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Innovation and Spatial Dynamics**

Chinese Outward Foreign Direct Investments in the EU-27: Defeating the traditional FDI theory?

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Abstract: China's incorporation into the outward investment trend in the last decade has attracted a lot of attention. The increasing interest of one of the largest economies in the world in the EU-27 has, at the same time, raised fears among developed countries on the intentions there are behind. Through a comparison of motivations and sectorial distribution of Chinese MNEs in different parts of the EU-27 together, this study will analyze how much Chinese outward investments differ from the classical theory developed until today. The differences and similarities with other NIEs are also taken upon, emphasizing the role of the government in the direction of Chinese MNEs' investments.

Key words: Outward Foreign Direct Investment, China, EU-27, MNE, FDI motivations, SOEs

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BRIC	Brazil, Russia, India and China
CCPIT	China Council for the Promotion of International Trade
CDB	China’s Development Bank
CEO	Chief Executive Officer
COSCO	China Ocean Shipping Corporation
CSA	Country Specific Advantage
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product

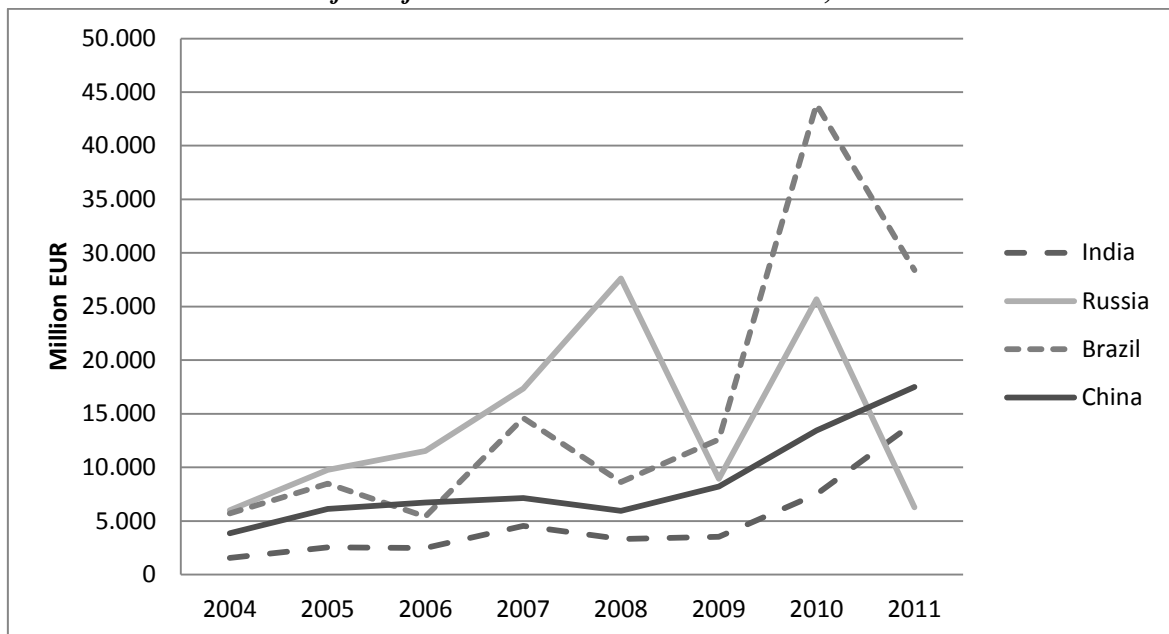
IDP	Investment Development Path
IT	Information Technologies
MNE	Multinational Enterprise
M&A	Mergers and Acquisition
MOFCOM	Minister of Commerce
NIE	New Industrialized Economy
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Location and Internalization
RBV	Resource Based View
R&D	Research and Development
SAFE	State Administration of Foreign Exchange
SOE	State-owned Enterprise
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization
WRI	World Resources Institute

1. Introduction

Outward foreign direct investment has been studied by multiple researchers in the last years, both to develop and developing countries. It is the dynamics and effects of the latter in the home country and the host country that has received the greatest attention. It is a fact, however, that these emerging countries are starting to become investors and they are growing at a fast rate. The trend is likely to continue growing and it is expected to change how we viewed the world until today.

Of all developing economies, China is the highest investor worldwide according to data from the UNCTAD. Its influence in developing economies has attracted the attention of many scholars since the phenomena started, but little study has been done in one of the most important regions of the world: the European Union. The presence of BRIC countries has attracted a lot of interest and they are thought to have created 6% of the jobs in Europe in 2011, only behind Germany and the US (Ernst & Young, 2012). Although Brazil appears to be a greater investor in the region (table 1), China's presence is becoming increasingly dominant in the last years. This is the reason why the issue has started to gain a greater interest in the scholar world.

Table 1: Direct investment flows from BRIC countries in the EU-27, 2004-2011

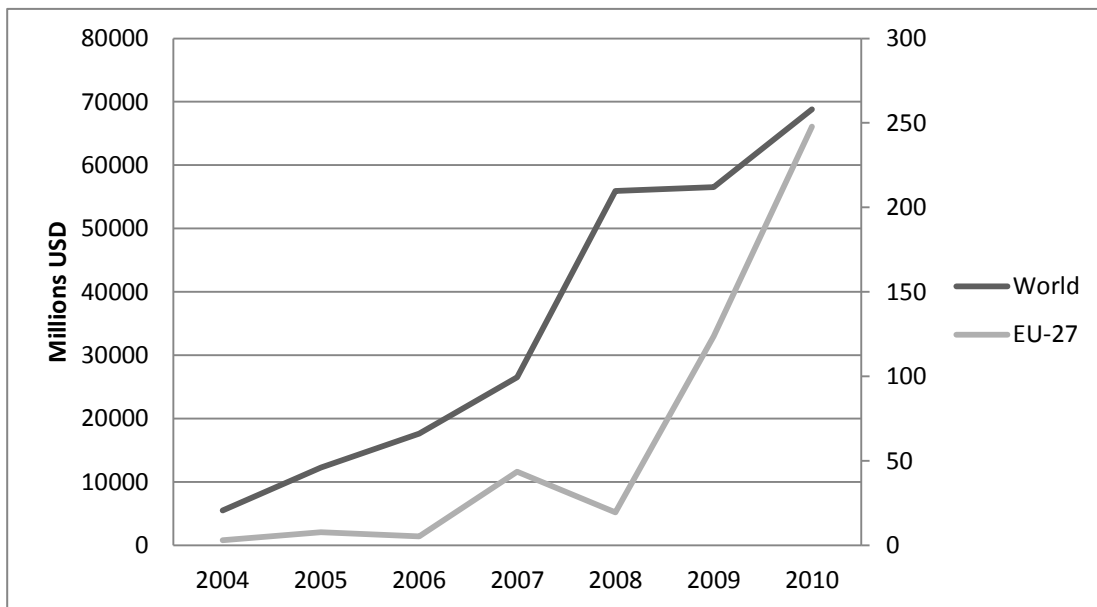


Source: Eurostat

Nevertheless, as many other continents, the European Union has been highly influenced by the financial crisis, and its direct investment declined considerably, among it that of

China. According to China’s Council for the Promotion of International trade (CCPIT, 2010); Chinese investors were considering other economies that could bring them more advantages during this period. However, the investment growth rate has returned to levels prior to the crisis according to MOFCOM. Additionally, China has confirmed its interest in continue to invest in Europe, where opportunities emerging from the crisis are being taken upon by home investors. Although the amount is relatively small when compared to total OFDI by the country, its growth rate has been impressive and the trend appears to continue in the future. On the other hand, total OFDI has decreased its growth rate since the crisis started in 2008 (Table 2).

Table 2: Chinese global OFDI vs. EU-27, 2004-2010



Source: Annual Statistical Bulletin 2010, MOFCOM

The theory that exists in order to explain the internationalization of firms and the patterns of OFDI has been regarded as a paradigm of industrialized firms trying to introduce themselves into developing countries. Nonetheless, economists cannot decide whether China follows or not the conventional theories. Constraining the study to a certain region that has not been sufficiently explored, we hope to find indicators that point out the suitability of existing theories to the present case. We must be aware that the findings of this research cannot be generalized to all Chinese OFDI, but it may help to understand its behavior in other developed countries as well.

Questions that this study tries to answer are:

Is China following the traditional investment path that has been identified by other nations?

Does China differ itself from the investment behavior of the other East Asian economies?

What motivated Chinese investments in the EU-27? Has there been a change of interest along time?

Is the strategy of Chinese OFDI different in the four regions of the EU-27?

Other authors have already addressed the topic, but they have taken the continent as a whole, not divided it into regions. The purpose of doing so in this study is to provide a complete picture where the specific dynamics of the investment can be identified depending on where it is located. By doing this, if any pattern is identified, Europe can focus on its strengths in order to attract the necessary investment and undertake the right strategies.

What is also of great interest in this study is the distribution of the investment by industry. There is a lot of discussion on what it is that China is really looking for when taking the decision to invest in developed countries that have a competitive advantage over them. Identifying the industries and categorizing them by regions will help us find what the main focus of China's OFDI is.

The analysis shows that there are three main reasons for investing in the EU-27: looking for new markets, looking for assets and increasing the efficiency. For each reason there is a particular region that is predominant. While asset-seeking MNEs are mainly present in Northern and Western Europe, those who seek a more efficient production in the region go to Eastern Europe. Finally, MNEs that are searching for new markets, segments and customers tend to concentrate in Western Europe but the dispersion is greater than for the other motivations. Depending on the industry, they tend to locate their operations in one part of Europe or the other.

However, Chinese investments are not as simple as it could seem at a first glance because of particular characteristics. One of them is the role of the government and its influence over the geographical and sectorial location of the OFDI. It is necessary to

divide between public and private investments and see what is particular for each of them, such as the sectors they focus on. Public investment seems to vary greatly across time and is not driven by private interest but by the idea of a “national plan”. Private investments, on the contrary, are more in accordance with the classical FDI theory and will therefore need to be analyzed more in depth to discover a certain pattern.

The study is structured as follows. The first section provides a theoretical background on the theories of internationalization and FDI, and an overview of previous research done on the subject. The following section, “Data and Methods”, will present the secondary data used in the study along with the methods used to reach the conclusions. The fourth section provides a global view on Chinese investments in the world along the time and on Chinese OFDI in the EU-27 as a whole to be able to understand the importance of the recent phenomenon subject to study. The fifth section provides a comparison of Chinese OFDI with that of other Eastern and Southeast Asian economies to see if they formulate together a theory of their own. The sixth section presents the most important motivators for private MNEs to go overseas and shows how China’s investment comply to a certain degree to the classical frameworks. The seventh section is completes the picture of Chinese MNEs in the EU-27, introducing the role of the government in public and private investments. Finally, an in-depth study of the most important private enterprises in the form of case studies will be shown, followed by the conclusions from the present analysis.

2. Literature review and previous research

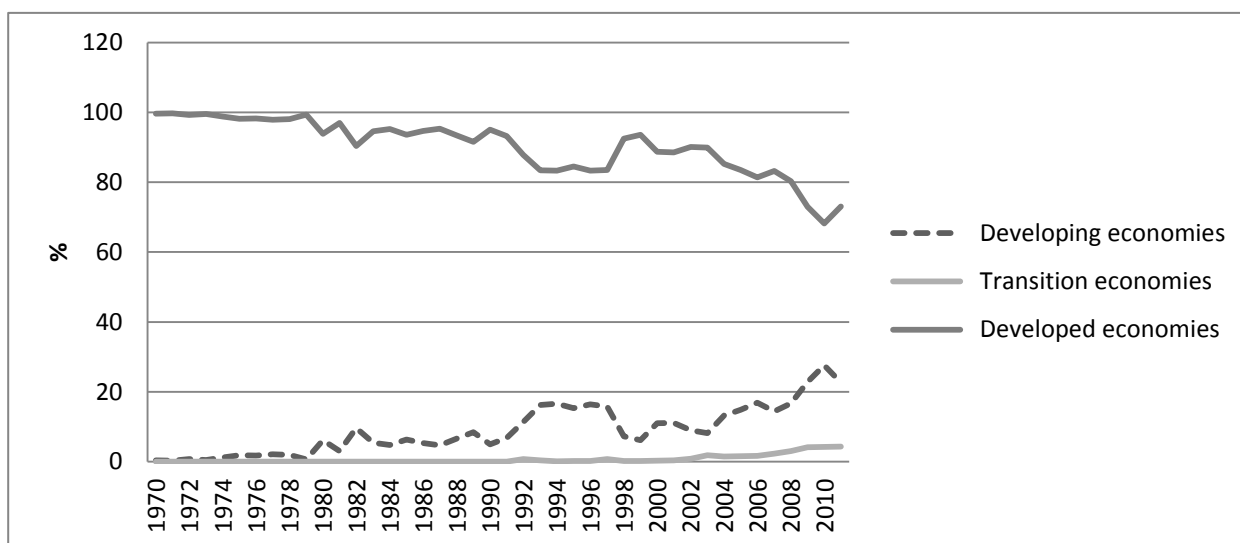
2.1. Literature review

2.1.1. Mainstream theories

Economic and international business literature has recognized for a long time the presence of foreign direct investment and its importance for the development of both home and host countries. For a long time, outward foreign direct investment (OFDI) was dominated by developed countries, accounting for an 88% of global OFDI in 2000 (Table 3). This dominance of the industrialized world had the consequence of models and theories developed to explain the behavior of western MNEs that invested in developing and emerging economies (Wei, Z., 2010; Lau, Ngo & Yiu, 2010), which has

often been criticized in recent years with the emergence of transition and developing economies in the FDI field.

Table 3: Global OFDI flows by economic groups 1970 - 2011



Source: UNCTAD

On one hand, we have the traditional FDI theory that has been used to explain investment from developed countries to develop and developing countries, and their applicability for developing countries have been questioned by several authors (Child & Rodrigues, 2005; Rugman & Li, 2007). The difficulty in addressing traditional FDI theory is that many of them overlap and use elements from other theories, bringing confusion on the line that separates one from the other.

According to Vasyechko (2012), theory of FDI can be classified into two parallel: the “theory of the firm” and the “international trade theory”. Being much related to each other, international trade theory refers to the general equilibrium model of world trade with models such as “Heckscher-Ohlin-Samuelson”, while the former refers more to the micro-level and the motivations from an individual level to expand their operations.

The neoclassical theory, with the assumption of perfect competitive markets, developed the first models that shaped our understanding of how FDI worked. General equilibrium models were used to explain how industrialized countries with high labor costs moved their operations to developing countries that were more labor-intensive based. This approach was criticized for not showing the reality accurately, and economic theories moved forward to find alternative explanations.

It was Coase in the late 30s that developed the theory of transaction costs and inspired Hymer (1960) to develop a theory of FDI, where MNEs went abroad to transfer their know-how and modes of production. Although he provides some basic insights to FDI theory, it is not useful in understanding the motives of a transition economy investing in a developed economy that already possesses this knowledge. Buckley, Clegg, Cross, Liu, Voss and Zheng (2007) state that internalization takes place when there are imperfections in the home country's capital markets and the benefits of operating outside outweighs the costs. To understand where these firms locate, we must refer to Dunning's eclectic paradigm or OLI framework.

For a firm to consider becoming international and invest abroad, it must possess some competitive advantage (Child & Rodrigues, 2005) that will compensate for the risk of operating outside their home country. Dunning's eclectic paradigm takes elements from previous FDI theories and identify firm's advantages on ownership, location and internalization (OLI). By integrating these three elements, it is providing a more comprehensive explanation. Ownership refers to firms' specific advantages (FSAs) that allow companies to obtain a competitive position in another country than their own. These ownership advantages could be managerial knowledge or unique resources. The startling fact is that emerging MNEs are believed not to have these ownership advantages that would allow them to internationalize as the industrialized countries have done previously (Buckley et al., 2007; Wei, 2010). Location advantages can emerge when "foreign countries offer superior market or production opportunities to those available elsewhere" (Child & Rodrigues, 2005). Finally, internalization advantage refers to how the firm is able to manage its knowledge, marketing, and other activities within the company reducing the costs they would incur on by doing so through the market.

Deriving from the OLI paradigm, Dunning classified the motivation of MNEs to invest abroad in three:

- (1) Market – seeking motivation
- (2) Efficiency – seeking motivation
- (3) Resource – seeking motivation, that includes the strategic – asset – seeking FDI

These three motivations have been derived from the observation of developed countries' investments, and must therefore be carefully addressed for emerging economies.

