

Doctoral Thesis in 2017 (Summary)

The Development Path And The Strategy of
China's Outward Foreign Direct Investment

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Summary

The Chinese government has made a major shift in policies and guidelines toward a new economic-construction-oriented route, namely, "economic reform and open-door policy" at The third General Meeting of 1978. Foreign companies' direct investments into China have expanded during about these 40 years since China's "reform and open-door policy. China became the largest country of the inward direct investment in the developing countries in the world in 1993. The total amounts of the foreign direct investment into China reached about 527 billion dollars in 2002, and it was the world's top in the direct investment recipient countries. On the other hand, the China's outward direct investment to foreign countries went into the lead mainly by the China's state-owned enterprises which have embarked on it to obtain natural resources from overseas. The stock value of China's inward direct investment(IFDI) accounted for 193,348 million dollars, and the outward foreign direct investment(OFDI) amounted to 26,853 million dollars in 2000. China's direct investment to foreign countries has started to accelerate, since China joined into the World Trade Organization (WTO) in 2001.

China is now known as "a world factory" and "a world market". One of the main factors in sustainable economic growth has been an expanding export and an introducing FDI since 1980. Also the industrialization has been promoted by these factors. The export-oriented industrial developments have boosted domestic productivity and sophisticated industrial instructure, which has resulted in expanding employment and improving income levels of the nation.

The development of China's economy and the share of the world economy have increased. Then various economic problems have been resulted from the pursuit of economic interests of China for foreign countries. For example, the adjustment for the trade friction has become an important subject. At the same time, not only in external economic affairs but also in domestic aspect, many issues have taken place, such as the securing of energy and raw materials to maintain mass production. Furthermore, we can point out as subjects, the excessive liquidity problem of domestic money, enormous foreign exchange reserves, monetary policy, accompanying improvement of national income, and maintaining external

competitiveness. The most imminent problems are the improvement of the domestic industrial structure, the internationalization of Chinese Renminbi(RMB) , and the deregulation of China's capital transactions.

As a result of the economic growth, China's outward foreign direct investment (OFDI) is on the rise. Company's external investment activities are called " go overseas "in China. Especially, the 10th Five-Year Plan (2001-2005) on the national economy and social development issued in March 2001. " Go overseas " has been positioned as a national strategy, by which Chinese enterprises entering into the global market have been accelerated rapidly.

In this research, we will summarize the conclusion to 5 points by exploring the route and strategic approach of Chinese enterprise OFDI, centered on the "go overseas" strategy.

1. OFDI of Chinese enterprises has been under the initiative of the government. In order to support the expansion of companies' overseas investment, the government has began to implement the gradual deregulation on the various policy-related to "go overseas" . As a result of this series of measures, OFDI was originated by the government-owned enterprise (central enterprises), and then gradually expanded to local government-owned enterprises and private enterprises. OFDI has diversified the overseas investment by the industry type and world area.

The applications for the overseas investment has been simplified by the Commerce Department / National Development Committee since 2003. It is further simplified by the "Overseas Investment Management Act" "Overseas Investment Project Approval Registration Control Law Method" of 2004, and the procedures at the local level has become as simple as possible. In addition, the National Foreign Exchange Administration Bureau has realized the simplification of procedures to expand the limited amount, that is to say, "Notice on currency management adjustment policy for some overseas investment" in 2006, "Capital items Notice concerning further improvement and adjustment of foreign exchange control policy" in 2014.

2. We examined the survey of the preceding theories on OFDI and its application to China, and these were the data analysis for developed countries. There is a limit to apply it to the expansion theories of OFDI in a developing country such as China. Moreover, the pattern of OFDI in developing countries has been carried out as catch-up type of foreign investment, for the domestic local industry and economy. The catch-up itself has affected on the technical spillover of IFDI. In that sense, a

national strategy of "go overseas" will be in the important turning point of autonomous OFDI of Chinese enterprises from resource acquisition type.

As traditional theories of foreign direct investment, there are MacDougall's "Capital Mobility Theory", Hymer/ Kindleberger's "Monopolistic Superiority Theory", Vernon's "Product Cycle Theory", Dunning's "Eclectic Theory", etc. Among theories concerning developing countries, there are Lall's "localization theory of technology" and Wells' "small technology theory". In response to these preceding theories, China's OFDI "go overseas" investment has been more extensively invested in developed countries of Europe and the United States than in developing countries. The investment industries are also diversified, and China's OFDI have advanced.

3. We applied Dunning's the IDP 5 stage model to the OFDI in China's and verified the net foreign direct investment amount per capita (NOI) in China, although China's per capita GDP was supposed to enter into the fourth stage as of 2013, China's OFDI exceeded IFDI, then proceeded from the third stage to the fourth stage in 2015. As mentioned in the first point, the lag of this turning point seems to be related to, firstly, the deregulation on the screening and approving system of China's OFDI, secondly, the foreign exchange control system, and, thirdly, the progress of internationalization of RMB.

As other factors, ①The local enterprises have prioritized corporate profits in the domestic market, ②Chinese local enterprises do not have a corporate ownership advantage over global companies in other countries, ③OFDI increased on the average by 32.2% between 2006 and 2015, while IFDI increased on the average by 7.1% and the amount of OFDI exceeded IFDI in 2015. A large amount of IFDI caused a deviation in the calculation.

4. The structure and patterns of China's OFDI are different from developed countries, and they are not a direct investment on the premise of "ownership advantage" listed in the traditional theory, and so China's enterprise's acquisition type of management resource through OFDI, and especially M&A is typical of the manufacturing industry of China. However, there are many cases of overseas government for M & A of China's enterprise.

The present situation of protectionist trends is internationally becoming conspicuous, so it is necessary to verify and analyze the content and application of M & A, and capital investment regulations.

5. In the case study of China Ocean Oil Co., Ltd. (a listed state-owned enterprises), Lenovo group (listed private enterprises), and Huawei Co., Ltd. (a private enterprise, not listed), we have investigated investment strategies and their processes which are divided into three types of OFDI; that is to say a natural resource acquisition type, a management resource acquisition type, and an overseas R & D type, and it necessary to continue to consider their common factors and peculiarity of these three patterns in the future. Through future trends and substantive examination more typical style may be verified.