Journal of Global Economy, Trade and International Business
Vol. 4, No. 2, 2024, pp. 115-131
ISSN: 2583-0112

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Academic Open Access Publishing
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Multinational Enterprises from China: Distinctive Features, Theoretical Background, and Research Perspectives

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ARTICLEINFO

Received: 29 October 2024
Revised: 22 November 2024
Accepted: 10 December 2024
Online: 30 December 2024

To cite this paper:
Diego Quer (2024). Multinational Enterprises from China: Distinctive Features, Theoretical Background, and Research Perspectives. *Journal of Global Economy, Trade and International Business.* 4(2), 115-131.

Abstract

In recent years, Chinese multinational enterprises (MNEs) have made significant investments in other countries, even acquiring internationally recognized Western brands. The internationalization process of Chinese MNEs presents distinctive characteristics that make it different from that followed by their counterparts from developed countries. These unique features are an accelerated internationalization process, sometimes without previous ownership advantages, and a relatively lower aversion to risk. All this has opened an epistemological debate among scholars about whether traditional theories, built upon developed country MNEs, can be applied to explain the idiosyncratic behavior of Chinese MNEs, or if it is necessary to develop new theories. This article shows the underlying reasons that may explain this less conventional behavior and addresses the theoretical frameworks used by scholars.

Keywords: Multinational enterprise, foreign direct investment, China, theories, challenges.

JEL codes: F21, F23, M16.

INTRODUCTION

Traditionally, China has been considered a preferential destination for foreign direct investment (FDI). Although China is still one of the world's top FDI recipient countries, FDI by Chinese multinational enterprises (MNEs) has grown exponentially in recent years. This has consolidated China as one of the main home countries of FDI outflows, to the point of becoming the world's largest investor in 2020 (UNCTAD, 2021).

Chinese FDI is driven by several factors (Quer *et al.*, 2020). One of the traditional motivations is natural resource-seeking in countries with a significant endowment of oil, gas, and raw materials. Large companies in energy industries such as CNPC (China National Petroleum Corporation), CNOOC (China National Offshore Oil Corporation), and Sinopec are examples of this. Market-seeking is also a driver of some Chinese MNEs, either by establishing commercial subsidiaries to boost Chinese exports or by establishing manufacturing subsidiaries to overcome export restrictions to certain host countries. Companies such as Haier, Hisense, and Alibaba are examples of this market-seeking motivation. Strategic asset-seeking is another driver of Chinese FDIs to access superior technology, advanced know-how, and international brands in developed countries. Lenovo was a pioneer when it bought IBM's PC division in 2005. After that, prestigious Western brands have been acquired by Chinese companies: Volvo (by Geely), Pirelli (by ChemChina), Skyscanner (by Trip.com), and Radisson Hotel Group (by Jin Jiang) are some outstanding examples.

Beyond these specific cases, aggregate data allow us to delineate a fairly defined profile of Chinese FDI (National Bureau of Statistics of China, 2022). Until 2020, the accumulated stock of Chinese FDI in service activities predominates over the rest of industries (with 32.2% of the total). Asia has been the main destination region (accounting for 63.7% of the total), followed by Latin America (with 24.4%). Regarding establishment modes, Chinese MNEs have followed the two main routes (Child and Rodrigues, 2005): greenfield investments (establishment of new subsidiaries from scratch, seeking to facilitate local adaptation, managerial control, and global integration); and acquisitions (buying companies already in operation in the host country). The latter establishment mode has been widely used by Chinese MNEs looking for natural resources (to ensure better access to them) and strategic assets (since acquisition is the fastest way to obtain them). Table 1 reports the main cross-border acquisitions by Chinese companies in recent years.

This article aims to deepen the knowledge of Chinese MNEs, through a review of the most influential studies that have addressed this phenomenon. More precisely, it will attempt to answer three questions: What are the idiosyncratic features of Chinese MNEs when going global? What theoretical perspectives have been used by scholars? And what specific research topics have been addressed? To do this, the following section sets out the distinctive characteristics of Chinese MNEs. Subsequently, the theoretical frameworks to explain Chinese MNEs' behavior are delineated. After that, the main contents of prior research studies are summarized. Finally, the conclusion section offers some insights into the factors boosting the international expansion of Chinese MNEs, as well as the future challenges they face.