2.1.2. Alternative theories for Chinese and emerging MNEs' OFDI

FDI inflows have been considered to have a positive effect on developing countries, even though this can be questioned for developed countries (Johnson, 2006). What remains to be explored is the effect that outward FDI has on developing economies as home countries, since it is such a recent event that the consequences can still not be observed. It is therefore that authors have constrained themselves to find what drives the decision of emerging multinational companies to allocate themselves in developed countries, such as Europe.

The question post by many scholars is, how is China able to internationalize when it does not have any ownership advantage? This is especially important in the case of Chinese investments in developed countries, where the host countries have MNEs with superior know-how and managerial skills.

Some studies propose that emerging economies' MNEs are not so much asset-exploiting but asset-augmenting (Wei, 2010; Zhang, 2009), being even recognized in Dunning's later work (Dunning, 2006). In order to better understand what the competitive advantages of Chinese firms are, the resource based view (RBV) is a classic model very much used by authors studying Chinese MNEs (Cui & Jiang, 2010; Dunning & Lundan, 2008). The theory states that MNEs are restricted by the resources they have accumulated, and it is the uniqueness of those resources that allows them to compete internationally. The implication of emerging, and therefore Chinese, MNEs not having FSAs has made other authors argue that what allows them to compete in industrialized markets are other unique characteristics that can be country specific advantages (CSAs). Chinese OFDI, according to Cui and Jiang (2010), is both asset exploiting and asset augmenting. This means that it does not contradict completely the mainstream theory. The only difference is that the ownership advantages for asset exploiting are country specific, such as the influence of the government and the low-cost advantage because of the large pool of qualified labor.

Child and Rodrigues (2005), on the other hand, defend that Chinese firms are not trying to seek strategic assets, but instead they try to "overcome competitive disadvantages". Related to this theory we have the "springboard" perspective, which is based on Matthew's (2006) latecomer theory, explaining that Chinese firms try to get strategic assets from mature companies in order to overcome their ownership disadvantages (Luo

& Tung, 2007). What the MNEs look for are more intangible assets, which are the ones lacking at their home market, such as brand names and technological know-how (Child & Rodrigues, 2005).

It is also worth mentioning that in the latest literature there has been some intentions to integrate the institutional approach to the resource and OLI theorems (Alon, Child, Li & McIntyre, 2011; Cui & Jiang, 2010; Wei, 2010; Schüler-Zhou & Schüller, 2009; Peng, Wang & Jiang, 2008). The interaction between formal and informal institutions with the behavior of the firm is regarded as essential to understand the behavior of emerging MNEs. Wei (2010) argues that home country institutions influence the amount of OFDI that comes into a country. In particular the degree of market imperfection is a “push” factor that makes Chinese companies look for investments abroad (Buckley et al., 2007). There are also some “pull” institutional factors that can influence the attractiveness of investing abroad, but it is believed to be greater in developing than in developed countries (Wei, 2010). Institutional factors, and more in concrete the government, are regarded as CSAs that plays an important role when firms decide to invest abroad (Zhang, 2009). Lau, Ngo & Yiu, (2011) also recognize the role of networks as informal institutions influencing the FDI decisions of emerging economies.

2.2. Previous research

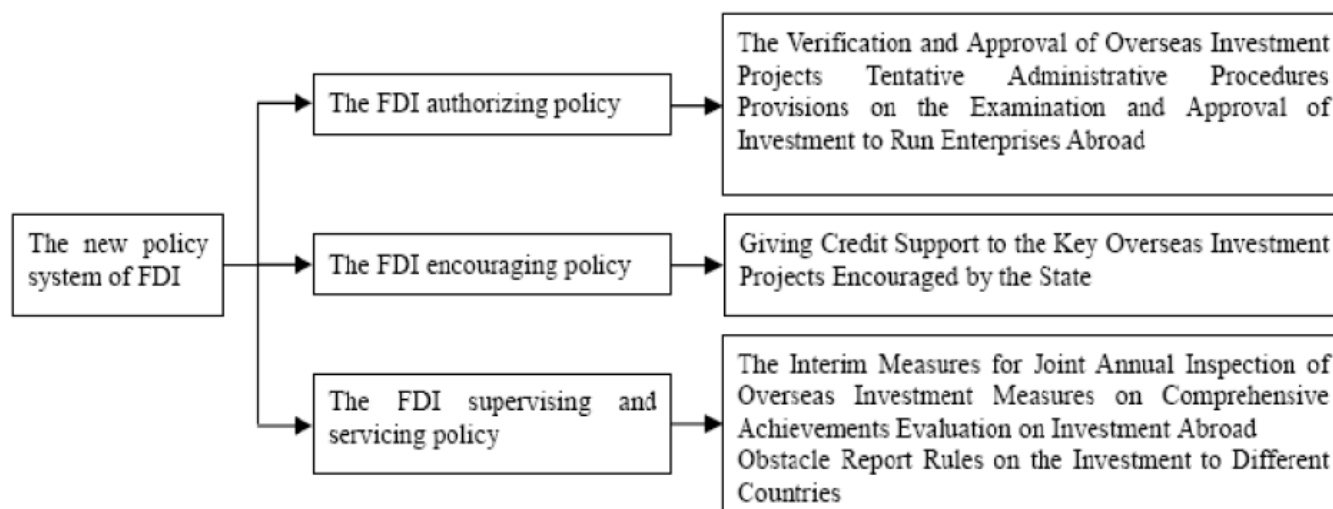
Research on Chinese investment in the European Union has been very limited due to the novelty of the phenomenon, and the lack of reliable data to use in order to draw any conclusion. Chinese applicability to Dunning’s framework has not been explored to a great extent, but there are some studies that have revealed deficiencies in the mainstream theory (Alon et al., 2011; Cui & Jiang, 2010; Wei, 2010; Ning, 2009; Schüler – Zhou & Schüller, 2009; Sutherland, 2009; Dunning & Lundan, 2008; Deng, 2007; Rugman & Li, 2007). This research has been even scarcer in the academic area, as it was mentioned before. However, some progress has been made on the topic that are worth mentioning in this study and that will serve as a base for the present exploratory research.

Although not an academic paper, Ernst and Young’s “European attractiveness survey” of 2012 revealed that Europe was the primary destination of OFDI in 2011, growing a 22% from 2010. This remarks the importance of the region for Chinese investors, despite the crisis’ effect on global investments. Nevertheless, some authors (Nicolas

2009; Nicolas & Thomsen, 2008) point out that the proportion of Chinese OFDI in Europe is very small compared to its global OFDI. What remains unknown and is still being studied is which are the reasons behind China's increased interest in Europe.

Depending on the study chosen, one can find indications of a greater or lesser weight of the government in the process of China's MNEs' internationalization. Nicolas (2009) considers that Chinese ODI has been exaggerated in other studies. Similar to Nicolas and Hanemann & Rosen (2012) find Chinese investment boom in Europe to be more driven by commercial motives. However, there are other analyses that suggest that the presence of the government in Chinese investments in Europe is still present when undertaking decisions of where and in what to invest. Clegg and Voss (2012), for example, state that "Chinese central government's practice of prioritizing its firms' outward investment through the use of, inter alia, economic cooperation and trade zones (in the EU)". Nicolas & Thomsen. (2008) also takes the same position explaining that private enterprises in Europe and in other locations may be crowded out by the big SOEs favored by the government, although the latter are becoming increasingly less political with the opening and decentralization process of China. The reduction of the cost of capital enjoyed by government favored enterprises is another FSA that is embedded in the country's characteristics and help them to succeed both in Europe and abroad (Buckley et al., 2007). In figure 1 we have a comprehensive picture of how China's policy system fostered by the government is affecting OFDI both in Europe and around the world. It does not limit itself to encourage OFDI, but it also monitors it once the investment has been made.

Figure 1: Chinese policy system of FDI



Source: Nicolas & Thomsen (2008), figure reproduced from Cheng and Zhou (2007)

Concerning the motivation of investments, Buckley et al. (2007) found a significant relationship between the size of the country's GDP and Chinese OFDI in developed regions of the world. This is pointing out towards a market-seeking strategy, which has also been supported by Nicolas (2009) and Rios-Morales & Brennan (2010). Asset-seeking motivation has been broadly discussed and it is believed to be the major determinant for Chinese investors to go abroad and enter developed nations. However, not all authors agree on the position that this determinant occupies when Chinese take the decision. Although Buckley et al. (2007) find that asset-seeking purposes have no significance in their analysis; they recognize that it will probably increase its importance in the following years as the "go-global" policy becomes more integrated and its impact starts to be felt. Later studies have, thereafter, given importance to this motivation in developed countries (Nicolas, 2009; Nicolas & Thomsen, 2008; Rios Morales & Brennan, 2010; Minin, Zhang & Gammeltoft, 2012). Efficiency-seeking as a motivation has not received that much attention in the literature since it is believed that China possess a competitive advantage with low-wage and qualified labor that they do not need to look for when investing in foreign countries. Only Rios-Morales and Brennan (2010) and Buckley et al. (2007) give importance to this determinant in developed countries.

It should not be forgotten in the literature, although it will not be explored in the present research, that some recent studies have started to give importance to the existence of Chinese networks as a firm competitive advantage that distinguish Chinese investments from other emerging and industrialized countries' FDI (Buckley et al., 2007; Rios-Morales & Brennan, 2010).

3. Data and methods

This is an exploratory research with a quantitative focus. Being a recent phenomenon, it is necessary to explore previous research done on the topic and on similar countries in order to provide a comparison. Descriptive statistics are used to explain whether Chinese investments in Europe are following the classical theory of FDI or if there are certain characteristics that don't fit. In order to do so, a comparison of China's investments in Europe in relation to the world will be given to provide an understanding of how investments in the EU-27 differ from other countries.

A further study of Chinese investments in the EU-27 is also presented, and the region is divided into four sub-categories that are believed to share common characteristics both in political and economic structure. The division follows Eurostat's classification of the EU-27 countries and the UN's territorial division with some changes made by the author in order to group them as heterogeneously possible. The division is the following: Eastern Europe (Czech Republic, Hungary, Poland, Romania and Slovakia), Northern Europe (Denmark, Finland, Ireland, Sweden and the UK), Southern Europe (Greece, Italy, Malta, Spain, and Portugal), and Western Europe (Austria, Belgium, France, Germany, Luxembourg and the Netherlands). Along the thesis, some data is missing for certain countries in each category, and are therefore withdrawn from the sample. However, it is not believed to bias the results.

In the fifth section, a comparison with other New Industrialized Economies (NIEs) is given in order to understand if China has the same characteristics as the rest of the Southeast and East Asian economies that started to industrialize some decades ahead. Secondary data from previous studies is used and compiled, but is given a new perspective when compared to Chinese investments, something not studied in an extensive way until today. By following the development and geographical and sectorial distribution of the other economies, a conclusion can be withdrawn.

Continuing the previous section follows an analysis of Dunning's framework. Since this is the framework that is believed to be most complete, statistical and quantitative secondary data is used to get an understanding about the motivations behind Chinese MNEs investments in relation to this framework. Data from annual surveys from China's Council for the Promotion of International Trade (CCPIT), in cooperation with the European Commission and UNCTAD, are used. These surveys are undertaken since 2008, and they are composed by mainly privately-owned enterprises from different sectors across the economy in order to provide a more comprehensive understanding. In this study, the survey from April 2010 and April 2011 will be used. The second survey, however, uses data from 2008 to 2010.

The seventh section consists on analyzing a particular element of Chinese OFDI: the role of the government. Since an analysis of Chinese overseas investments cannot be understood without explaining the role of government-controlled institutions and MNEs, secondary data is displayed in order to illustrate its influence in the country's OFDI. Following comes an analysis of the most influential Chinese private MNEs that have invested in the EU-27 in the last decade to provide an in-depth analysis of the motivations of the enterprises. The data collected is also secondary, with official figures from the enterprises' homepages and annual reports.

Finally, a conclusion will be drawn and it will be discussed whether Chinese OFDI offers any particularities which can make economists rethink the traditional FDI theory. However, our analysis does not only answer this question, but also tries to forecast what could be the consequences of this inflow of Chinese investments for the EU-27. The aim of the research is to open discussion on such a controversial topic which is relatively recent and offers a base for further investigation.

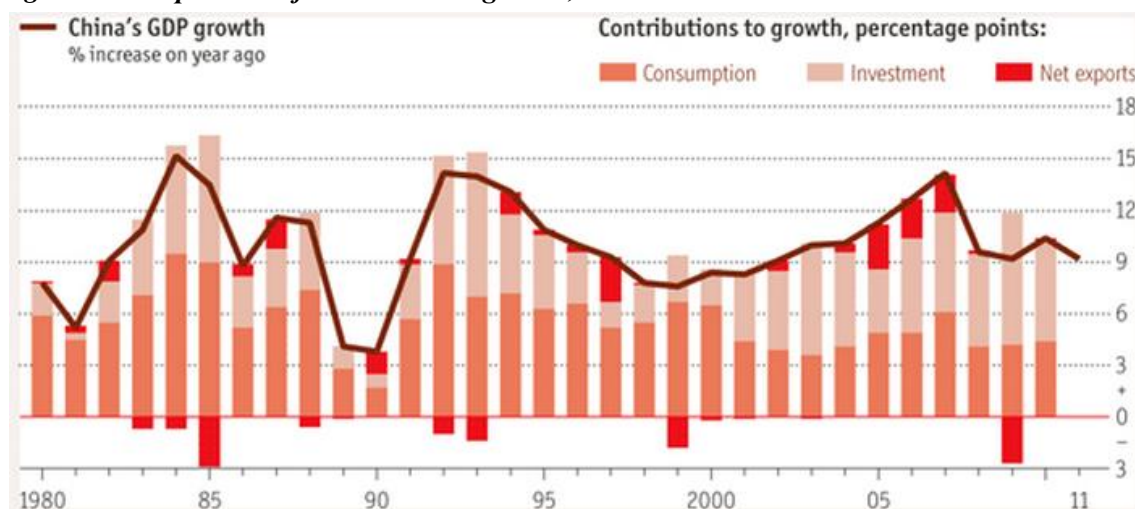
4. Chinese OFDI statistics

4.1. Chinese investments in a global perspective

The growth of China's economy has always been cited as miraculous between experts and the media. It maintained a growth rate of above 10% for five consecutive years, and although it has slowed down in the recent period it is still growing faster than the developed world. Although exports are believed to be its main driver for GDP growth,

the truth is that investment has always played a big role as part of the growth engine (Figure 2).

Figure 2: Composition of China's GDP growth, 1980-2010



Source: The Economist, 2012 from CEIC

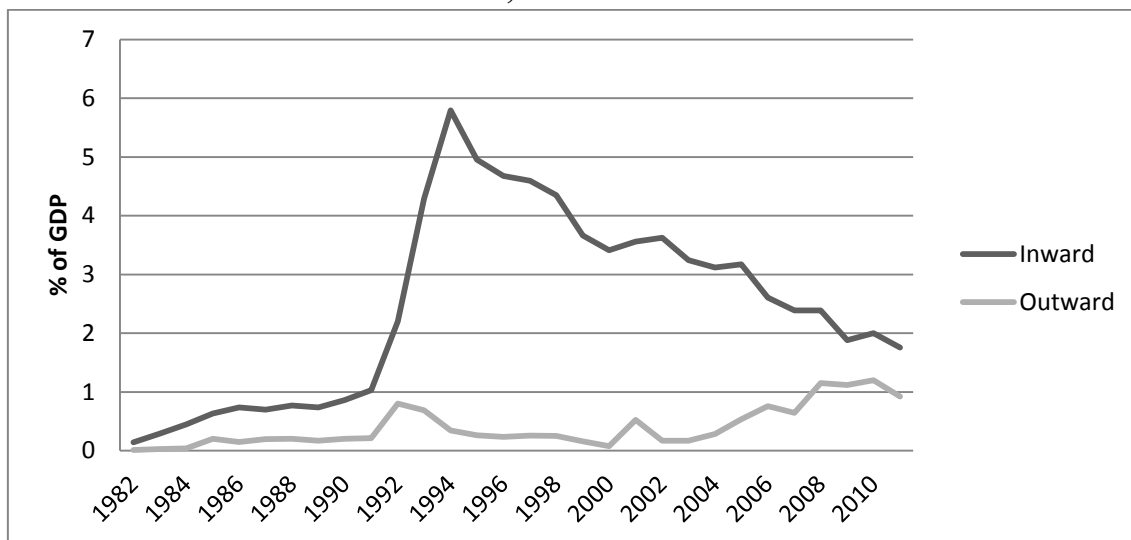
When China opened itself up after 1978, managerial and technological know-how was brought into the country, contributing to fuel growth and to improve the production process. After it entered the World Trade Organization (WTO), it became the second largest recipient of FDI behind the US. Still today it is considered as a top destination country by companies and individuals according to the survey undertaken by the World Investment Report (UNCTAD, 2012).

