

Implications of MNC Theory for Chinese Outward FDI

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Abstract. With the rapid development of China's economy and the process of globalization, China's outward foreign direct investment has shown a growing trend. As an important player in the global economy, the theory of multinational corporations has important guiding significance for Chinese OFDI. Therefore, this paper aims to explore its inspiration for Chinese OFDI with the help of MNC theory in order to improve the internationalization and competitiveness of Chinese enterprises. The purpose of this paper is to explore the revelation of MNC theory on Chinese OFDI. The specific research contents include: an overview of MNC theory, the current situation and problems of Chinese OFDI, and the revelations of MNC theory on Chinese OFDI. Through a comprehensive analysis and generalization of relevant literature, the paper provides an in-depth analysis of the reference role and revelation of MNC theory on Chinese OFDI in order to improve the competitiveness of Chinese enterprises in the international market.

Keywords: Chinese OFDI, MNC theory, industrial chain integration, government supervision.

1. Introduction

With the in-depth development of globalization, multinational corporations have become an important driving force of global economic development. By crossing national boundaries, integrating resources, achieving large-scale operation and profit maximization, multinational corporations have become the main force of global market competition. At the same time, MNCs also face challenges and risks in culture, law, politics and other aspects. In such a background, the theory of multinational corporations has gradually formed and become an important theoretical basis for studying and solving the problems of development and management of multinational corporations.

As the second largest economy in the world and a representative of developing countries, China has been promoting its opening-up and globalization strategy since its reform and opening-up. In recent years, the scale and quantity of Chinese OFDI have gradually increased, becoming an important means for Chinese enterprises to participate in global competition. However, Chinese enterprises are also facing many problems and challenges in OFDI. In this paper, we will analyze the current situation and problems of Chinese OFDI from the perspective of MNC theory, and propose the inspiration and suggestions of MNC theory for Chinese OFDI.

2. Organization of the Text

2.1. Current Status and Problems of Chinese OFDI

2.1.1 History and status of China's OFDI development

Chinese OFDI started in the mid-1990s, but got a late start. Since 2002, Chinese OFDI has shown a spurt of growth, especially after 2010, and the growth rate is even more impressive, with the annual stock of Chinese OFDI at USD 1.9 trillion as of 2021. The current situation of Chinese outward foreign direct investment (FDI) has changed significantly over the past decades:

(1) General trend: Since the reform and opening up, the scale of China's outward FDI has been increasing. Especially in recent years, with the growth of China's domestic market and the acceleration of the internationalization of enterprises, Chinese OFDI has become one of the most important sources of global investment.

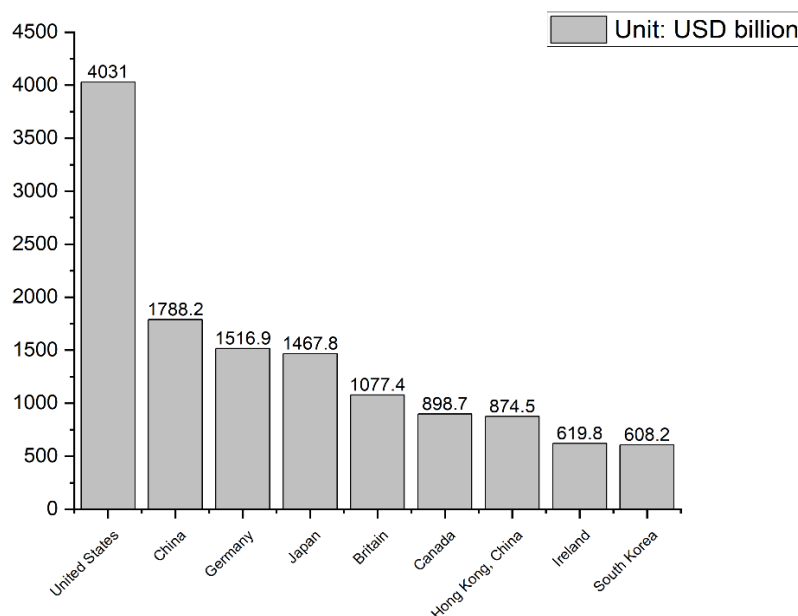


Fig. 1 Comparison of OFDI flows between China and major global countries (regions) in 2021

Figure 1 shows the comparison of China's OFDI flows with those of major global countries and regions in FY 2021, which shows that China's OFDI flows reach \$1.7 trillion in FY 2021, ranking 2nd among global countries (regions).

