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Do Chinese state-owned and private enterprises differ in their internationalization strategies?

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ABSTRACT

We empirically analyze the host-country determinants of Chinese outward direct investments (ODI) in the period from 2003 to 2008, using disaggregated data by country and sector and distinguishing between state-owned or controlled enterprises (SOEs) and privately-owned firms. Our results show that the pattern of Chinese ODI differs according to corporate ownership. Private firms are attracted by large markets and host-country strategic assets and are averse to economic and political risks when choosing investment locations abroad. Differently, state-owned or controlled enterprises follow the strategic needs of their home country and invest more in natural resource sectors, being largely indifferent to the political and economic conditions in the host countries.

1. Introduction

Research on the international expansion of Chinese firms through outward direct investments (ODI) has been growing rapidly over the last few years, exploring the foreign location choices of Chinese firms with diverse data sources and statistical techniques. So far, the bulk of the empirical research has relied on data at the aggregate level, often distinguishing the determinants of Chinese ODI according to the income level of the host economy (see for instance Buckley et al., 2007; Cheng & Ma, 2008; Kolstad & Wiig, 2012). There is some agreement on the fact that Chinese ODI show a unique pattern, different from traditional investing countries, as Chinese firms appear to be attracted to countries that do not correspond to the standard profile of host locations (Ramasamy, Yeung, & Laforet, 2012). The reasons why Chinese multinational enterprises (MNEs) seem to choose foreign locations according to criteria that do not fit into the standard theory could be better investigated by taking into account two additional issues. The first factor to be considered is the sectoral breakdown of the data. Previous research by the authors (Amighini, Rabellotti, & Sanfilippo, 2011) undertook such an analysis, highlighting that the pattern of Chinese ODI is indeed sector-specific. The second factor to take into account is the ownership structure of firms investing abroad, distinguishing between state-owned enterprises (SOEs) and private companies. The differences in international strategy between SOEs and private firms are crucial in the case of China where, despite the reforms of the public sector in the 1990s and more recently the launch of the Go Global strategy aimed at reducing constraints to private investors (Luo, Xue, & Han, 2010), the composition of MNEs remains biased towards SOEs, accounting for about 70% of the total stock of foreign direct investments (FDI) in 2009 (Song, Yang, & Zhang, 2011).

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There are a number of reasons why the foreign expansion strategies of SOEs and private firms could be different (Song et al., 2011). First, SOEs face different business and economic conditions in the domestic market – they enjoy privileged access to strategic resources such as political support and capital from state-owned banks, and often a monopolistic position at home – and this could result in different motivations to invest abroad compared to private firms. Capital is instead a major constraint for private firms, which often have to resort to "round tripping" and tax havens for overcoming such disadvantage (Sutherland & Ning, 2011).

Second, SOEs might pursue a broader set of objectives when investing abroad, encompassing both economic and political ones. Indeed it is often assumed that political objectives are at least – if not more – relevant than economic objectives, as "managers of SOEs can use overseas investments to demonstrate their ability to manage international business, and claim credit for themselves and their organizations for undertaking activities that serve the national interests." (Song et al., 2011: 39).

These differences in the foreign expansion strategies of SOEs and private firms, which have been repeatedly emphasized in the literature, motivate this paper aimed at improving the limited empirical knowledge available with firm-level data and sector-level information on the investment patterns of these different types of firms. The first research objective of the paper is to map Chinese ODI according to the ownership of investing firms. In fact, a detailed description of the sector and geographic distribution of Chinese ODI by type of investing firm can refine our knowledge of the patterns of outward expansion for different types of firms. The second research objective is to explore which are the most relevant host-country factors that attract the two groups of investing firms and whether the foreign locations chosen by Chinese SOEs have different characteristics from those chosen by private Chinese enterprises.

Our analysis is based on a newly constructed variable describing ownership of Chinese firms that have invested abroad since 2003 up to 2008. Indeed, our results show that the pattern of Chinese ODI differs between SOEs and private firms. The latter follows a pattern that is consistent with the traditional empirical results on foreign investments being attracted by large markets and host-country strategic assets and averse to economically and politically unstable countries while the former follow the strategic needs of their home country and invest more in natural resource sectors, being indifferent to the political and economic conditions in the host countries.

The paper is organized as follows. Section 2 reviews the literature on the determinants of Chinese ODI and presents the research hypotheses. Section 3 provides a detailed description of data and methodology. Section 4 discusses the empirical findings. Section 5 concludes.

2. The determinants of Chinese ODI

2.1. Background literature

Extant studies on the foreign expansion of Chinese firms stress the peculiarity of Chinese MNEs, which are predominantly state-owned enterprises and whose investment decisions may reflect political objectives that are not necessarily consistent with the profit-maximizing strategies of private companies (Child and Rodrigues, 2005). This implies that their determinants may be different from those of any other country (Morck, Yeung, & Zhao, 2008; Yeung & Liu, 2008). Moreover, Chinese ODI might follow a different pattern compared to FDI from developed countries because of the peculiarity of China's institutional environment, which may represent a competitive advantage for Chinese companies investing in developing countries (Quer, Claver, & Rienda, 2011).

So far, empirical studies on the determinants of Chinese ODI have provided support for market-seeking motivations that push Chinese firms to invest especially in OECD countries (Buckley et al., 2007; Cheung & Qian, 2008; Hurst, 2011; Kolstad & Wiig, 2012) and for resource-seeking motivations in non-OECD countries (Buckley et al., 2007; Hurst, 2011; Kolstad & Wiig, 2012; Pradhan, 2009; Sanfilippo, 2010).[1] Other studies find results that would seem to be peculiar to the case of China. Special attention has been paid to the fact that Chinese investors seem less risk averse compared to their counterparts from developed countries (Amighini et al., 2011; Kolstad & Wiig, 2012; Li & Liang, 2012; Quer et al., 2011; Sanfilippo, 2010) as well as to the emphasis on the exploitation of relational assets to reduce the psychic distance with institutionally different countries (Buckley et al., 2007; Cheng & Ma, 2008; Hurst, 2011). Finally, some research highlighted the search for strategic assets in technologically advanced countries and in specific sectors (Amighini et al., 2011).

Very recently, a few studies have investigated the link between corporate ownership and Chinese ODI. They provide important contributions to earlier literature by exploring the characteristics of host countries chosen by different types of firms. Nonetheless, each of these studies relies on a different dataset including diverse subsets of Chinese firms investing abroad, so the results are difficult to compare and overall the findings are not clear-cut. In what follows, we summarize the main findings in these contributions.

With a Poisson count data model, Ramasamy et al. (2012) test the international location decisions made by 63 public listed Chinese firms (of which 17 are private and 46 state-owned or state-controlled) during the period 2006–2008, using data from MOFCOM. They find that state-owned or controlled firms are more attracted to countries with large endowments of natural resources and risky political environments, a hypothesis also partially supported by Duanmu (2012). Moreover, they find that countries with abundant natural resources are also attractive to private firms; this could result from the fact that they often follow their state-owned counterparts investing in natural-resource rich countries to provide them with related products and services.

[1] Similar results are also reached by the analyses on the determinants of China's economic cooperation flows, as a proxy of State's efforts to promote the entry of Chinese firms via FDI (Bhaumik & Yap Co, 2011; Sanfilippo, 2010).