What we are observing at the moment is, nonetheless, a change of direction in China's growth path. Outward direct investment is starting to rise, and the trend is expected to continue in years to come (OECD, 2008). This new feature of Chinese growth goes along with Dunning's investment development path (IDP), a theoretical framework where a relationship between an economy's level of development and its outward investment is established. As the economy develops, structural changes take place in the economy affecting inward and outward investment (Fonseca, Mendonça & Passos, 2007). The theorem proposes five stages where countries move from just receiving inward investments to basically only outward FDI.

Although it is not clear in which step of the theorem China is lying, we could argue that it lays between stages three and four. The country has already been in stage three for some time, where OFDI has started but inward FDI has been predominant, giving some specific advantages to its home based firms through spillovers such as management and

technological know-how. Stage four, nevertheless, begins when OFDI is being triggered and has surpassed inward FDI. This particular event has not taken place in China, but it can be assumed to happen in the near future if its investments continue to grow at a 130% as it has done during the period of 2004-2008 (Hanemann & Rosen, 2012). If we look at the official data, we can observe that China's OFDI is catching up with a declining inward FDI (Table 4).

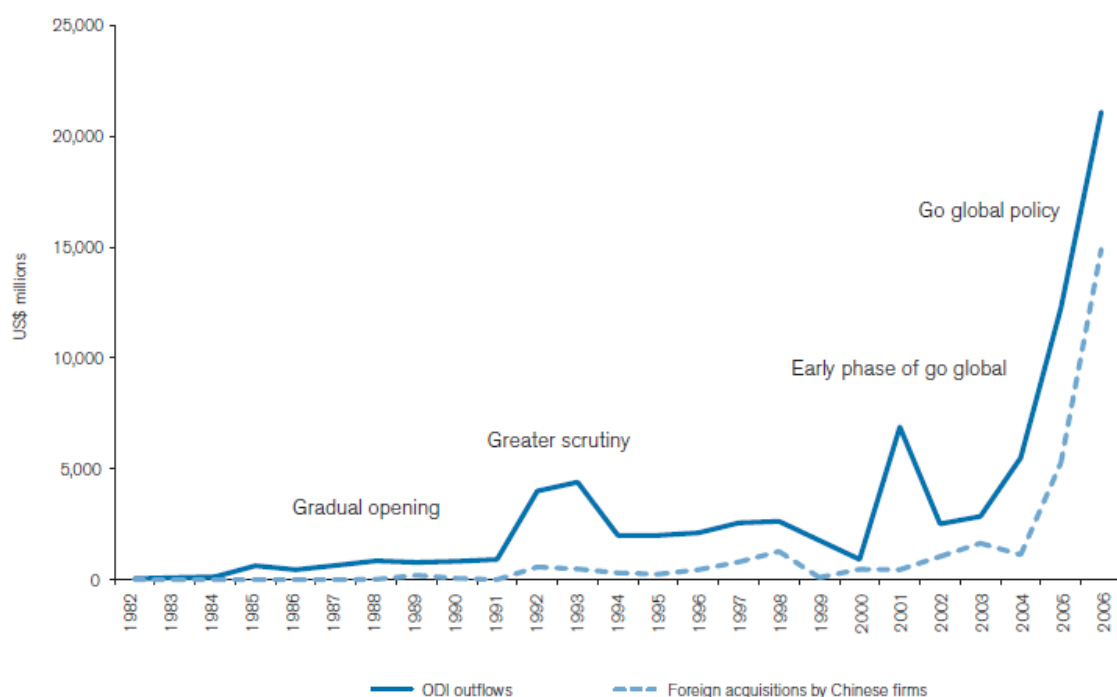
Table 4: China's inward vs. outward FDI, 1982-2011



Source: UNCTAD

This growth rate is very unusual and impressive, even if it is compared to the start of the new industrialized countries at the beginning of the 1980s. Although many authors think that, in relation to China's GDP and GDP per capita, OFDI plays a small role in the country's development and it should be more than the figures are showing (Nicolas & Thomsen, 2008), we must try to not compare it to the world's volume of outward investment but at the progress China has made since its liberalization in the 1970s (Figure 3). What today represents 4% of global OFDI; in 2020 could be among the world's most important investors.

Figure 3: China's ODI and cross-border acquisitions, 1982-2006



Source: Nicolas & Thomsen, 2008

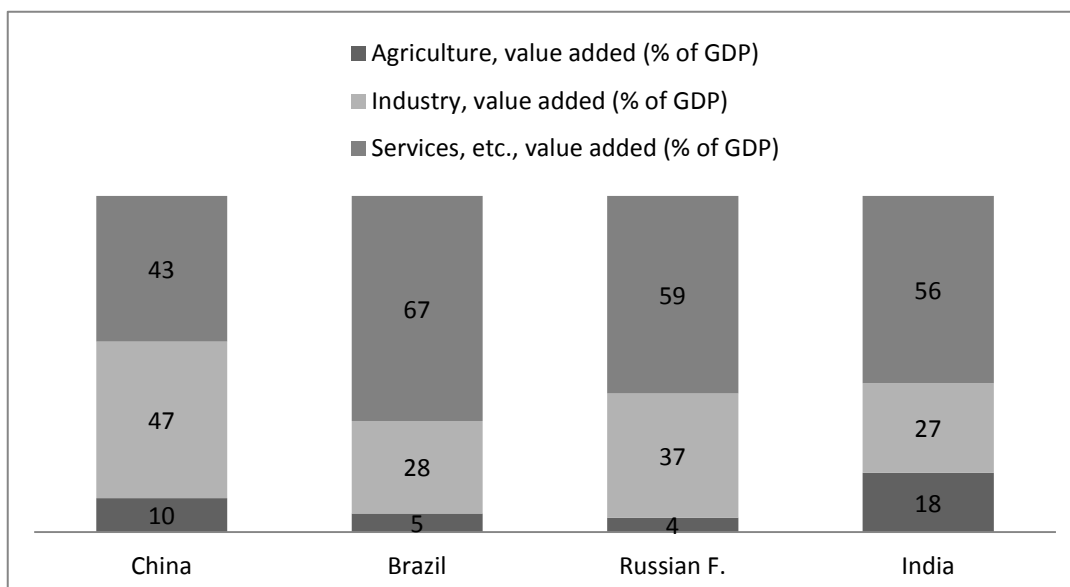
When China decided to go abroad and invest, it was due to the desire to foster exports and hence, the economic growth of the country in the mid-80s. The main overseas investors, according to Hanemann & Rosen (2012), were government agencies such as the China Ocean Shipping Corporation (COSCO) and the China Merchandise Group. The motives of these institutions to go abroad were driven by government decisions, but also due to commercial motives: facilitate exports, pillar of the Chinese economic model. However, with time, China understood that it lacked some of the key ingredients to be as successful as more advanced economies: technological know-how. An additional problem did also arise and was tried to be overcome through imports: access to raw materials. In order to explore new markets and get access to these resources, China decided to expand further its overseas investments (Hanemann & Rosen, 2012).

The real impact, however, was realized in the beginning of the 20th century with the establishment of the “go-global policy”. It was a national plan that was established in 1999 and became part of the 10th Five Year Plan (2001-2005), giving it great importance. The main idea was to facilitate the process for Chinese enterprises to invest abroad. This was done by decentralizing the foreign currency approval of investments under US\$ 1 million or less from the State Administration of Foreign Exchange (SAFE)

to local authorities. The approval from the Ministry of Commerce (MOFCOM) in order to undertake any oversea investment was also decentralized to local commercial administrations, unless they were large state-owned companies. The policy also established a list of preferred investment industries and provided incentives such as grants, tax benefits, easy access loans and foreign exchange (Gu & Reed, 2013). The influence of the government is still felt in the amount of deals and in their economic value, but private enterprises have a greater advantage than in previous years because their oversea expansion, especially when aligned with industries the government is interested in, has been encouraged.

At the moment, with a strong Reminbi that makes acquisitions cheaper and the accumulation of reserves, outward direct investment seems like a good option for China. Taking a look at the economic structure of the Asian giant, it is not surprising that investment to developed countries has started to take place in recent years, despite the greater affluence to developing nations such as Africa or Latin America (Table 5).

Table 5: BRICs composition of GDP, 2011



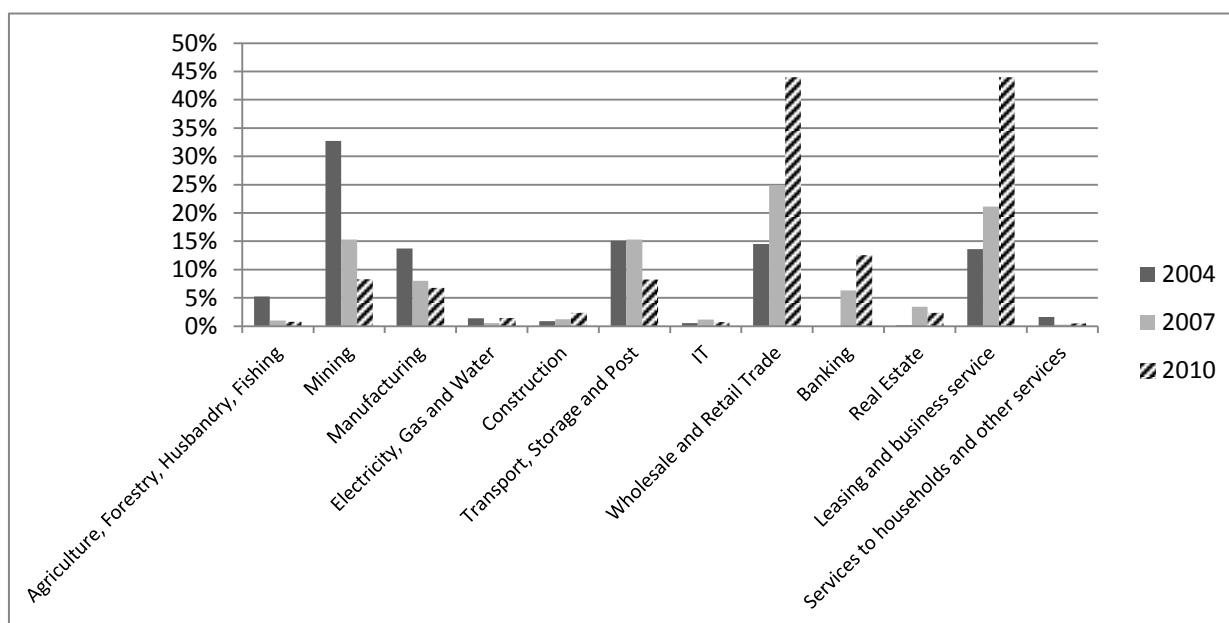
Source: World Bank database

A comparison with other BRIC countries has been taken due to a more similar economic structure. China is the country with a higher percentage of industrial activities contributing to its GDP, and the lower percentage of services being represented. This means that, in order for a structural change to happen, China must shift its focus on manufacturing and develop its service sector. Although this change can be made

endogenously with a greater foster of innovation and education in the tertiary sector, the process is much faster when investing abroad in countries that already possess these advantages and China can benefit from spillovers as it has done previously with inward FDI. Motivations to invest abroad will be influenced by the economic structure of the country, particularly FDI fostered by the government.

It is also of great interest to observe in which industries China has been investing in the last years around the world (Table 6). We can observe that activities from the primary sector such as fishing, forestry, agriculture, husbandry and manufacturing have declined progressively. The production and supply of electricity, gas and water does not take a large portion of the investments, but it has remained relatively stable across time. Investments in manufacturing have also decreased since the beginning of the century, revealing a move away from the secondary sector. This indicator is surprising, since most industrialized countries engaged in OFDI with a heavy concentration on manufacturing. However, China is one of the countries with lower labor costs and higher labor productivity, so the theory of cost reduction does not seem to apply. Finally, and this may be surprising, the tertiary sector is the one that has grown most in percentage terms. These investments are probably targeted towards developed countries, where China can benefit from the existing knowledge and hence upgrade this sector in the home market thereafter.

Table 6: Distribution of total Chinese OFDI by industries, 2004, 2007 and 2010



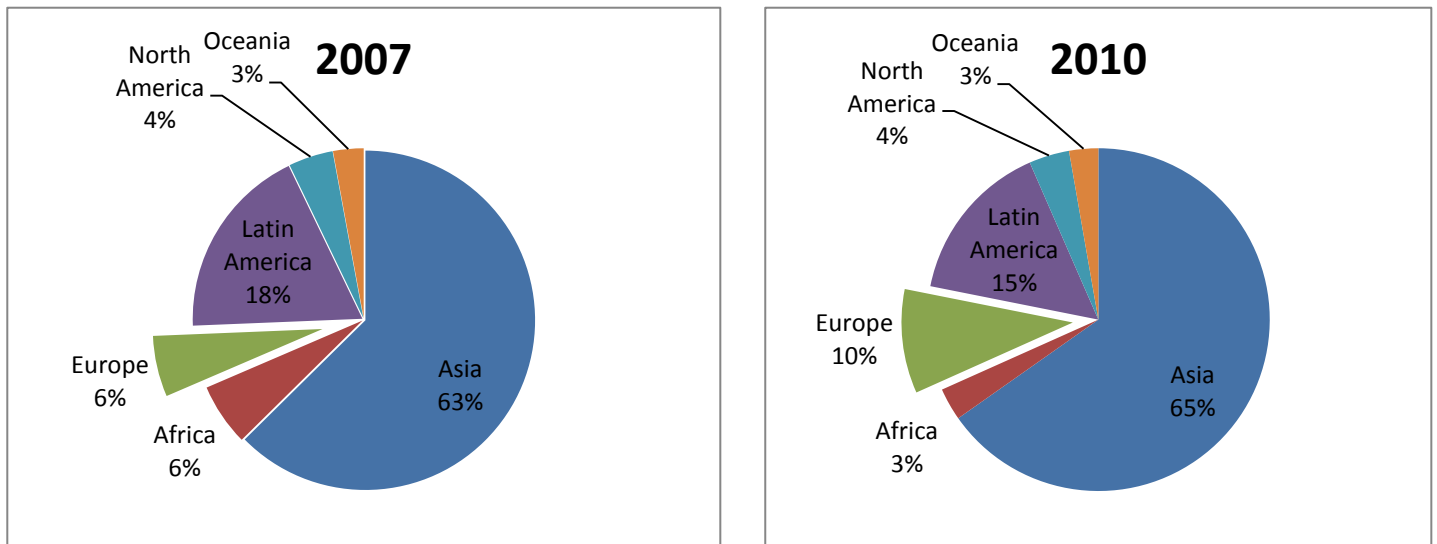
Source: China's Annual Bulletin 2010, MOFCOM

4.2. Chinese investments in Europe

We have showed enough evidence in the previous section to support the idea that China is entering a new stage of growth where it is becoming truly international. Although its presence is predominant in Asian countries, what is called south-south investment, the developed world is becoming strategically more important in order for China to be able to compete internationally with the big players.

According to official data provided by China's Minister of Commerce (MOFCOM) annual bulletin of OFDI, Europe has been one of the regions that have grown the most in OFDI flows. In just two years, the amount of flows grew from a 6% in 2008 to a 10% in 2010 (Table 7). The crisis diminished the flows of China towards developing countries, reducing Europe's amount to a 1% of its total OFDI. Nevertheless, the levels have returned or even increased despite the critical situation in the Eurozone. It is remarkable that Europe has been the only region where China has increased its OFDI flows after the crisis, the rest have either maintained the same volume or it has been reduced in favor of Asia.