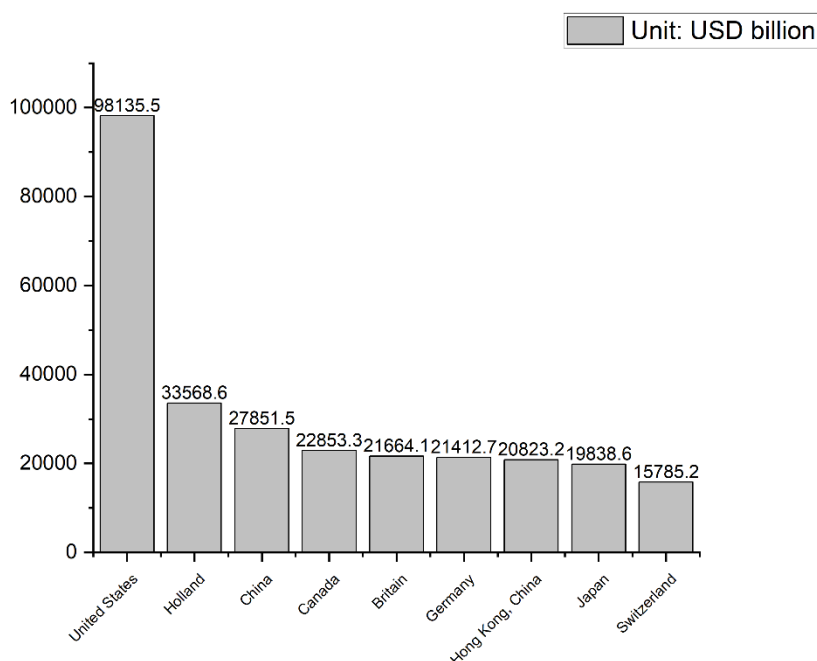


Fig. 2 Comparison of OFDI stocks between China and major global countries (regions) in 2021

Figure 2 shows the comparison of China's OFDI stock with that of major countries and regions in the world in FY 2021, showing that China's OFDI stock reaches US\$27 trillion in FY 2021, ranking the 3rd in the world in terms of stock. In summary, China has become a major world OFDI country in terms of both its OFDI stock and flow.

(2) Investment areas: China's outbound direct investment is in a wide range of sectors, including energy, mining, manufacturing, finance, and real estate. Chinese investment in high-tech and innovative industries has also increased in recent years. Table 1 shows the composition of China's outward FDI flows and stock classification in 2021. Outward investment is still dominated by non-

financial sectors, accounting for 85% of the total, but financial outward FDI flows increased by 36.3% in 2021 compared with the previous year, a significant increase, and financial outward investment has also been increasing.

Table 1. The composition of China's OFDI flows and stocks by category in 2021 unit: USD billion

	Flows			Stocks	
	Amout	Growth over previous year (%)	Ratio(%)	Amout	Ratio(%)
Total	1788.2	16.3	100	27851.5	100
Finance	268.0	36.3	15	3003.5	10.8
Non-Financial	1520.2	13.4	85	24848.0	89.2

(3) Investment regions: Table 2 shows the top 10 countries or regions of China's outward FDI flows in 2021, from the table we can see that Hong Kong, China is still the top region of China's outward FDI flows, in addition to the regions of China's outward FDI are also gradually expanding. In addition to traditional investment destinations such as Asia and Africa, regions such as Europe, North America and Latin America have also become investment targets for Chinese companies.

Table 2. Top 10 countries (regions) for China's outward FDI flows in 2021

Continent	Country and Region	Flow (USD billion)	Ratio(%)
Asia	Hong Kong, China	1011.9	56.6
	Singapore	84.1	4.7
	Indonesia	43.7	2.5
	Vietnam	22.1	1.2
Europe	Germany	27.1	1.5
	United Kingdom	19	1.1
Latin American	British Virgin Islands	139.7	7.8
	Cayman Islands	107.5	6.0
North America	United States	55.8	3.1
Oceania	Australia	19.2	1.1

(4) Investment approach: The approach of Chinese OFDI is also being enriched and innovated. In addition to the traditional M&A and greenfield investments, Chinese companies have also started to adopt various ways to realize outbound investment, such as equity investment, strategic cooperation and cross-border M&A.

2.1.2 Advantages and challenges of Chinese OFDI

China's OFDI has made remarkable progress after the reform and opening up, with its own special advantages, but it has also encountered some challenges in the development process.

Advantages:

(1) Huge market size and potential: China is one of the largest countries in the world in terms of population, with a huge consumer market and potential human resources.

(2) Abundant resources and labor: China has abundant natural resources and labor resources, and is able to provide low-cost and high-quality products and services.

