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Contents

Determinants and motives of outward foreign direct investment from China's provincial firms*

Chunlai Chen**

Based on Dunning's OLI framework and the investment development path theory, this paper investigated the determinants of outward FDI by China's provincial firms. The results show that provincial economic development, innovation and technology, and export to GDP ratio are statistically significant determinants, while FDI inflows, import to GDP ratio and provincial market size are not statistically significant determinants. The results suggest that the main motives for China's provincial firms to invest abroad are mainly market-seeking and efficiency-seeking.

Key words: China, outward foreign direct investment, home country determinants

1. Introduction

Since China launched the "go global" strategy, outward foreign direct investment (OFDI) from China has increased dramatically. By 2012, OFDI flows from China reached US$84.22 billion while the stock of Chinese OFDI was worth US$509 billion. China's outward investors can be categorized into two groups: central government-controlled State-owned enterprises (SOEs) and provincial firms (including local government SOEs but majority of them are non-SOEs).[1] China's OFDI flows have been dominated by central government-controlled SOEs. In 2009, central government-controlled SOEs accounted for 82 per cent of China's total OFDI flows. However, since 2010 provincial firms increased OFDI rapidly and their share in China's total OFDI flows increased to 34 per cent in 2012. Although China's OFDI flows are still dominated by

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[1] According to China's administrative division, China has 22 provinces, 4 municipalities (Beijing, Chongqing, Shanghai and Tianjin) and 5 autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang). For simplicity, in this paper "province" is used to represent provinces, municipalities and autonomous regions.

central government-controlled SOEs, the importance of provincial firms in China's OFDI flows has been increasing. This article examines the home province determinants of OFDI that have contributed to the rapid increase of OFDI flows from provincial firms and the main motives of provincial firms in conducting OFDI.

Many studies have used the national aggregate OFDI data to investigate and explain the determinants and motives of China's OFDI (e.g. Buckley et al., 2007; Cheung and Qian, 2009; Cheung et al., 2012; Kolstad and Wiig, 2012; Liu et al., 2005; Tolentino, 2010; Wei and Alon, 2010). These studies find that, apart from the market-seeking motive, the main motives of China's OFDI are natural-resource-seeking and strategic-asset-seeking for the purposes of securing supplies of natural resources (mineral resources and fuel) and acquiring advanced technology to support the long-term economic development of China. More importantly, studies find that the Chinese multinational enterprises (MNEs) fundamentally differ from MNEs from developed countries in terms of ownership advantages, internationalization motives and home country parameters (Buckley et al., 2007; Liu et al., 2005). Therefore, it remains an open question whether previous conceptualizations can adequately explain the investment behaviour of Chinese MNEs (Boisot and Meyer, 2008). However, because of the overwhelming dominance of central government-controlled SOEs in China's OFDI flows, what previous studies investigated was actually OFDI by central government-controlled SOEs. As a result, the characteristics such as the determinants and motives of OFDI by provincial firms have not been specifically analysed.

In addition, previous studies focused on national level variables in investigating the home country determinants (e.g. Liu et al., 2005; Luo et al., 2010; Tolentino, 2010; Wei and Alon, 2010). Through over 30 years of economic reform, China has substantially decentralized the decision-making power on economic and social development from the central government to provincial governments, and more importantly, provincial governments have been granted the power to approve OFDI projects by provincial firms. However, the provincial level variables which are expected to have more direct impact on OFDI from local provincial firms have not adequately been taken into account in existing studies.

Recently, a number of studies, using either firm-level data collected by various institutions (e.g. Amighini et al., 2012; Duanmu, 2012; Lu et al., 2014; Wang et al., 2012a, 2012b) or firm-level survey data (e.g. Cui and Jiang, 2012; Liang et al., 2012; Liu and Scott-Kennel, 2011; Voss et al., 2010) analysed the determinants and motives of China's MNEs and found significant differences between SOEs and non-SOEs in terms of government support, risk taking, entry mode, location choice and investment motives in conducting OFDI. These studies have contributed to our understanding of OFDI of non-SOEs. However, the use of firm-level data may suffer from coverage bias. For example, the data used by Amighini et al. (2012), which are from *fDi Markets*[2], cover only greenfield investment projects and do not include cross-border mergers and acquisitions (M&As); the data used by Duanmu (2012) cover only Chinese MNEs from Zhejiang province; and the data used by Lu et al. (2014) are collected from publicly listed companies which may be biased towards large and better performing companies. Likewise, survey-based results are not always reliable because investors may be reluctant to disclose their true motives (Hill and Munday, 1994; Wang et al., 2012a). Although the data used by Wang et al. (2012a, 2012b) overcome such limitations by employing two firm-level datasets collected by Chinese authorities, the data cover only two years (2006–2007), which would not be sufficient, especially for provincial firms which increased OFDI substantially since 2010.

This study will focus on investigating the home province determinants of OFDI and the motives of provincial firms by employing data on provincial OFDI flows for the period 2003–2012 published by the Ministry of Commerce of China. Although the data of provincial OFDI flows include OFDI conducted by local SOEs, majority of provincial OFDI flows are conducted by non-SOEs. In this study, we use the term "provincial firms" to distinguish them from central government-controlled SOEs.

The analysis is based on Dunning's OLI framework and the IDP theory. The results show that the level of economic development, innovation and technological level and export to GDP ratio are statistically significant determinants affecting OFDI flows from China's provinces, while FDI inflows, import to GDP ratio and provincial market

[2] www.fdimarkets.com/

size are not statistically significant determinants affecting OFDI flows from China's provinces. The results suggest that the main motives for China's local provincial firms to invest abroad are market-seeking and efficiency-seeking through exploiting technology and facilitating provincial exports.

This study makes three contributions to the existing literature on China's OFDI. First, this study finds that home province determinants are very important in determining the level of OFDI flows from each of China's provinces, demonstrating the usefulness of Dunning's OLI framework and the IDP theory. Second, this study reveals that the patterns of OFDI by China's provincial firms are consistent with the traditional international business theories. Third, this study finds that the main motives of China's provincial firms in conducting OFDI are different from those of SOEs as revealed by previous studies.

The paper is structured as follows. Section 2 presents a brief overview of OFDI from China during the period 1979–2012 with regard to the sources of China's OFDI and the characteristics of provincial OFDI. Section 3 presents the theoretical framework and discusses the hypotheses of provincial factors affecting OFDI. Section 4 conducts the empirical tests for the hypotheses. The final section summarizes the basic findings.

2. The development and characteristics of China's OFDI

2.1. The development of China's OFDI

Since the launch of the economic reform and open door policy in 1979, China has gradually liberalized its OFDI regime from a restricted