Table 7: Chinese OFDI flows by regions as a % of total OFDI flows, 2007 and 2010

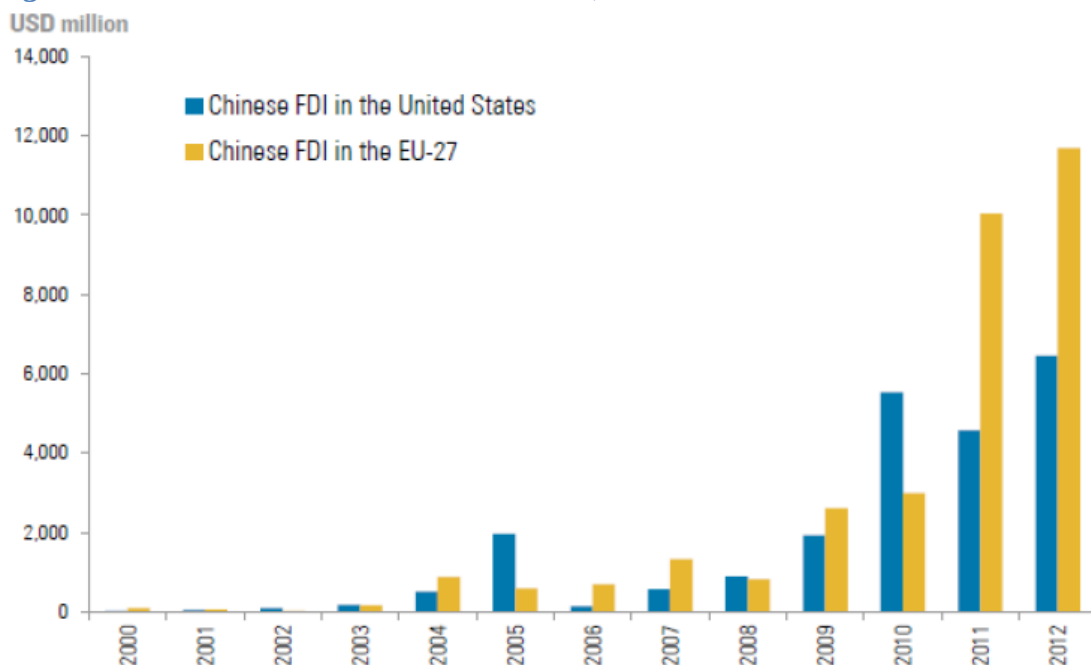


Source: Done by the author with data from MOFCOM; Statistical Bulletin of China's OFDI (2010)

What is most remarkable in the sectorial graph is the reduction of investment flows towards developing economies such as Latin America and Africa, those that have been regarded as the main FDI destination in recent years. Such indications makes it even more evident that Chinese investments does not allocate its FDI in markets where they could benefit from ownership advantages (Dunning, 2006).

From the previous section we could argue that China has created a greater interest in investing into sectors that are more predominant in developed regions, so it is expected for the latter to receive the same amount of Chinese FDI. Nevertheless, in the previous graph we could observe that this was not the case. An analysis of the value of the investments made in the EU-27 and the US has been made by Rhodium Group, and the results confirm the fact that Europe is gaining China’s interest in overall compared to the world’s superpower (Figure 4). Both countries started with a similar amount of investment from China, with a change in the receiver with higher value. However, after 2010 there was a clear change in the pattern of Chinese OFDI and the EU-27 became more attractive than the US. The increase was from less than \$4 billion in 2010 to over \$10 billion in 2011 and 2012.

Figure 4: Chinese OFDI in the EU-27 vs. the US, 2000-2012



Source: Rhodium Group, Hanemann, 2013¹

¹ The data has been collected from official figures and been composed by Rhodium Group. For further details, the collection of data is explained in the appendix of Hanemann & Rosen (2012)

These numbers indicate that China is starting to build a new type of relationship with the developed world; especially with Europe which has had a one-way relationship with China until very recently. Investment flew in large volumes to China from the EU-27 in 2007 after experiencing a downturn during the crisis. Volumes went from €480,892 in 2010 million to €652,062 million in 2011, according to official data², while inward FDI from China did not stop to grow since the crisis started. This could indicate that China is starting to build a different relationship with its trading partner. What we may ask us after these indicators is why Europe.

Overseas investments by Chinese enterprises have not been numerous before the beginning of the 12st century, especially in Europe. This makes it complicated to provide a comparison over time of the motives that have driven Chinese firms to invest in this part of the developed world. The China Council for the Promotion of International Trade (CCPIT) carries out a survey based on questionnaires since 2008 (Figure 5), where they try to gather information about the overseas operations of firms across China. According to the survey undertaken in 2011, only 2% of the respondents had commenced their investments previous to 1996-2000, before the Go-global policy took place. After that period, the number increased to a 69% after 2006. This indicates how recent this phenomenon is in the FDI theory and for empirical analysis.

Figure 5: Experiences in Overseas Investment by Chinese firms

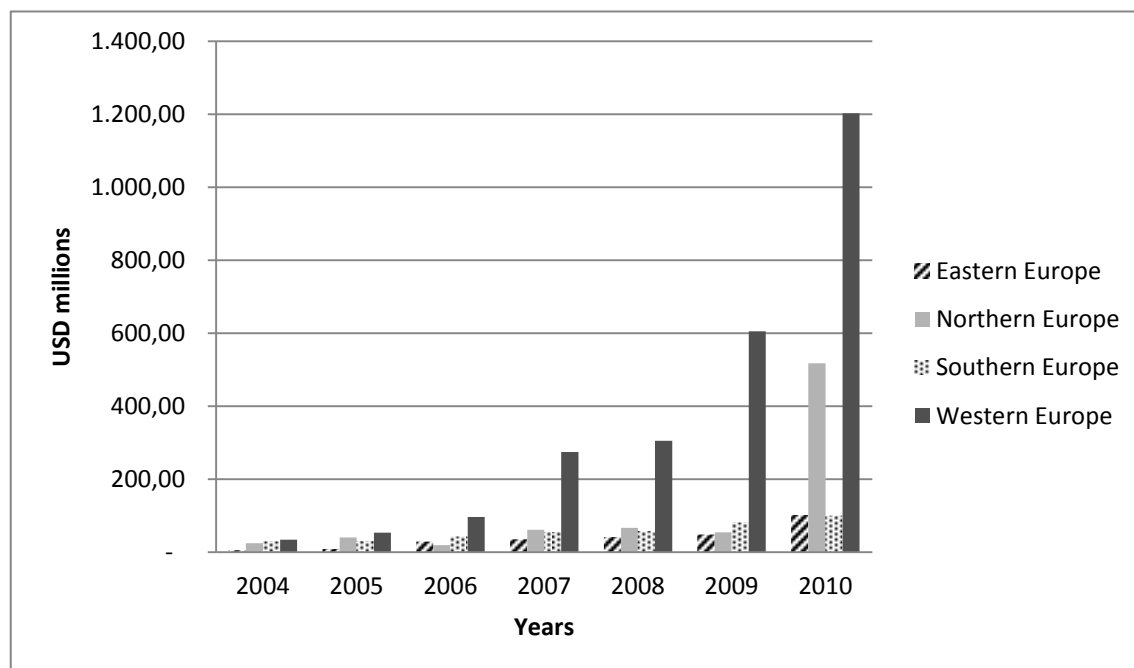
Year of First Overseas Investment	%
~1985	2
1986~1990	2
1991~1995	2
1996~2000	6
2001~2005	19
2006~	69
TOTAL	100

Source: CCPIT, 2011

² Eurostat database, "EU direct investment flows, breakdown by partner country and economic activity"

It is important to understand that the EU-27, although one economic and political power, is not equal geographically and it has different characteristics across regions (Table 8). Due to that reason, the EU-27 is divided and the volume of FDI stocks that goes individually to each region is analyzed so that different conclusions can be withdrawn. The difference is very large between countries, and it broadens with time. Unfortunately, there is not enough available data to analyze how FDI has evolved previous to 2004, but this range of time is considered enough to deliver some analytical results. During the crisis, OFDI stock in Europe rose very little or diminished, but since 2008 it has grown at a rapid rate, especially that of Western Europe. Northern Europe has started to catch up with Western Europe and receives investments with higher value than that of Eastern and Southern Europe.

Table 8: Chinese OFDI stock in the EU-27, 2004-2010

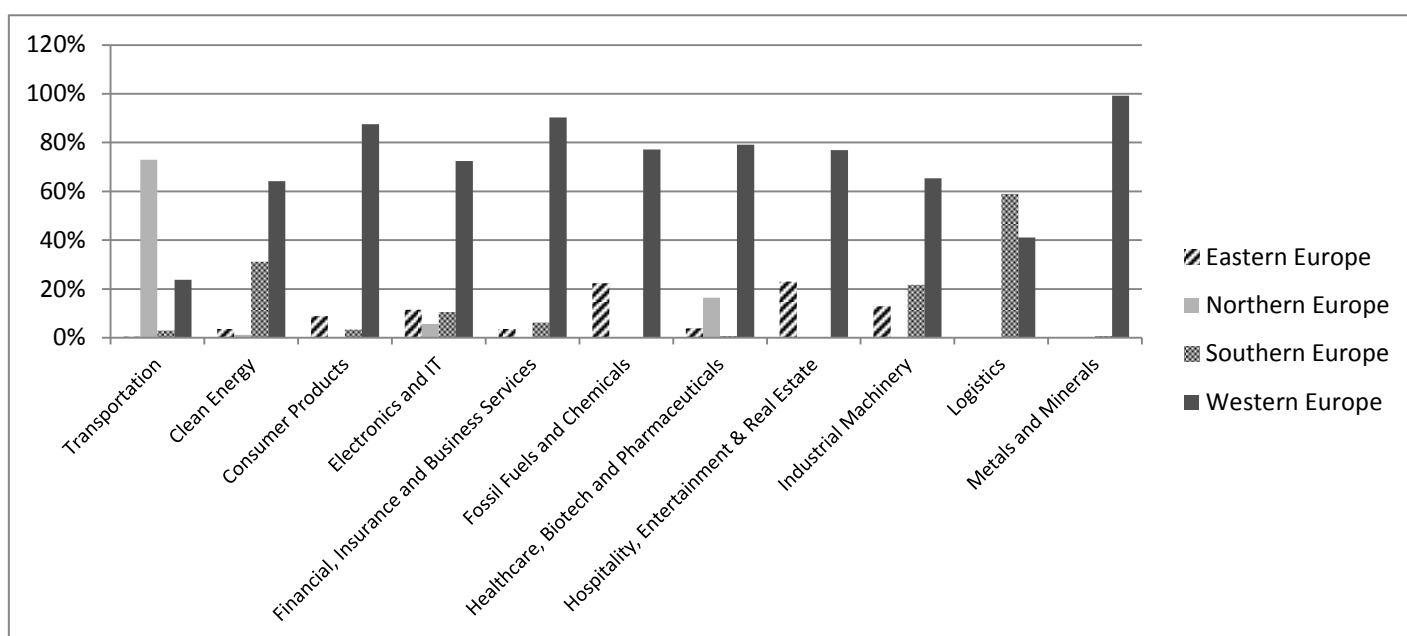


Source: Author's calculations using MOFCOM (2010)

In order to have a more complete view of Chinese investments in Europe, we will look at the sectors they are investing in. The investments that are recorded in table 8 are from 2006 to 2012, the period when most Chinese investments took place. The criteria for choosing the investments are those that are over 100 million USD and within the EU-27. Although there are many small scale investments that make up for most part of the total investment, it is the large investments from truly global MNEs that have been recorded and have a greater influence on the pattern of Chinese OFDI.

The sectors with the highest investments in monetary value, according to data from Rhodium Group, are: Fossil fuels and chemicals, transportation and consumer products. Electronics and IT follows thereafter, but it is significantly lower. This indicates the importance that Chinese investors still give to raw materials, although the economic value does not imply that the number of deals is greater, as we will observe in following sections. The most interesting analysis, however, is the distribution of these investments across the EU-27. Western Europe is still the predominant region when investing in any of the economic sectors that are represented in table 9. Only Southern Europe in Logistics and Northern Europe in Transportation receive greater investment than Western Europe.

Table 9: Sectorial distribution of Chinese investments in the EU-27, 2000-2011



Source: Author's own calculations using data from Rhodium Group

Service sectors, however, do not receive a high value of FDI when compared to the total. Although it has increased, its impact is not as great as the rest of the traditional primary and secondary sectors. We should not, however, draw any conclusions from it since investments with smaller economic value driven by private firms may be more numerous than those of government-controlled MNEs. This indicates a strong presence of the Chinese government in the EU-27 investment that could give us a misleading idea of the intentions of the new private firms entering the region. Such a predominance of the government is not contemplated in classical FDI theory, where only private interests are taken into account when going abroad. Other emerging Asian countries

were identified to have such a presence of the state in their OFDI, thus in the next section we will analyze how well China ascribes to their model of FDI.

5. Comparing China with other East Asian countries

The deviation from traditional theory was already discussed in the 1980s and 1990s by many authors focusing on the “second wave” of investors, that of the East Asian countries (Dunning, Hoessel & Narula, 1997; Gao, 2005). It is commonly believed that the MNEs from East Asian countries did not possess any of the ownership advantages that were needed to start investing abroad, but their advantage was based on location and therefore started to invest in countries that were similar to them in terms of economic structure (Dunning, Hoessel & Narula, 1997). Some of the Asian tigers, such as Taiwan and South Korea, started to invest in order to expand their markets and find some resources. It is interesting to note, though, that most of these investments remain concentrated in Southeast Asia during the first phase and did not start to increase in developed countries until the late 80s (Figure 6). The surge of Taiwan’s and Korea’s OFDI in the 80s is due to the appreciation of the Japanese Yen which, after the Plaza Accord negotiation that took place in 1985, grew in value so that the surplus in its Balance of Payment created would be mitigated (Thorbecke & Salike, 2011). The effect was massive investments in Taiwan, Korea and other developing Southeast Asian countries that changed the economic structure of all Asian economies. This change is explained in the famous “flying geese” model, in which Japan moved all its labor-intensive industry to other East Asian countries that could grow and follow the same pattern as Japan. It is therefore we can see in figure 6 that in 1988 OFDI grew as a result from the growing economy that resulted from massive capital investments in these NIEs.

Figure 6: Distribution of OFDI stock from Taiwan and South Korea during different investment stages

	1978		1988		1994	
	KOREA	TAIWAN	KOREA	TAIWAN	KOREA	TAIWAN
Southeast Asia	52.5%	70.8%	25.7%	30.1%	41.9%	26.8%
PRC		0.0%		0.0%		33.8%
Europe	2.8%	0.3%	3.8%	2.8%	12.8%	3.7%
N. America	18.7%	16.5%	43.4%	60.1%	35.3%	18.7%
Latin America	1.8%	7.4%	2.7%	4.1%	3.1%	16.1%
Oceania	2.6%	4.2%	7.8%	2.0%	2.9%	0.4%
Other	21.6%	0.8%	16.7%	0.9%	4.0%	0.5%
Total amount (US\$ '000)	71576	49896	1130108	593319	7648792	13449269

Source: Dunning, Hoessel & Narula, 1997

This pattern is in accordance with traditional theories, which state that until the companies have the necessary advantages they cannot invest in certain countries. The success of these economies in recent years lies on the capacity of the government to implement policies that could leverage the ownership advantages the multinationals from these countries had in order to become global players. Therefore, we must give importance to the role of the government in the investment pattern of East Asian countries. In Taiwan and South Korea, for example, the government protected certain industries considering them as “strategic” so that they could be developed further (Wang, 2002). In China, the role of the government can also be felt with even more predominance, especially in the first period, choosing determined industries and companies to promote only the “giants”. The role of the government in promoting OFDI is a characteristic that China shares with other NIEs.

While Japan started its overseas expansion in the 1950s and Taiwan and South Korea did so in the 1960s, China did not take off its overseas investments until late 1970s. The motivations of its investments follow a similar path to that of the other East Asian miraculous economies, moving from resource seeking to market seeking and finally to asset seeking (Wang, 2002). However, the difference does not lie on the motivations but on the geographical concentration of these investments. While the majority of the developing Asian economies concentrate their FDI in developing countries (table 10), China follows a different pattern.

Table 10: FDI from selected Asian economies, 1997

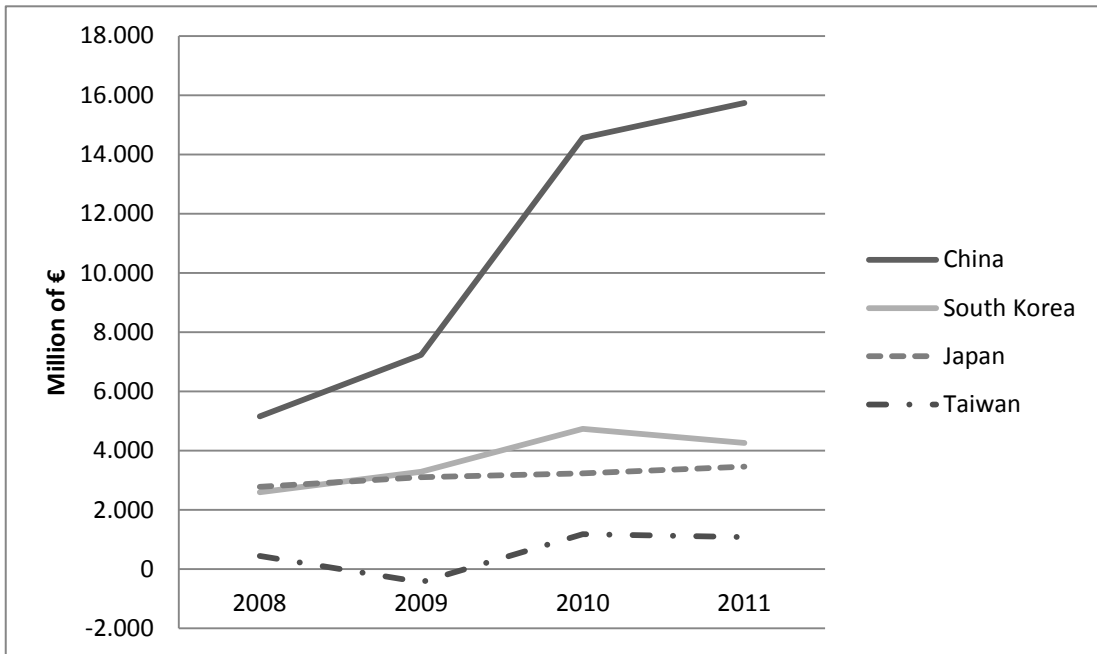
Geographical destination/FDI source	South Korea	Taiwan	Singapore	Malaysia	Thailand
Developed economies	43%	28%	26%	42%	26%
Developing economies	53%	53%	52%	53%	73%

Source: Gao, 2005. Shares for developed and developing countries do not sum up to 1 due to an “unspecified FDI” item.