(3) Developing country status: China has extensive influence and economic interests in many developing countries, which provides more opportunities for Chinese companies to invest in these countries.

(4) Government support: The Chinese government actively encourages and supports domestic enterprises to invest abroad, providing policy, financial and resource support to help them develop overseas markets.

Challenges:

(1) Political risks: There may be risks of political instability, conflicts, wars, etc. in the countries where China invests, which may affect the investment and operation of Chinese companies.

(2) Cultural differences: Chinese companies may encounter different cultures and habits when investing and operating overseas, which may affect the operation and management of the company.

(3) Legal and regulatory environment: There are differences in the legal and regulatory environments of different countries, and Chinese enterprises may need to adapt to different laws and regulations when investing and operating overseas.

(4) Financial and exchange rate risks: Overseas investment and operation may be affected by exchange rate fluctuations and liquidity of funds, which may lead to financial losses.

(5) Sustainability issues: Overseas investments and operations may have impacts on the local environment, society and economy, and Chinese enterprises need to consider sustainability issues to avoid adverse impacts.

2.1.3 Limitations of outbound direct investment by Chinese enterprises

With the growth of Chinese OFDI, the number of multinational enterprises (MNEs) has also increased, but some problems and challenges have been exposed in their development process. This section will analyze them in terms of management capability, industrial chain integration, science and technology innovation, social responsibility, partnership and government support and supervision.

(1) Insufficient management capacity. Chinese companies generally have the problem of insufficient management capacity in overseas investment. Due to historical and cultural reasons, Chinese enterprises are relatively lacking in management and organizational capabilities. The various factors involved in overseas investment, such as country, region, language and culture, put forward higher requirements on enterprise management ability. If the enterprise is not well managed, it is easy to face the risk of operating difficulties and declining profits.

(2) Insufficient integration and coordination of industrial chain. In overseas investment, Chinese enterprises generally have the problem of insufficient integration and coordination of industrial chains. Overseas investment involves different links of the industrial chain, which requires enterprises to have high integration and coordination ability to achieve resource sharing and optimal allocation. However, due to the small scale and low management level of enterprises, it is difficult to realize the integration and coordination of industrial chain, which affects the business efficiency and competitiveness of enterprises.

(3) The ability of scientific and technological innovation is not strong. Chinese enterprises in overseas investment generally have the problem of weak scientific and technological innovation ability. Scientific and technological innovation is an important driving force for enterprise development and is of great significance to the long-term development of enterprises. However, due to the lack of independent innovation capability and R&D investment, Chinese enterprises have weak science and technology innovation capability in overseas investment, which makes it difficult for them to gain higher competitiveness and advantages in the global market.

(4) Short-term cooperation relationship. Chinese enterprises generally have the problem of short-term partnership in overseas investment. The development of enterprises needs long-term and stable partnerships, and establishing and maintaining good partnerships is crucial to the development of enterprises. However, because Chinese enterprises tend to regard their partners as mere business partners in overseas investment and neglect the establishment and maintenance of long-term stable relationships, it is difficult for them to obtain stable support and cooperation resources in overseas operation.

(5) Insufficient government support and supervision. The problem of insufficient government support and supervision is common among Chinese enterprises in overseas investment. The government has an important supporting and guiding role in OFDI, but the lack of effective government policies and regulatory measures has led to greater risks and challenges for enterprises in overseas investment. At the same time, the government should also strengthen the guidance and supervision of corporate social responsibility to promote the healthy development of enterprises.

2.2. Implications of MNC Theory for Chinese Outward FDI

2.2.1 Implications of Monopoly Advantage Theory for Chinese OFDI

Monopoly Advantage Theory is a theory that explains the motives and behaviors of firms' cross-border investment. According to the Monopoly Advantage Theory, the main motive of enterprises' cross-border investment is to obtain and exploit monopoly advantages in the international market. This monopoly advantage can be based on an enterprise's advantages in technology, brand, channels, etc. For the revelation of Chinese OFDI, the Monopoly Advantage Theory provides the following insights:

(1) Monopoly advantage is one of the main motives for Chinese enterprises to make OFDI. Chinese enterprises have accumulated certain advantages in technology, brand and channels, and are competitive in the international market.

(2) One of the purposes for Chinese enterprises to make OFDI is to obtain monopoly advantages in the international market. By establishing production bases and sales networks in overseas markets, Chinese enterprises can acquire more resources and market shares, thus gaining greater monopoly advantages in the international market.

