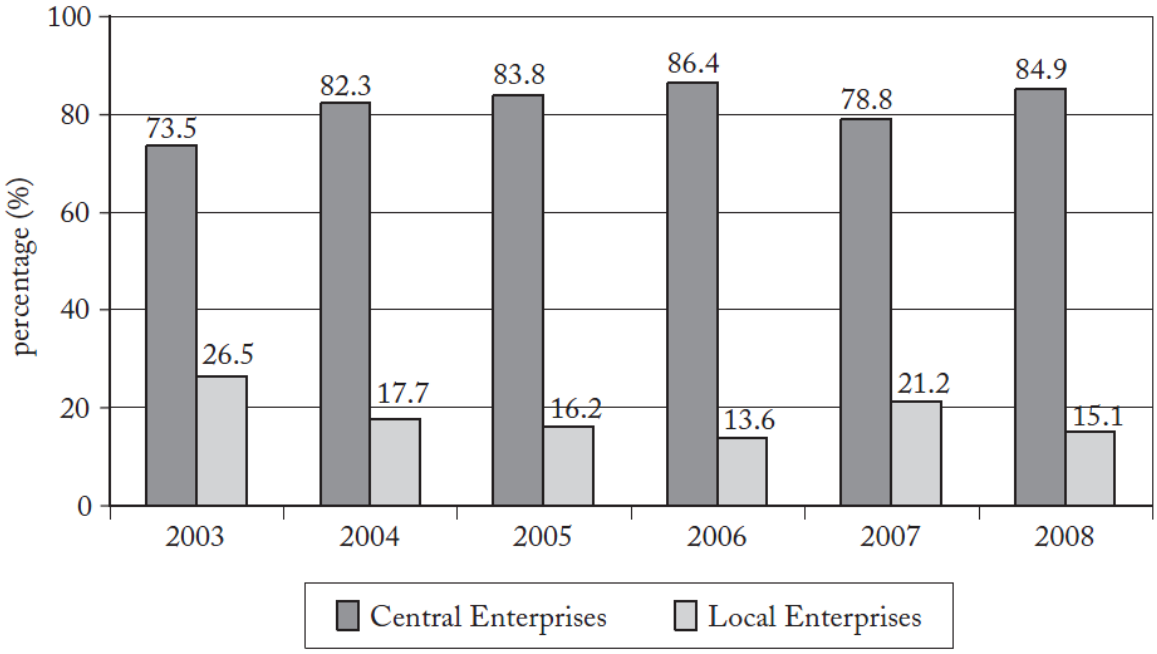
Tab. 16 China's OFDI by investing firm ownership, 2010

Classification of enterprises by registered status	Proportion in total OFDI stock (per cent)	Proportion of total number of investors (per cent)
State-owned enterprises (SOEs)	66.2	10.2
Private enterprises	1.5	8.2
Limited liability corporations	23.6	57.1
Collective-owned enterprises	0.2	1.1
Cooperative enterprises	1.1	4.6
Share-holding corporations	6.1	7.0
Enterprises with foreign investment	0.7	3.2
Enterprises with investment from Hong Kong, Macau and Taipei	0.1	2.0
Others	0.5	6.6
All	100.0	100.0

Source: MOFCOM in Ziyi Wei, (2012)

covering natural resources, telecommunications, finance, transport and other infrastructure related fundamentals. All of them are operated under the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), and reap profits from domestic market monopoly positions. They lead China's OFDI toward strategic asset and diversification, with strong state support in finance, information and other factors.

Fig. 22 China's OFDI stock by source firms ownership (2)



Source: MOFCOM in Hong, Z.(2011)

China's economic regime is becoming ambiguous and confusing, if according to the historical experience of other countries. Despite the signs of change showing up ever since the economic reform began and reaching climax in first few years of 21st century, reflected also in the gradual rise of POEs in China's OFDI, Li, Xiaofei (2008) argues that reforms and revitalization around SOEs has been implemented again slightly before 2008 financial breakdown, which indicates an opposite direction compared to privatization strategies adopted by European post-Communist countries. Therefore to describe such phenomenon would be saying, China is currently promoting capitalism and market economy, which is not experienced by former Communist countries, and at the same time sustaining the domination of large SOEs in domestic market under the direct control of central state, which is also a rare case for emerging economies.

According to Alon, Chang et al (2009), Japan's Ministry of International Trade and Industry and Korea's Economic Planning Agency are each country's central pilot agency to lead domestic economic development, but remain autonomous and instrumental. China's case is different. There are multiple governmental departments as such, but all under the direct control of central state. They argue it is China's geographical and economic size that limit the option of decentralization in political bureaucracy, and without which the privatization of market entities would be a distant goal.

Instead at present China is experiencing dual market economy in the middle of economic transformation and political institution reform. Instead of Communist regime without market economy and Capitalism with market liberalization, China seems to combine both into a dual market among economic actors and political actor, the latter also as regulators. Such a "merchant state dualism" as mentioned earlier, or "state capitalism" as being

recognized and accepted, is promoting a team of SOE corporate groups, in the replacement of former large POEs in models from Japan and Korea according to the description of Alon, Chang et al (2009), to achieve national economic strategy goal by participating and competing in global market.

It is stated that both Japan and South Korea played crucial roles in Cold War as well as economic confrontations in the post war era, therefore their neo-mercantilism were the combination of inherited western capitalism and initiated emerging economy based on comparative advantages. China remained surviving as a major nominal socialist country in the post-Cold War era, with better macroeconomic international market conditions but weaker domestic market economy institutions. Globalization stroke China into economic nationalism instead of political, but the essence of state financing large SOEs are not much different from the examples of Japan or Korea supporting large POEs to struggle in international market to fight for catching up opportunities.

However, the basic essence between POEs and SOEs should matter in micro level decision choices. Japanese and Korean POEs had to eventually participate in global market and face competition from western MNCs, as a result of deepening globalization and domestic market liberalization. However, Chinese SOEs already currently enjoy the monopoly profits in domestic market as a result of slow progress of market liberalization and deregulation at least partially due to the political regime. Do they possess enough incentives to struggle seeking strategic asset, promote technology innovation and reap reversed spillovers to further upgrade in value chain, or would they be competitive enough to sustain advantages in current market positions under the trend of market globalization and liberalization? From the understanding of current situations, their race with China's aging population, other MNCs from both industrialized economies and emerging economies, would determine the result. To put in another way, it is a destined race of internationalization, and inevitably, future depends on it.

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