According to Wang (2002), China industrial investments from the 1970s till 1990s were concentrated in developed countries where they could obtain most of the resources. Oceania and the US accounted for most of the FDI (59, 3%), although Canada became the largest FDI destination of Chinese investors in the mid-1990s (22, 7%). This location was due to the large amount of resources offered by the big developed economies. Indeed, this is remarkable taking into account that Chinese MNEs did not possess any advantages that could help them go abroad. The role of the government and the state has been crucial for these investments to happen, and the circumstances of lack of resources in a country that was growing faster than any other nation shaped the direction of the investments.

China did not only diverge from the path of other NIEs in relation to the concentration in developed countries, but also in its investment in the EU-27. For the sake of comparison, we have taken the three earliest NIEs and China from 2008 till 2011 and evaluated the value of the investments in the region (Table 11). China is, by far, the Asian nation with the greatest interest on the developed region, while the other are decreasing their investment or remaining relatively stable. The surprising fact is that Japan, Taiwan and Korea are considered more developed than China and therefore possessing greater ownership advantages, but invest less on such a developed region. The greater interest of China in the EU-27 may indicate a higher focus on an aggressive asset-seeking FDI due to its latecomer position when compared to the rest of the NIEs.

Table 11: FDI in the EU-27 by selected Asian NIEs, 2008-2011



Source: Eurostat database

It is not only noticeable the different amount of investment from other NIEs compared to China, but also the sectors they are investing in. In the table below (table 12) we compare Taiwan and Korea in 1997, when they were in a similar OFDI stage as China is today. Both give special importance to the manufacturing sector in the EU, which might be surprising at first. However, these investments have been made primarily in Eastern Europe where there is access to the EU market but wages are still lower, very important in economies where the labor costs have increased continuously (Dunning, Hoesel & Narula, 1997). They don't, however, invest in the primary sector as China has been doing in the EU-27. The banking and insurance sector, belonging to the service sector, received some interest from Taiwan although it still remained low.

Table 12: Sectorial distribution of FDI investments in Europe from South Korea and Taiwan, 1997

Industry/FDI source	Taiwan	South Korea
Mining	0%	4,6%
Agriculture & Forestry	0%	0%
Fishery	0%	0,2%
Manufacturing	58,2%	51,4%
Construction	0%	0%
Transportation	0%	0,1%
Trade	12%	41,6%
Real Estate	0%	0,6%
Banking & Insurance	14,7%	0%
Others	15%	1,3%

Source: Author's composition using data from Dunning, Hoesel & Narula, 1997

China appears to follow a similar pattern to that of other NIEs in the importance of the government when controlling and directing OFDI, facilitating the investment of MNEs without specific advantages as the theory states. However, the influence of the state is much stronger in the Asian giant, and it has targeted developed countries much faster than its neighbors. An aggressive targeting in order to upgrade its economy is also fostered by the government according to the “national plan”, which may be an explanation for the increase of FDI in the EU-27 when compared to other NIEs.

6. Chinese investments in the EU-27 complying with the classical theory

Prior to the introduction of the “go global” policy, Chinese OFDI in the EU-27 was not collected in large quantities and it is therefore difficult to study the real determinants. Nevertheless, the heavy presence of SOEs and the high restrictions for companies desiring to expand (Nicolas & Thomsen, 2008) indicates that the motives were not complying with the classical theory. It was the state that dictated where to invest and the amount of these investments, without considering individual preferences and regardless of the capacity of Chinese MNEs to internationalize. According to Nicolas & Thomsen (2008) asset-seeking motivations were behind the national interest, and there was a desire to establish political influence. In the last years, however, the elimination of restrictions indicates a movement towards commercial motives.

In previous sections the amount of Chinese OFDI stock in each region and in which industries there is a greater interest in was already looked into. In the present chapter, an understanding of which are the factors that cause these investments and which region of the EU-27 is more suitable for them will be given. In order to have a framework, we will use Dunning’s theory and search for factors that are related to the main FDI-motivations: asset, market and efficiency seeking. Resource-seeking motivations, although present in China’s OFDI in the EU-27, are not regarded as being the most important (Clegg and Voss, 2012) and as we have seen previously they do so not in accordance to commercial purposes but because of government influence. Therefore, this motivation will not be subject to an analysis in this section.

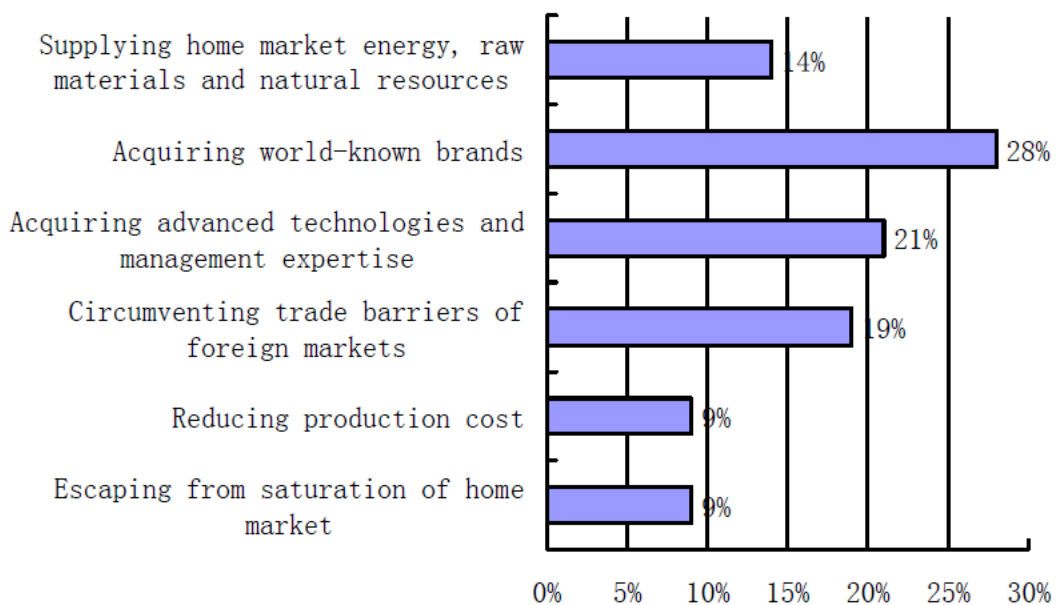
When deciding to invest abroad, there are a series of factors that influence that decision: push and pull factors. The first one refers to cyclical and structural conditions that exist in the home market and influences the decision of investors. The latter refers to a set of conditions in the host country that attracts firms to invest there because they are more favorable than in the home country. They can be economic, political or social reasons. When Chinese are motivated by different reasons to invest in Europe, there are a set of pull and push factors inside these categories that trigger this decision.

The geographic distribution of Chinese OFDI has changed over time and with it the motivations behind. This is illustrated on surveys done by different authors and international organizations that try to study this phenomenon. The questionnaire

developed by Yao and He in 2005 reveals that companies in the European Union are interested mainly in searching for new markets (93%) and, second, acquiring strategic assets (76%) that can give them competitive advantage in order to compete globally. The third is the efficiency seeking motivation, although the amount of respondents giving importance to this factor is just a 55%, much smaller than for the previous pull factors. This evidence corroborates findings of Buckley et al. (2007), who found that market-seeking motivations were the most important ones for Chinese investments in developed countries.

The motives have, however, changed over time with the political evolution that has taken place in China over the last years. It is therefore that the questionnaire developed by the CCPIT (Figure 7) gave much more importance to the asset-seeking motivation than to the market-seeking motivation. The “go global” policy changed the focus on OFDI directed to trade towards the upgrade of the Chinese brands and MNEs. This is why the most predominant feature in the asset-seeking motivation is the search for world-known brands and the desire to acquire advanced technologies and management expertise. Looking for resources is also mentioned as an important factor due to the large representation of government-controlled enterprises in the survey.

Figure 7: Purpose of investing in the EU



Source: CCPIT, 2011

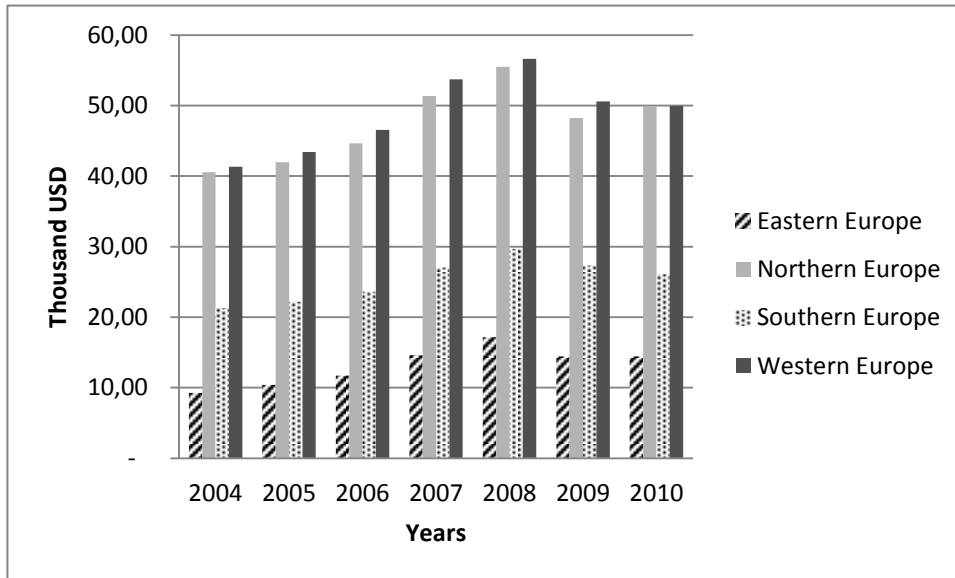
According to these surveys, China is not that different from other investing nations. How well does the EU-27 ascribe to these motivations? And, where in the EU-27 should Chinese MNEs look? In this analysis Chinese OFDI within each motivation will be looked into.

6.1. Market-seeking

The reason of investing in foreign markets could be propelled by the desire to have access to larger markets, or to a certain customer segment that is not available in the home country. It could also be that MNEs want to be near the customers in order to adapt their products or reduce the costs of serving a market from the distance (Franco, Rentocchini & Marzetti, 2008). It is not necessary for the MNE to allocate all of its production in the host country, but it can just establish part of its value chain that it considers will bring them a greater advantage. Although not indicated in the CCPIT survey, market-seeking has been mentioned by previous studies on Chinese motives in developed countries to be one of the main determinants for MNEs to go abroad. A survey, also made to discover the pattern of Chinese investments by the consulting company Ernst and Young (2011), revealed that access to new customers and the desire to boost sales was as important, or even more, than access to technologies.

It is in our interest to study which areas of the EU-27 could be more attractive for China to follow a market-seeking approach. To have an approximation of the purchasing power of consumers in different regions of Europe, GDP per capita was calculated for all EU-27 countries as it is accepted in most studies to be a reasonable measure for the purchasing power of countries (Buckley et al., 2007). As it can be observed in the graph below (Table 13), the value is higher in Western and Northern Europe. These are probably greater targets of Chinese investments with those expectations than countries in the South or the East. The chances of increasing sales in countries with higher purchasing power are greater, although they must compete with other western firms. An interesting way of being able to compete with other giants is the focus on specific niches of the developed market in order to gain costumers that have not been targeted before but where there is potential to grow, strategy used by the Chinese multinational Haier when moving into the U.S. Whether this hypothesis is correct or not will be proven when analyzing individual cases of firms.

Table 13: GDP per capita in the EU-27 by region, 2004-2010



Source: Author’s own calculations using World Bank Indicators

Looking to expand the market is more likely in developing countries, where Chinese MNEs do possess a first-mover advantage and can transfer some of their knowledge and use their competitive advantage to exploit the market. Emerging economies that follow a market-seeking strategy in developed countries have a great disadvantage from the beginning, and must thereafter possess specific advantages that can allow them to enter or provides an advantage for the host country’s MNE.

For China, parenting with a strong European brand gives them the possibility to use the sale knowledge of the western brand and combine it with the home firm’s knowledge of the Chinese market, which is one of the fastest growing in the world, offering this way a possibility for the western MNE as well as expand its market. It is therefore possible to argue that CSAs of Chinese MNE give them the possibility to expand their market in Europe. It is not FSAs that allow them to compete, but the knowledge and access to the fastest growing developing market.

6.2. Asset-seeking

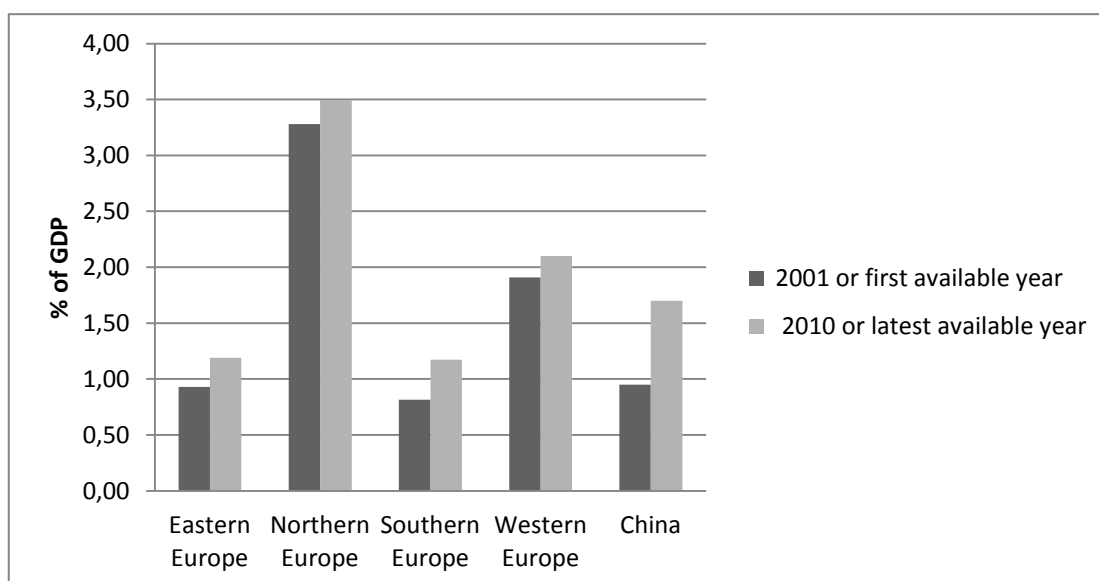
The asset-seeking motivation is two folded: asset-exploitation and asset-augmentation. The former refers to adapting the technological knowledge the company possess to the local circumstances, and the latter refers to the “exploration of a firm’s technologies through access to overseas technologies and know-how” (Minin, Zhang & Gammeltoft., 2012). Although it was first introduced in Dunning’s framework as a way of entering

the market by using the already existing technological knowledge of the firm, Matthew changed the concept and explained that newly industrialized enterprises (NIEs), by decentralizing its R&D, can tap into new technological know-how when they locate close to foreign knowledge bases (Minin, Zhang & Gammeltoft, 2012).