(3) There are various sources of monopoly advantages, and Chinese enterprises should choose suitable monopoly advantages for investment according to their actual situation and market demand. For example, in some emerging industrial fields, such as artificial intelligence and biotechnology, Chinese enterprises can use their technological advantages to make investments in order to obtain monopoly advantages in the international market.

(4) When making OFDI, Chinese companies should focus on building brand and channel advantages. These advantages can not only help Chinese enterprises gain a larger market share in the international market, but also improve the added value of their products and market competitiveness.

In conclusion, the Monopoly Advantage Theory provides important insights for Chinese enterprises to make outward FDI. Chinese enterprises should give full play to their own advantages and choose the appropriate monopoly advantages for investment in order to gain greater international market share and monopoly advantages.

2.2.2 Implications of Internalization Theory for Chinese OFDI

Internalization theory is a theory that explains the motives and behavior of firms investing across borders. According to internalization theory, the main motivation for firms to invest across borders is to internalize their production and trading activities in international markets. Internalization can bring various advantages, such as reducing transaction costs, protecting technology secrets, and improving efficiency. For Chinese OFDI internalization theory provides the following insights:

(1) One of the purposes of Chinese firms' OFDI is to internalize their production and trading activities in the international market. By establishing production bases and sales networks in overseas markets, Chinese firms can better control the production and trading process, reduce transaction costs, and improve efficiency.

(2) Internalization requires companies to have certain technical and management capabilities, and Chinese companies should focus on improving their technical and management capabilities. Through the improvement of technical and management capabilities, Chinese enterprises can better internalize their production and trading activities in the international market and improve their efficiency and competitiveness.

(3) When making OFDI, Chinese enterprises should focus on protecting their technology and trade secrets. These technologies and trade secrets are an important basis for the internalization of enterprises and need to be protected by measures to ensure the competitiveness of enterprises in the international market.

(4) When making OFDI, Chinese enterprises should focus on communication and cooperation with the local government and society. This can help enterprises better understand local policies and regulations, reduce political risks and protect their interests.

Chinese enterprises should give full play to their technical and management capabilities, focus on protecting their technology and trade secrets, and communicate and cooperate with local governments and societies to better internalize in the international market.

2.2.3 Implications of Product Life Cycle Theory for Chinese OFDI

Product life cycle theory is a theory that explains changes in product markets and firms' motivation to invest across borders. According to the theory, during the process of product development to maturity and decline, its market demand, competition pattern and production location will change, which will affect the investment decision of enterprises, and also provide the following insights for Chinese OFDI:

(1) When choosing a target country or region for OFDI, Chinese companies should consider the stage of the product life cycle in that region. If the market in the region is in a growth or stable phase, then enterprises can invest in the local production base to meet the demand of the local market and increase their market share. If the market is in recession, then companies should carefully consider whether to make investments.

(2) Changes in product life cycle will also affect the competitive landscape of enterprises in the international market. Chinese companies should understand the changes in competitors' strategies at different stages so that they can develop more adaptive strategies to improve their competitiveness in the international market.

(3) With the development of technology and changes in the market, product life cycles are changing faster and faster. Chinese companies should strengthen their R&D and innovation capabilities and continuously introduce new products and services to maintain market competitiveness so that their products do not enter the decline period.

(4) Changes in product life cycle also affect the profit and risk of enterprises. Chinese companies should make accurate assessments and forecasts of market demand and market risk in order to develop more effective risk management strategies.

In summary, product life cycle theory provides important insights for Chinese enterprises to make OFDI. Chinese enterprises should understand the life cycle stages of the target country or regional market, strengthen their R&D and innovation capabilities, and develop effective risk management strategies to improve their competitiveness and profitability in the international market.

2.2.4 Implications of Marginal Industrial Expansion Theory for Chinese OFDI

The theory of marginal industrial expansion mainly states that in an already mature market, firms grow by expanding to new markets, and this expansion is achieved by spreading different links of the industrial chain to different countries or regions. For Chinese OFDI, this theory enlightens us that:

(1) Chinese firms can achieve growth by expanding to new markets, especially when the domestic market is already relatively saturated or highly competitive. In addition, Chinese firms can achieve better profit and risk diversification by establishing production bases abroad or buying foreign firms to diversify the industrial chain.

(2) Chinese companies should choose investment projects that suit their strengths and development strategies, and avoid the risks of over-expansion and investment failure. In addition, Chinese companies should also pay attention to cooperation with local government, industry and society, respect local culture and laws, and comply with local environmental and social responsibilities in order to avoid conflicts and frictions with the local community.