China has never been strong on the innovative field but on the low-cost labor, which allowed them to produce cheaper than other regions. In recent years, however, the Chinese government has expressed its intention of boosting the role of innovation in the country to counteract the decrease in exports since the crisis started (Gavin, B., 2012). The expenditure on R&D in China rose from 0, 8% in 2000 to 1, 75% in 2010, and MNEs are behind most of this growth (Fabre & Grumbach, 2012). Although these efforts have opened the opportunity for China to catch up with more developed countries such as the US and Europe, the country is still not perceived as an innovation hub and companies lack this key advantage. Therefore, an “artificial” growth by the acquisition of technologically advanced European firms is the fastest way to climb the ladder.

In the graph below we compare the percentage of GDP that goes into R&D among international companies (table 14), comparing the four different regions of the EU-27 with that of China in order to establish which regions would attract more firms with these motivations. It is interesting to notice that China lies ahead of both Southern and Eastern Europe in recent years, but lies far behind Western Europe and especially Northern Europe. It will therefore be those regions where most of the investments for technology and patents will go to.

Table 14: R&D expenditure as a percentage of GDP, the EU-27 and China



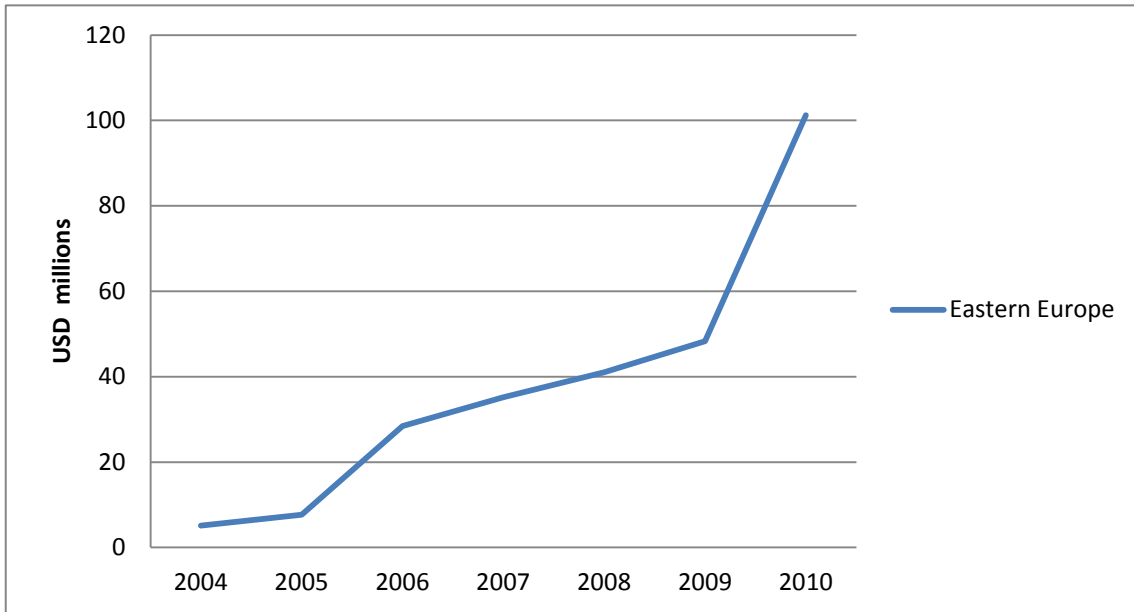
Source: OECD iLibrary, 2013

Deduced from these results is that Chinese firms could be entering Europe in order to acquire assets instead of exploiting them, as the classical FDI theory state. The lack of any competitive advantage in high technology and know-how or very few renowned international brands, push them to use the strategy of exploiting sectors where the western brands have lost importance but have not yet disappeared (Nicolas, 2009). This is the case of Geely's acquisition of Volvo in 2010 or Wolong Holding Group's investment in acquiring Austrian ATB Drive Technology In 2011.

6.3. Efficiency-seeking

It is evident that in Western Europe the final purpose is to acquire know-how and knowledge, since manufacturing in this location is too expensive. Access to the Western European market is also a top priority in order for Chinese firms to remain globally competitive, but the competition they encounter makes it not possible for many to strive in that environment. The enlargement of the EU gave Chinese firms the opportunity to access this large market at a significantly lower cost. In the graph below (table 15) it is evident that investments have increased especially since the 2004 EU enlargement and in the last years after the crisis.

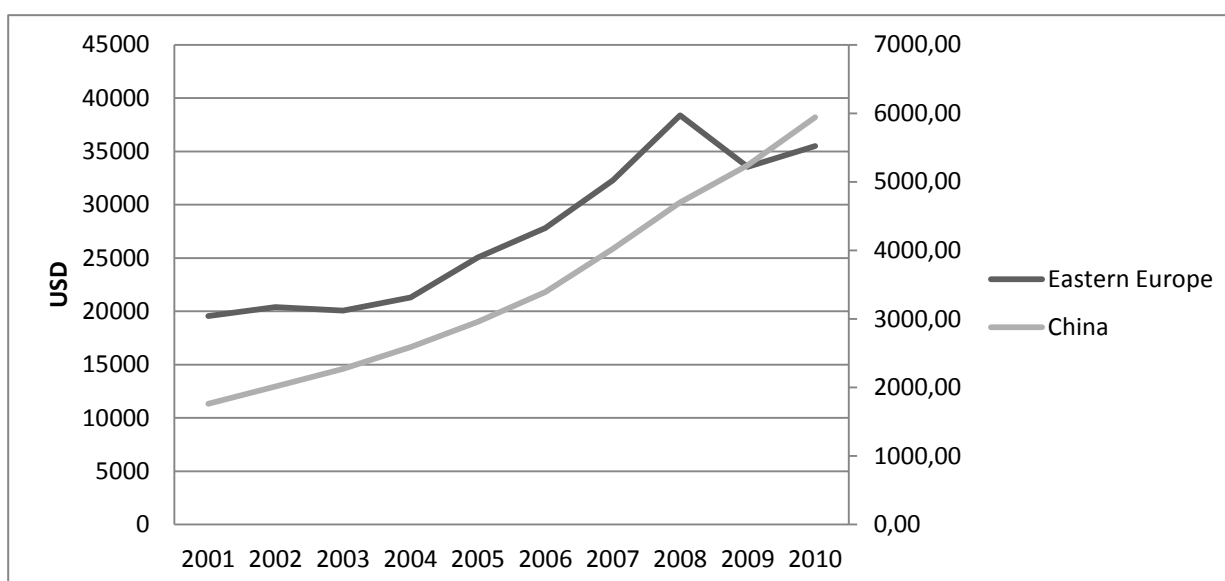
Table 15: Chinese stock value in Eastern Europe, 2004-2010



Source: Annual Statistical Bulletin 2010, MOFCOM

The efficiency-seeking motivation is the most recent phenomenon that has taken place in Europe and has therefore not received much attention. China is known for being a labor-intensive country and its output/hour is very high when compared with other major countries such as the US and the EU. However, China is experiencing an increase in wages that could replace them as the “manufacture of the world”. Therefore, they look outside their home market in order to find an alternative to the increasing cost of labor at home in industries that want to internationalize. This would be one of the reasons that Dunning proposed: that of taking advantage of the differences in factors of endowments in different locations.

Table 16: Average wages in Eastern Europe and China, 2001-2010



Source: Eurostat and China’s Annual Bulletin (2011)³, MOFCOM

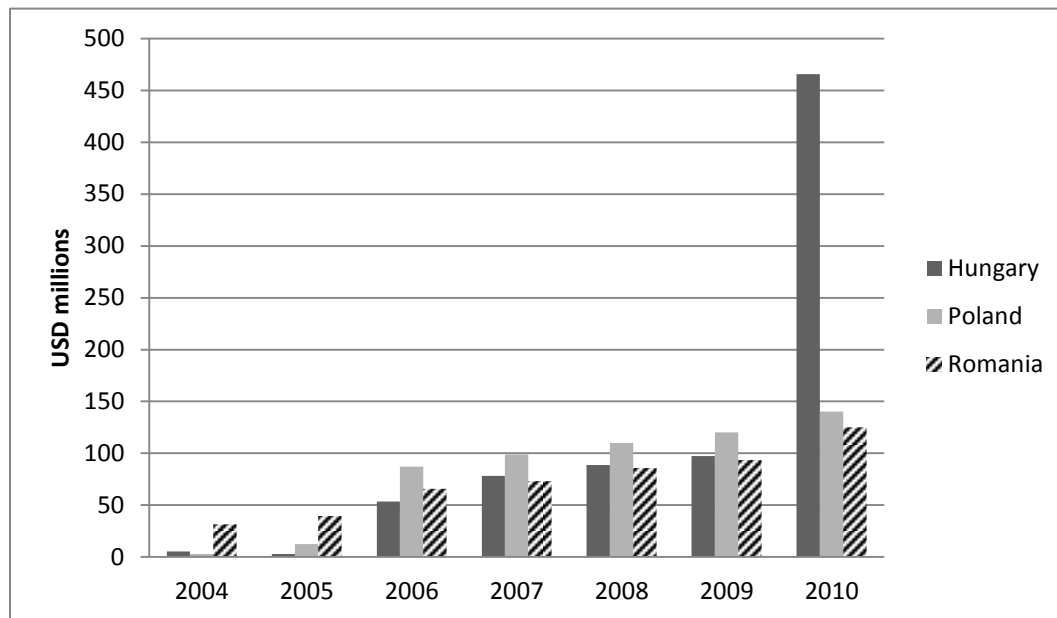
Data from China’s Annual Bulletin and Eurostat reveal that wages in the Asian economy are rising faster than those in Eastern Europe (Table 16), which means that in the near future the cost advantage may disappear. This is especially true if only coastal areas are taken into account, where most of the production and industries are located. Eastern Europe, although more expensive in terms of wages, offers other advantages that can compensate and counterbalance the increase in Chinese wages. Another consulting firm, BearingPoint (2005), calculated that the costs saved from producing in Eastern Europe would be 0, 17% less than those in China due to transportation, import duties and production costs. This is especially the case in manufacturing industries that move from the coastal area of China.

The Eastern Economies that receive greater Chinese investments are Hungary, Poland and Romania (table 17). Although Poland has been leading as the country with most OFDI attraction from China, in 2010 Hungary took its place. The eastern country is regarded as a hub for Chinese manufacturing multinationals (Filippov & Saebi, 2008), with companies such as Lenovo (PC manufacturing investment), Shinco Electronics (DVD manufacturing) and ZTE (telecommunications and network solutions) located in the region in order to access the Western market more efficiently. Poland is well known

³ The right vertical axis refers to China in USD, while the left vertical axis refers to Eastern Europe’s in millions USD. China’s average wage of employed persons in urban units is taken. For Eastern Europe an average of gross wages and salaries is used.

for Lenovo’s investment on building a desktop computer factory in 2008 and an order processing center (Filippov & Saebi, 2008).

Table 17: Chinese stock OFDI in the three most attractive Eastern European countries, 2004-2010



Source: Annual Statistical Bulletin 2010, MOFCOM

7. Completing the puzzle: Public Chinese OFDI and the role of the state

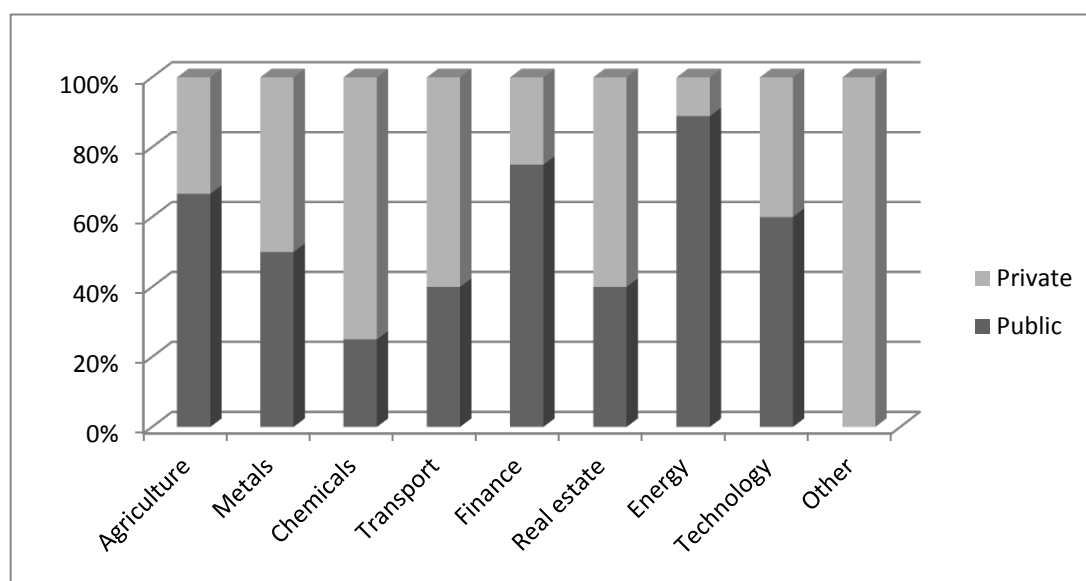
Chinese overseas investments cannot just be explained with Dunning’s approach, it needs to be further developed using institutional theory. Although they have common motivations to other economies, they don’t possess the characteristics needed to be competitive. Why are some succeeding then? Other emerging countries, which also face similar situations, have been recognized as having strong state intervention in their economies, and therefore in their investment decisions. First, the state controlled inward investments into the country and determined which industries could receive these investments in order to follow the program of the government that was established. The central priority has been the access to the global market by enterprises to tap into technology, know-how and financial resources (Wang, 2002).

Although the Chinese government has been compared with that of other late industrializers in Asia (Lu, Liu & Wang, 2010, Wang, 2002), the fact is that its presence has been greater than in the rest. This has made it difficult to analyze the purpose behind Chinese firms and fit them into a theoretical framework. New theories like the “strategy

tripod”, which integrates the industry dynamics, firm resources and the role of the government, has had success in explaining what is so special about Chinese investments (Lu, Liu & Wang, 2010).

In the EU-27, government intervention has varied over time and within sectors with a tendency towards a reduction of state interference and a greater role of private firms when taking the decision to go abroad (Clegg & Voss., 2012). When looking at the different industries that China invested in the EU-27 over USD 100 million, there is a difference between the private and public sector (Table 18). The government is concentrated on the agricultural, financial and energy sectors revealing that the acquisition of resources is still a powerful force behind the decisions of undertaking investments outside of China. However, the investments are small compared to other developing countries where the resource-seeking motivation is much stronger. Regarding the private sector, enterprises concentrate their investments on chemicals, transportation (mainly the automotive industry) and real estate. It is notable that both private and public enterprises are investing an equal amount in the technological sector, although this is not an indicator of a greater concern of the government on seeking assets but could rather be a movement towards the service-sector. A representation by years is not appropriate in this context, since Chinese investments by the government tend not to be consistent (Clegg & Voss., 2012). It is not the interests of the firm that drives public investments, but rather the necessity of the nation as a whole. Therefore, public investments from year to year will not be consistent with any rational pattern that maximizes the benefit of the firm, but rather what provides the nation with what it needs in that moment.

Table 18: Industry distribution by ownership of Chinese firm in the EU-27, 2006-2012



Source: Author’s own calculations using data from Heritage Foundation

Data by Hanemann & Rosen (2012) shows that government controlled firms do not constitute the majority of FDI deals in the EU-27, contrary to what it has been believed until now. Private investments, from 2000 to 2011, account for 63% of the total number of deals, while government-controlled deals are recorded to be just a 37% (Hanemann & Rosen., 2012). When compared to Chinese investments of the 1990s where most of the FDI was restricted to the government, we can forecast a movement where commercial reasons as the ones studied in the previous section become more important in the future. The reason why government driven investments are so important is the value of the FDI, which is much greater than that of private firms. The same source recorded that a 72% of the total investment in USD millions can be attributed to government controlled firms, while just a 28% comes from the private sector.

The influence of government directed investments is not the same across the EU-27, as table 19 indicates. Although just investments over USD 100 million are recorded in the table, it gives us an indication of the composition of Chinese OFDI. Eastern and Northern Europe mainly receive private investment, and is therefore primarily driven by commercial motives. As we have seen in previous sections, these are the efficiency-seeking motivation and the asset-seeking motivation. Southern and Western Europe, on the contrary, show indicators of a more diverse FDI where government-owned MNEs are more engaged. It is interesting to point out that although government-controlled

MNEs are more predominant in Western Europe than in Southern Europe, the value of their investments are greater in the latter.