(3) Chinese outward investment can also be made from industries that are already at or will be at a comparative disadvantage in their own country, while the technology gap in the investment field in the host country should not be too large, while Kiyoshi Kojima also strongly encourages outward investment, and Chinese SMEs should make more outward investment.

In conclusion, Kiyoshi Kojima's theory of marginal industrial expansion provides useful insights for Chinese enterprises' outward FDI, which can help them better understand and adapt to the development trends and laws of international markets and achieve long-term sound growth and profits.

2.2.5 Implications of International Production Compromise Theory for Chinese OFDI

International production compromise theory believes that multinational companies consider three factors when choosing OFDI: ownership, location and internalization, and combine the three advantages to consider the enterprise's OFDI, while giving some insights to China's OFDI:

(1) Take full advantage of its own production factors: China has a large amount of labor and relatively cheap capital, and the relative abundance of these factors provides Chinese enterprises with production cost advantages. Chinese enterprises should make use of these advantages to produce and export relatively inexpensive products in order to gain a share of the international market.

(2) Continuously improve their own production technology and level: International trade is a highly competitive market, and only with certain production technology and level can they gain a foothold in the international market. Therefore, Chinese enterprises need to continuously improve their own production technology and level to improve the quality of products and reduce production costs.

(3) Develop diversified markets: According to the international production trade-off theory, the relative cost of producing a certain commodity in a country depends on the relative abundance of production factors possessed by that country. Therefore, Chinese enterprises can make use of their own production factors to produce and export a variety of products by exploring diversified markets to achieve production and export optimization and efficiency improvement.

The International production compromise theory provides some useful insights for Chinese enterprises, which can help them better exploit their advantages in the international market and achieve production and export optimization and efficiency improvement.

2.3. Policy Recommendations of MNC Theory for Chinese OFDI

2.3.1 Value chain integration

According to internalization theory, multinationals should internalize the production process as much as possible so that they can do all production activities within their own companies to reduce costs and increase efficiency. Therefore, Chinese companies should consider vertical integration in their value chains to better control costs and quality. Through internal integration of various production factors, they can strengthen the integration and coordination of all links in the industrial chain, optimize resource allocation, reduce cross-border transaction costs and enhance competitive advantages. Meanwhile, OFDI should adopt a diversified portfolio to reduce its dependence on any one country or region, and can invest in multiple countries and regions to diversify risks and obtain better returns, with a global perspective layout.

2.3.2 Technology introduction and innovation

The development and application of technology is a key factor in driving economic growth and improving competitiveness. Therefore, Chinese companies should focus on technological innovation and on technology introduction and application in their OFDI to improve product quality and efficiency. Forming their own unique technological advantages will reduce transaction costs and enhance the market competitiveness of enterprises. At the same time, technological innovation can also help promote industry upgrading and industrial transformation, and improve the sustainable development capability of enterprises. Therefore, Chinese enterprises need to pay more attention to technological innovation when making outward foreign direct investment. This means that enterprises need to strengthen their technological R&D and innovation capacity, expand international technological cooperation, strengthen intellectual property protection, and cultivate innovative talents. These initiatives will help improve the influence and competitiveness of Chinese enterprises in the international market and promote the continuous development of Chinese OFDI.

2.3.3 Government support and regulation

To promote China's outbound FDI, the government still plays the role of the main force, and the Chinese government has introduced a series of regulations and policies to promote FDI in recent years.

These policies include strengthening the management and supervision of investment enterprises, providing tax incentives, and promoting technological innovation. For example, the Law of the People's Republic of China on Foreign Investment and the Measures for the Administration of Overseas Investment provide legal protection and preferential policies for outbound direct investment. It also facilitates Chinese enterprises to invest overseas by establishing overseas economic cooperation zones and setting up several investment funds, such as CIC and China Development Bank, to provide financial support for Chinese enterprises to invest overseas. Promoting China's OFDI not only requires strengthening government support for enterprises, but also strengthening the supervision and management of OFDI to ensure that the investing enterprises operate legally and compliantly.

3. Summary

By exploring the relationship between the theory of multinational corporations and Chinese OFDI, this paper draws the following conclusions: (1) The theory of multinational corporations has a profound inspirational effect on Chinese OFDI and can provide valuable guidance for Chinese enterprises investing overseas; (2) Chinese OFDI has great potential for development, but there are also some problems and challenges, such as bottlenecks in technology and management capabilities, challenges in political and cultural differences, and changes in the international investment environment, (3) In order to effectively cope with these challenges and problems, Chinese enterprises need to continuously improve their own technical and management capabilities, strengthen communication and cooperation with local governments and enterprises, actively expand international markets, and enhance their independent innovation capabilities and technology introduction.

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