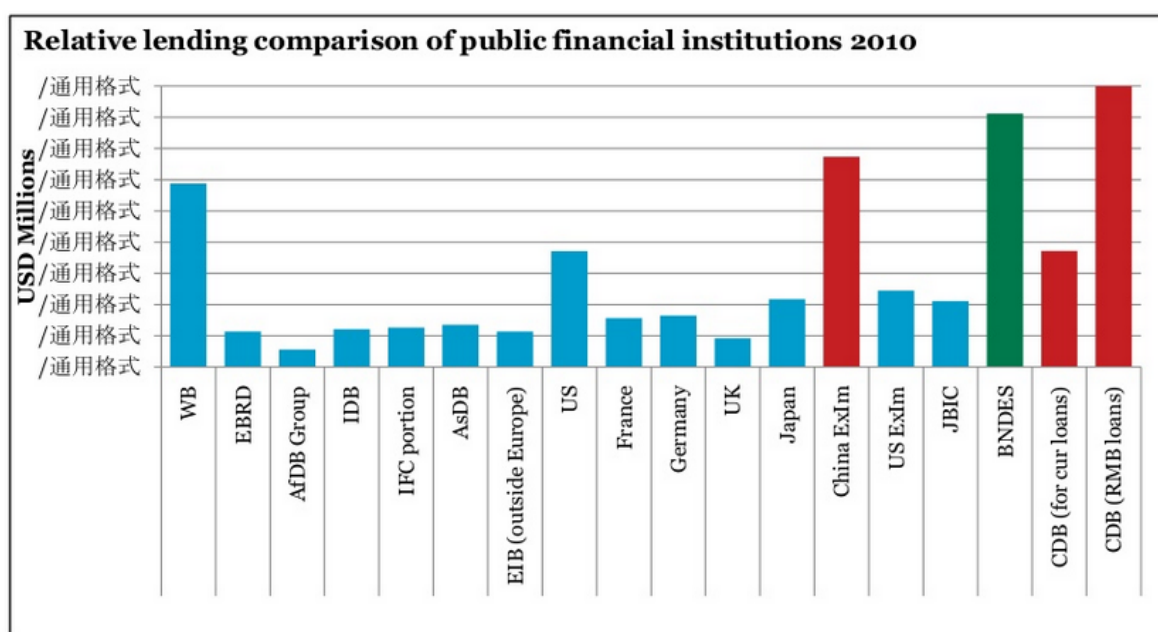
Table 19: Chinese investments in the EU-27 over USD 100 million, 2006-2012

	Number of deals (% share)		Total Investments USD (% share)	
	Government-controlled	Private	Government-controlled	Private
Eastern Europe	0%	100%	0%	100%
Northern Europe	0%	100%	0%	100%
Southern Europe	63%	38%	91%	9%
Western Europe	67%	33%	69%	31%

Source: Calculations from the author using data from Heritage Foundation

Government actions are not only important for public enterprises, but also shape the decisions of the private sector. Chinese firms responding to the CCIPT survey of 2010 coincided on the fact that the “go global” policy of the government was one of the most decisive factors when investing overseas, indicating that it was governmental policies that initiated the recent trend. Furthermore, China is one of the countries that encourage overseas investment the most by offering tax incentives and facilitating loans. On figure 8, we compare how much lending do public financial institutions offer in different regions. According to the World Resources Institute (WRI), “Chinese companies obtain 80-90% of their funding from Chinese banks” (WRI, 2012). None of the great economies (Germany, the US, Japan, and the UK) lend an amount that is close to that of China. Only BNDES, a Brazilian bank, is approximately at the same level. Both China’s export-import bank (Exim Bank) and China’s Development Bank (CDB) are the leaders in facilitating mergers and acquisitions and capital flows (Figure 8).

Figure 8: Amount of lending by different public financial institutions, 2010



Source: WRI, 2012

8. Case studies

Previous findings are based on the information collected by previous surveys, but in order to offer more reliable results there is a need to evaluate empirical cases that can confirm these findings. Due to the limitability of data during the recent period and the complexity to access Chinese data, this study will be limited to the analysis of several case studies on a selection of Chinese firms that have invested in the EU-27 across different industries and regions. Case studies are necessary in order to get a more in-depth view of the motivations of Chinese MNEs. SOEs do not reveal any information about their overseas investment operations and can therefore not be subject to exploration in this section. It is present, however, the indirect influence of the state in most case studies.

With this purpose, the four main private enterprises investing in Europe have been chosen. Although these organizations do not represent the complete set of private enterprises established in Europe, it gives an insight of the kind of investments we may see arising from other future Chinese MNEs. It is probable that the pattern of investment in the EU-27 will be established by those companies that have a greater volume of investment, together with public enterprises. In order to select the following companies, the top investments of Chinese corporations in the EU-27 have been chosen

with a value over 100 million USD. Together they represent more than 50% of the private investment in the EU-27. Privately-owned companies here represented do not possess more than 20% of voting shares belonging to the government. To offer the most reliable representation possible, these four Chinese MNEs have operations in the four regions the EU-27 has been divided into.

8.1. Zhejiang Geely Group

The automobile industry in China has lagged behind the major economies for a long time. Although the government tried to develop the sector already since the 1980s, it was not until 2006 that China surpassed Japan and became the largest auto manufacturer in the world (Chin, p.1, 2010). In 2009, the Chinese government decided to encourage M&A in the automobile industry in order to amplify its capabilities and start being able to compete outside the home market. The decision was foster by the heavy influence that foreign MNEs had in China's rise of the industry, and the desire to stop depending on them. At the same time, the economic crisis hit hard the automobile sector both in the US and in Europe, and sales started to decrease globally. To deal with the increasing deficits that the companies were having, they decided to sell unprofitable assets and brands (Han & Thomas, 2012). Here we can see the heavy influence of the government in deciding the importance of the sector for the "national plan".

Volvo is a Swedish automobile manufacturer established in 1927 and then acquired by AB Volvo until 1999. After that, it was one of the "Big Three" – Ford – that bought the brand. The company is known for its safety and environmental protection, and it enjoys a high reputation of quality in all Europe, especially in the Northern area. Its technology is well-known around the world and it devotes a high percentage of their earnings towards R&D, around 600.000 USD, one of the largest in the industry (Volvo, 2012).

Geely, on the other side, is one of China's top ten automobile manufacturers (Figure 9) which started in 1997. It has done other minor investments in Europe previous to Volvo like the largest British cab maker in the UK, Manganese Bronze. However, the acquisition of Volvo has been recorded as the largest cross-border acquisition of a Chinese company and the first wholly-owned by any Chinese car manufacturer.

Figure 9: Chinese auto companies ranking on car sales, 2009

Ranking	Name	Sales (10,000)	Growth (%)
1	SAIC	270.55	57.23
2	FAW	194.46	26.85
3	Dongfeng	189.77	43.70
4	Changan	186.98	56.25
5	BAIC	124.3	61.08
6	GAGC	60.66	15.33
7	Chery	50.03	40.50
8	BYD	44.84	160
9	Brilliance	34.83	22.11
10	Geely	32.91	48.36

Source: Han & Thomas (2012) collected from China Auto Industry Association

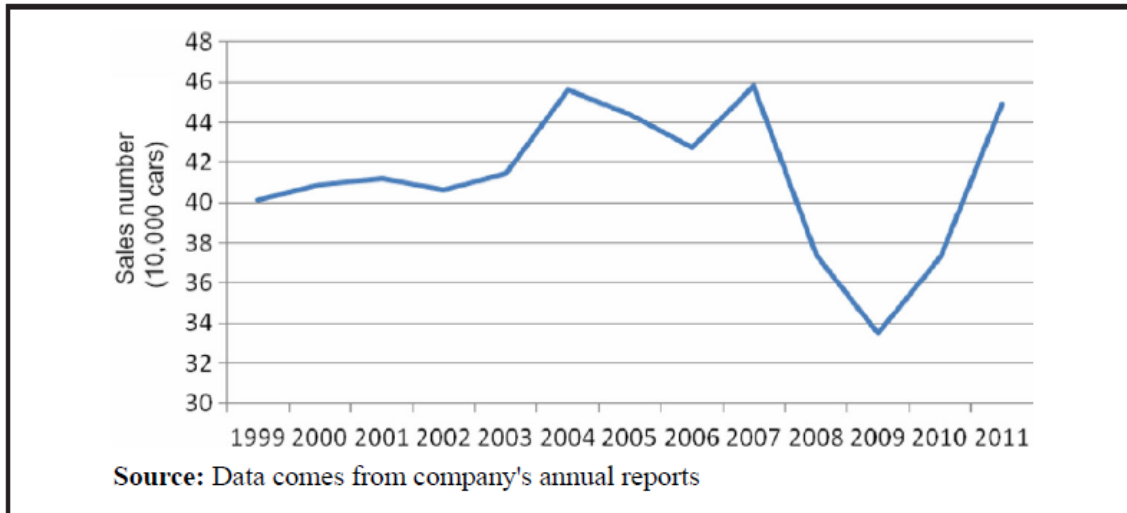
The acquisition had a lot of critiques and many doubted that there would be any positive impact for Volvo. Geely was a relatively small company that had no help from the state in the beginning and no truly international experience. They lacked, as well, particular capabilities that would give them advantage in the European market. The company was known for making low-cost products that could be sold for a broad segment. Its strategy changed during the 21st century and decided in 2007 to focus on delivering cars that targeted a more narrow group, that of the luxury segment. The skills and technology needed was not in the home market, so they needed to go abroad and acquire it artificially instead of waiting to develop it internally. The company represents the case of a latecomer that needs to upgrade itself as fast as possible rather than developing the needed skills at home.

The acquisition made by Geely had a very clear goal: to absorb the technology that Volvo is known for, and as a second strategy to increase the value of their brand (after the acquisition, Geely appeared in the *Fortune 500*). It can also use economies of scale with the enlargement of the number of factories and plants that are producing cars. Geely was planning on building a new facility in Beijing to expand production to 300.000 units annually and the R&D center to be open in Gothenburg at the end of 2013 will also contribute while cutting costs of testing and sourcing (Geely 2012).

Nevertheless, this acquisition is not only positive for Geely as the managers thought in the very beginning. It has been proved that sales of Volvo in the Chinese market have increased in the luxury segment and it has been able to register a profit since the crisis hit the industry (Figure 10). Volvo was the foreign MNE in China that increased its

sales the most, a 55% compared to a 37% for BMW in the second position (Han et al.2012).

Figure 10: Volvo's global sales, 1999-2011



Source: Han & Thomas (2012)

Geely's case illustrates very well the asset-seeking motivation concentrated in Northern Europe, where acquiring a western brand could deliver know-how and brand value. The peculiarity here is that the Chinese MNE was not concentrated on remaining competitive abroad but rather on boosting its presence in the home market. The presence of the state was not very predominant in this case.

8.2. Huawei

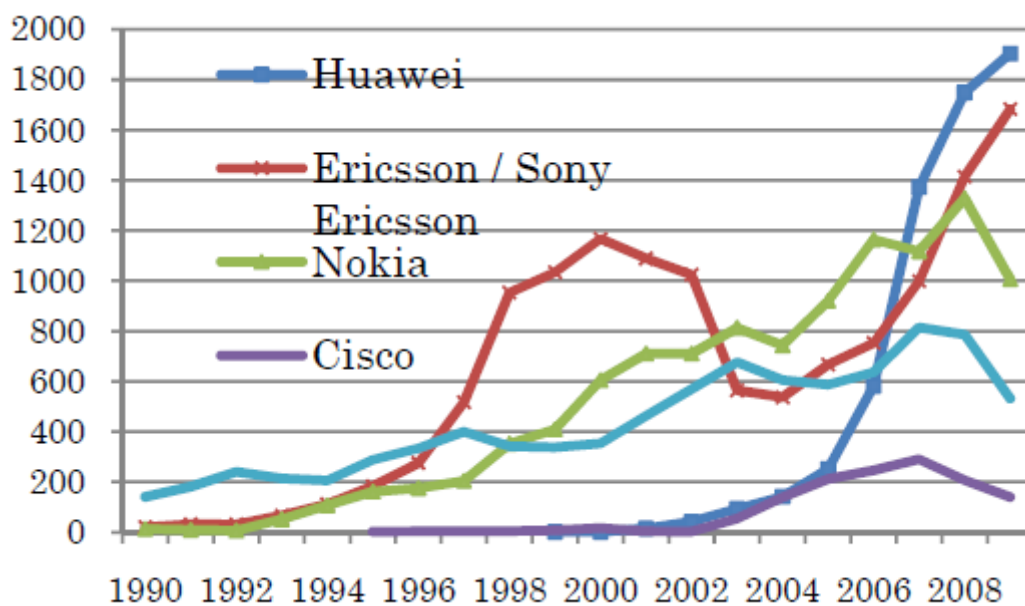
Huawei is a privately held Chinese company established in 1988 with the purpose of serving people who had no means to access technology. Its core business is fixed and wireless networks, but also offers global services and software (Huawei homepage). The company has therefore been growing at the same time as the communication sector in the country, which was fueled by the government after the opening up policies in the 80s. Although it received some help from the government to be able to finance itself at the beginning, the company has thereafter been successful due to the strategy adopted. Nevertheless, the relation it had with the state since the very beginning had a strong impact in its possibility to expand in the future.

The internationalization of Huawei has not been as the other Chinese MNEs, but the results are strong. After starting to impose its market presence in developing countries and gain market share by offering good quality and low-cost services, it moved to

developed countries. In Europe, it has invested billions of USD across the region establishing two regional offices to serve the whole region, forty one legal entities in order to access the customers easily and ten R&D centers. Huawei started with a low-cost advantage in the field, but this was observed not to be sustainable when competing with the large MNEs in an industry where quality and change are the most important assets.

It is therefore Huawei started to concentrate on its, nowadays, core advantage: R&D. The company is one of the leaders in its industry in the home market when it comes to R&D expenditure as a percentage of revenue. From 2010 to 2011 alone, it increased a 34, 2% (Huawei's annual report, 2011). Furthermore, 44% of its employees worldwide are dedicated to R&D solutions with 23 research centers all around the world. In Europe an 11% of the total number of employees is dedicated to this field, which is a large figure for an emerging MNE. It is also known for being at the top of the world's patent application (Nakai & Tanaka 2010), surpassing that of Ericsson in 2006 (figure 11). From all these patents, 20% of the ones granted are innovation patents. It could be said that the advantage it had in innovation at home, combined with its low-cost service was the main competitive advantage that guarantees its success in OFDI.

Figure 11: Number of patent applications by major telecom equipment manufacturers, 1990-2008



Source: Nakai & Tanaka, 2010

As it was stated in the previous section, the northern part of Europe is more advanced in R&D expenditure, which explains the preference of Huawei in locating these activities in Sweden. Western Europe has also received large investments from Huawei, especially Germany and France, although Italy in the south has also played its role (Huawei's homepage). Despite China remaining its main market, sales revenues in the last years increased more overseas than in the home market (Huawei's annual report, 2011), revealing how global the company is becoming.

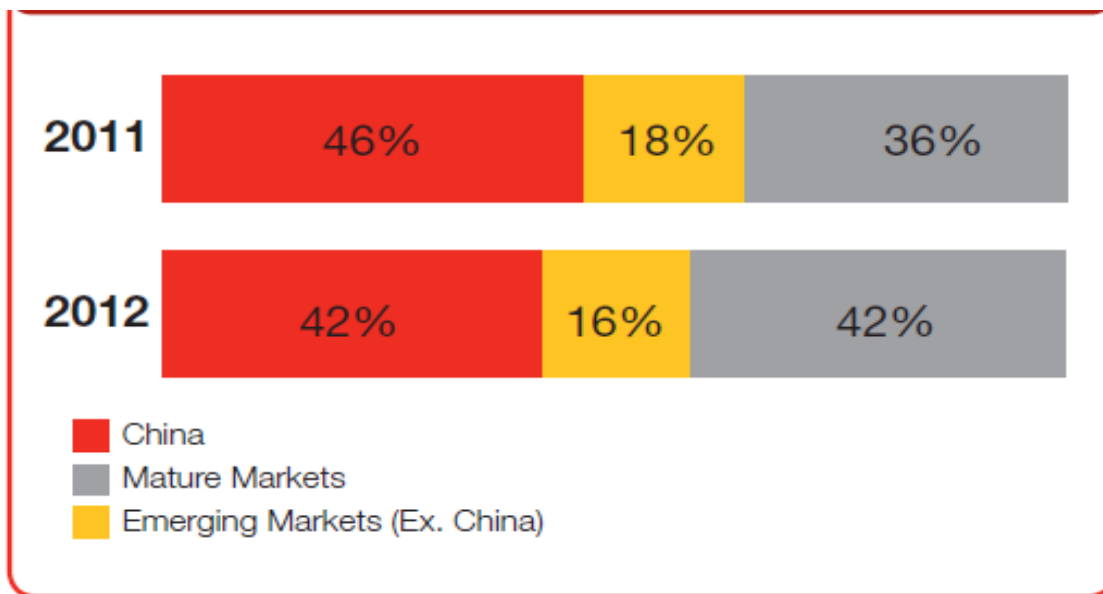
In order to be able to compete globally and to deter its main competitors in the home market, Huawei has established a strategy for its R&D. The idea of internationalizing R&D is that it will bring innovative ideas to the marketing and production departments at the same time. By investing in different R&D centers abroad and making alliances with big multinational corporations, they can update the latest technologies abroad and then bring it to the local manufacturing sites to adapt it to the customers and gain market share. It can be understood as a way of getting faster along the learning curve and possess the advantages and technological assets in a shorter period of time, not possible in the home market because of restrictions. The asset-seeking motivation is here also the strongest driver of OFDI, but not the only one. The company has also established a manufacturing center in Hungary in 2011 in order to serve the region more efficiently, having access to the most advanced parts of Europe but located in an area where salaries are much lower than in Western Europe. This complies with the efficiency-seeking motivation that was analyzed before.

8.3. Lenovo

Lenovo is another Chinese brand that is using its strategy to become international. The brand was established in 1985 in Beijing, and today is the largest personal computer (PC) vendor in China. It is considered to be the pioneer of the science and technology sector in the Chinese market (Ahrens & Zhou, 2013), and its main purpose was not to sell high-technology products but to increase the revenue in the IT market. Although it received help from the government at the beginning, Lenovo is today a private company that is registered in Hong Kong's exchange market. As for Huawei, state support was important for the initial support when the company did not have any strong competitive advantage.

Although it still relies very heavily in China, where it has the largest market share, the company has expressed its desire to become global and expand overseas. In the last financial year, Lenovo increased its market share in mature markets and expects to continue in this direction in order to catch-up with the larger PC makers. The company is using a strategy called “protect and attack”, which consists in protecting its market share in the regions it has already established and gaining share in those that have potential.

Figure 12: Revenue by geography, %



Source: Lenovo’s annual report (2012)

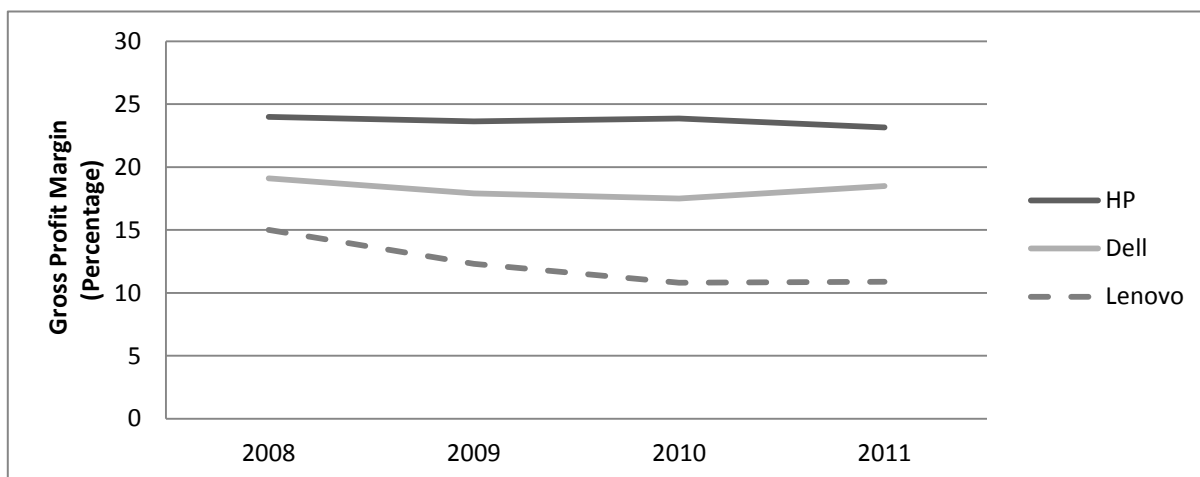
With this strategy in mind, Lenovo started a strategic alliance with IBM in 2005 and has recently made a new acquisition of 80% of the stake in Western Europe of Medion, a German company that specializes in low-cost computers and other electronic devices. The idea of the CEO is to find “high-growth” businesses that can boost the profit of the company (Bloomberg, 2013) and for the name of the brand to become known worldwide. Germany is currently Europe’s largest PC market, and the acquisition helps them to diversify their strength to other products they were not so strong with in Europe by getting a new distribution network and an established brand (Hille & Kwong, 2011). The result appears to have had a positive effect since the company had in 2012 a record increase in its market share (Figure 12) and managed to maintain 8, 7 % share of the mature market when the rest of companies were seeing it decline (Ahrens & Zhou, 2013). What this indicates it’s a market-seeking strategy with an emphasis on the

Western European market, together with a secondary motivation of seeking assets such as a stronger brand name.

The investment of R&D, compared with other leading brands such as HP or Dell, is not very large. In 2011 it spent a mere 8, 7 % of what HP, the leader in this field, spent. Furthermore, all of its R&D centers are established in China instead of internationalizing it as other firms are doing in order to become international (Lenovo's annual report 2011). It is therefore clear that they are not looking for technologies or innovation overseas but they prefer to keep this area in the home market. The company has grown with establishing their presence and targeting a particular segment: low-cost computers with a reasonable quality. In this particular case we can see again that it is the low-cost advantage that allowed the company to start its oversea expansion.

It is expected that Lenovo will continue to acquire more consolidated companies, and Europe has potential of being one of these markets. With a high GDP per capita, Europe has the potential of offering a profit margin that is higher than emerging countries. Both HP and Dell are more concentrated in mature markets and have a greater margin than Lenovo as we can see on table 20, which is one driver for Lenovo to gain market share in Europe and starting in Germany.

Table 20: Gross Profit Margin of the biggest PC makers in percentage, 2008-2011



Source: Modified table from Ahrens & Zhou (2013). Data obtained from firms' annual reports

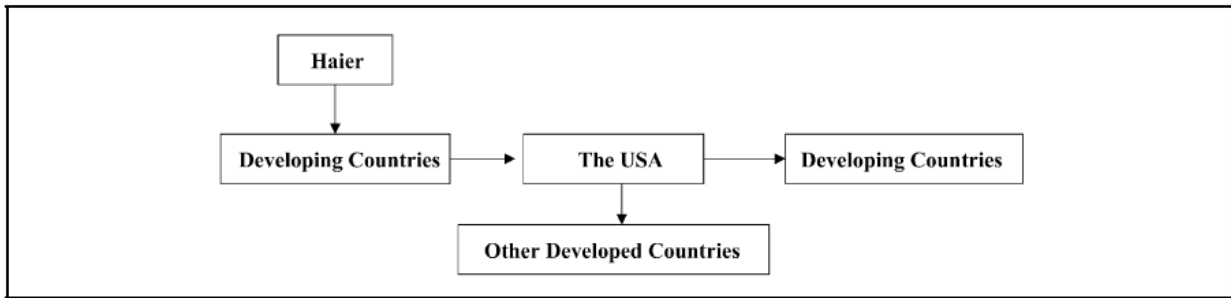
Hille & Kwong (2011) revealed that Lenovo stated an increase of its market share in Germany after the acquisition to a 14%. The increase in revenue in mature markets in 2012 supports the search of Lenovo of a broader consumer base in Europe; therefore it is expected to see a rising gross profit margin in the following years. With the acquisition of Medion, the back-end of Lenovo (cheap manufacturing and a strong supply chain) is combined with the front-end of the western firm (marketing, sales and retail).

8.4. Haier

Haier group was established as a collective-owned enterprise in Qingdao in 1984. It is specialized in white household appliances, and specialized in the Chinese market at the beginning. Having conquered its home market, where it currently possesses 25% of the market share (Financial Times, 2012), it decided in 1995 to go international and start growing abroad (Liu & Li, 2002). The same as the other cases, the company was a leader in its sector back in China, which gave them an additional advantage and support from the state when moving abroad. Additionally, the CEO is a member of the Communist Party which means that although it is not government-controlled, it has a greater support from the state than other private MNEs.

The strategy of Haier does not resemble that of the majority of developing MNEs. Instead of targeting developing economies to grow and then enter the developed markets when it already has established its position, the company position itself in the developed countries where they face the toughest composition and then try to enter developing countries (Liu & Li, 2002). It did so by first targeting certain niche markets in the U.S. and now they are trying to find a place in the European market (Figure 13). This is similar to what Japanese MNEs tried to achieve when internationalizing: they started to expand in a few developing countries in Southeast Asia, such as Indonesia in 1996, in order to enlarge its sales and gain experience (Liu & Li, 2002), and then they established themselves in the US market. However, Haier does not bring the technological capability with it from the home market, but try to build it up in industrialized countries.

Figure 13: Path of Haier's international expansion



Source: Liu & Li, 2002

Haier received a lot of support from the government through financial incentives and it was intended to become a “Fortune 500” company (Liu & Li, 2002). Its main objective is to become a well-known brand and defeat the conventional thinking of relating Chinese brands to low-cost products. The name does already not resemble Chinese, and this gave them competitive advantage when establishing in the US, where 30% of the households have some of its products at home (Financial Times, 2012). It is currently the “world’s leading appliance maker by sales and volume” (Financial Times, 2012). All indicates towards an asset-seeking and market-seeking strategy. It tries to impose its presence first in the developing countries and then moves to the developed regions in order to further develop its management and technical knowledge as well as tapping the market.

The market for large kitchen appliances has its biggest market in the EU, and it is therefore very important for Haier to access this market. Two of the largest kitchen appliance manufacturers come from the EU-27: Electrolux and Bosch-Siemens (Bell, p.145, 2008), but Haier has been building up its position since then. Nevertheless, the company is still far away from its main competitors despite having doubled its sales in the European markets in the last six years; they remain with a position of 1% of the market (Financial Times, 2012). Key to the success of the company is the usage of local distributors instead of the establishment of own marketing companies, making it more difficult for consumers to realize the origin of the brand (Liu & Li, 2002). Haier entered the European market at the end of the 1990s, and has expanded its operations in the region since then. In the table below (Table 21) we can observe the different investments of Haier into the EU-27 along time.

Table 21: Investments of Haier in the EU-27, 1997-2004

Year	Country	Institutional mode	Products
1997	Germany, Netherlands, Italy	Export	Refrigerator
2000	Italy	Greenfield	Refrigerator, air- conditioner
2001	Italy	M&A	Refrigerator
2002	Italy	Greenfield	Air conditioner
2002	Spain	Greenfield	Air conditioner
2003	Germany	Alliance	Refrigerator, Freezer
2003	UK	Greenfield	Air conditioner
2004	France, Germany, Italy, Spain	Greenfield	TV, Mobile phone
2004	Italy, Germany	Greenfield	TV, Mobile phone

Source: Bell, p.163, 2008

There is a clear tendency for the company to concentrate its operations in South and Western Europe, not investing a lot either in Northern or Eastern Europe although they have revealed some intentions of doing so in the latter in order to access the western market but at a lower cost (Bell, p. 165, 2008). This pattern has to do with the motivation behind the company's investment policy: building a strong brand in Europe in order to gain access to the market and then expand abroad. The company distributes its investments according to which part of their value chain they want to enhance, establishing design and R&D centers in Italy and Germany respectively, and establishing local offices where the market for their products is greater.

R&D is not the focus of the company when deciding to go overseas, being very dependent on foreign knowledge, so it cannot be used as a competitive advantage. In order to enter developed markets, they focus on segments that local brands are not targeting: low costumer segments. However, they have realized that to become “truly global” they need to address higher customer segments in Europe.

9. Conclusion

The division of the world has changed since the FDI economic theories were developed, and where industrial countries used to have a dominant position, developing countries are taking the lead. In the following study it has been shown how structural changes in the latter economies are shifting the trends we observed some decades ago. Regarding China, it is following a trend that will probably convert the country in one of the greatest investors. Its investments in the EU-27 have increased in the last decade and are concentrated in Western and Northern Europe. This does not go in accordance with the classical FDI theory, since China is entering the most competitive markets when they haven't developed any competitive advantage to compete with local MNEs. The industries they are investing in are very diverse, and most of them concentrate in Western Europe. Surprisingly it is the primary and secondary sectors that receive the greatest amount, and not so the tertiary as we may think could be the primary interest in the EU-27. Nevertheless, this is due to the disproportional weight of SOEs investments' value.

When compared with other Eastern and South Asian economies that started industrializing before China, it is noticeable that they have all started to invest abroad while developing without possessing major advantages. However, the rest of NIEs concentrated most of their investments in developing countries where they could establish themselves and build their competitive strengths, using the first mover advantage. Thereafter they also started to invest in developed countries, but at a lower scale than China. The Asian giant invested in developed countries from the beginning, probably because of their massive need of resources, and although they have increased their investments in developing countries, industrialized regions are becoming one of its focuses again. Specifically in the EU-27 we can observe a difference with other NIEs. The first NIEs did not start to look for assets and markets in the region until the last stages of their international expansion, while China has done so very early and has even

surpassed the rest. This could be explained by the need of China to compensate the fact of being a latecomer and is now aggressively targeting developed markets where they can benefit from. The crisis has just made it easier for the country to access a market which was very restricted previously, and this has increased its investments so rapidly.

The motivations of Chinese investments are multiple, and different regions of the EU-27 respond better to what they are looking for. It must be pointed out that there are indicators of Chinese MNEs following the classical theory in the most recent period, when private investments started to arise as restrictions from the government were removed. Previous surveys have revealed the importance of looking for new markets due to the saturation of China's own home market. GDP per capita reveals that Western and Northern Europe are the most probable targets when pursuing these strategies. Lenovo's case reveals how the desire to expand its customer segment drives them to acquire a German company and from this starting point, expand its market. Haier also has this motivation, but it establishes itself also in Southern Europe due to its larger customer base in this sector. Both share the same characteristic: they use their low-cost advantage to start establishing themselves and try to establish themselves by acquiring brands that are diminishing their importance in Europe but have not yet disappeared.

Asset-seeking is also an important determinant for Chinese MNEs to go abroad since the home country does not spend a great amount of their GDP on R&D expenses. Northern Europe, and thereafter Western Europe, appears to be the ideal location for these firms, where they can gain the knowledge and then use it to develop their products both at home and in other developing regions. In this category we have Huawei and Geely fostering their technological knowledge, or Lenovo and Haier trying to upgrade their brand image. We could say that it is the most common motivation among private enterprises investing in the region, although they have other interests at the same time. Interesting, it is also interesting for the government since it is a way of shaping global and competitive brands abroad that will enforce China's role in the global market. Therefore, the government offers help to these MNEs.

Finally, the efficiency-seeking motivation is starting to become more interesting for Chinese investors as they see their wages in the coastal area to rise and transportation costs to make it expensive to produce in China. With this perspective, Eastern Europe offers the best location for firms who want to enter the Western European market while maintain the low-cost advantage. Companies such as Huawei and Haier are increasingly

relocating their operations to this area to improve their logistic network and reduce their costs of operating in the region.

From the previous analysis, we can state that Chinese OFDI defeats the traditional theory in not having developed a FSA to compete in developed markets and having increased its presence much faster than other developing nations before it. The only feature that makes it possible for China to invest in EU-27 is the low-cost labor, a rather CSA which are not contemplated as a strength when going overseas for developed nations. They are aggressively trying to gain other competitive advantages in order to be able to remain when the low-cost advantage has disappeared. They must do so faster than other developing countries because they have industrialized late and today's world is changing more rapid than before. However, we must not forget that Chinese MNEs possess another characteristic that makes them different from other countries: the support from the government. All enterprises that have been studied in the cases, although private, have received support from the government in order to be able to internationalize and compete overseas. This is not contemplated in the OLI framework, but should be incorporated when developing new FDI theory.

The role of the government, nevertheless, has decreased with time and the MNEs that are entering the EU are more commercially oriented than following a national plan design by the central authorities. The presence of SOEs is greater in Western and Southern Europe, which explains the great stock accumulation in the former due to their large investments. Public enterprises are still present in the energy and financial sector in certain regions like Southern and Western Europe, but their role could be supplanted in the future with private Chinese MNEs.

This study indicates that Chinese OFDI in the EU-27 is gradually moving towards the classical theory of FDI, but still possesses certain characteristics that deviate from the conventional statements. These should be included in future studies, but the classic frameworks should be kept. We must recognize, however, the limitations of this study since it is restricted to the study of a very particular region in the world. When analyzing Chinese OFDI in a wider perspective, we may obtain different results. Nevertheless, it is important that this study took place in order to introduce the topic and foster future research. Policy recommendations may be formulated according to the focus of Chinese investments in different regions of the EU-27, and it can be used as a base for both quantitative and qualitative studies.

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