Table 1: Main cross-border acquisitions by Chinese MNEs

Year	*Chinese firm*	*Target firm*	*Host country*	*Industry*	*Percent acquired*
2019	BAIC	Mercedes-Benz Group AG	Germany	Automotive	9.9
2019	Anta	Amer Sports	Finland	Sport equipment	94
2018	Geely	Mercedes-Benz Group AG	Germany	Automotive	9.7
2018	Jin Jiang Hotels	Radisson Hotel Group	USA	Hotels	50.2
2017	ChemChina	Syngenta	Switzerland	Agribusiness	82.2
2016	Haier	General Electric	USA	Home appliances	100
2016	Midea	Kuka	Germany	Robots	94.5
2016	Wanda	Legendary	USA	Motion picture	100
2016	Trip.com	Skyscanner	UK	Metasearch engine	100
2016	COSCO	Port of Piraeus	Greece	Container terminals	67
2015	ChemChina	Pirelli	Italy	Tires	65
2013	CNOOC	Nexen	Canada	Oil and gas	100
2011	China Three Gorges	EDP	Portugal	Electric power	23.3
2010	Sinopec	Repsol YPF Brazil	Brazil	Oil	40
2010	Geely	Volvo	Sweden	Automotive	100
2005	Lenovo	IBM	USA	PC	100

Source: Created by author based on the China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker/

IDIOSYNCRATIC FEATURES OF CHINESE MNES

Chinese MNEs have entered international markets later than their counterparts from developed countries. As latecomers, they usually must go global faster to get the resources and capabilities they lack in their home country and thus catch up with well-established MNEs (Mathews, 2002). To overcome competitive disadvantages, they usually take greater risks in cross-border acquisitions (Kedia *et al.*, 2012). For this reason, risk aversion has been one of the most analyzed topics in academic research on Chinese MNEs, generating some controversy among scholars. While some empirical studies find evidence consistent with the traditional view that political risk hinders FDI by Chinese MNEs (Duanmu, 2014; Lv and Spigarelli, 2016), others do not find a significant influence (Buckley *et al.*, 2016; Quer *et al.*, 2012) or report that Chinese MNEs locate in countries with high political risk (Buckley *et al.*, 2007, 2023; Kang and Jiang, 2012; Ramasamy *et al.*, 2012).

There are several possible explanations for this relatively low-risk aversion of Chinese firms as emerging market MNEs (EMNEs). First, the very nature of the host country as an emerging economy. As Wright *et al.* (2005) point out, FDI flows between emerging economies represent a singular setting that may challenge conventional wisdom. Consequently, the competitive disadvantage of operating in a relatively less developed home institutional environment can be turned into a competitive advantage, when an EMNE enters a similar host institutional environment (Cuervo-Cazurra and Genc, 2008).

Second, state ownership may also affect risk aversion. Chinese state-owned enterprises (SOEs) benefit from home government support and are not always seeking to maximize profits but also to achieve government objectives (Buckley *et al.*, 2007). Accordingly, some studies have found that Chinese SOEs often engage in unconventional international behavior due to the influence of the home government (Buckley *et al.*, 2016; Quer *et al.*, 2020). As they tend to seek political goals, they are less compelled to maximize profitability (Globerman and Shapiro, 2009). Therefore, their choice of entry modes is shaped by political considerations as well as by pure economic determinants (Cuervo-Cazurra *et al.*, 2014). In addition, state ownership sometimes leads Chinese MNEs to behave unconventionally in the face of political risk and makes them less dependent on their prior host country-specific experience or on the experience of other previously established Chinese companies (Quer *et al.*, 2018).

Third, when Chinese companies enter a host country with a high institutional distance from China, this often means accessing a more developed country. As pointed out above, they tend to invest in these destinations to access strategic assets that allow them to compensate for the competitive disadvantages of being newcomers to the international scene (Mathews, 2002). State ownership may raise suspicions in some host countries, as Chinese SOEs can be viewed as political players, thus facing stronger restrictions by host governments (Huang *et al.*, 2017). As a result, they must adapt entry modes, for example, sharing FDI ownership with a local firm to gain legitimacy (Meyer *et al.*, 2014).

Finally, friendly diplomatic relationships between home and host countries can mitigate the risk perceived by Chinese firms (Chen *et al.*, 2024; Gammeltoft and Panibratov, 2024). A significant proportion of Chinese FDI flows has traditionally been targeted toward politically risky countries with ideological and political linkages with China (Buckley *et al.*, 2007). Hence, good bilateral diplomatic relations can play an important role as a mechanism to alleviate risks (Duanmu, 2014; Zhang *et al.*, 2014). The Chinese government has been paying special attention to this, particularly since 2013, when it launched the Belt and Road Initiative (BRI).

This ambitious initiative has emerged as a central pillar of China's foreign policy agenda (Alon *et al.*, 2018b). Initially conceived to foster a deeper integration between Asian, European, and African countries, it has now expanded to other regions like Latin America, currently covering over 140 countries worldwide (Belt and Road Portal, 2024). The main objectives of the BRI in the long term are coordination of national policies, connectivity through infrastructures, seamless trade, financial integration, and promotion of cultural ties (Office of the Leading Group for Promoting the BRI, 2017). The BRI has improved the institutional environment for Chinese FDI through cooperative agreements with host countries (Zhang and Xu, 2017). By doing so, the Chinese government assists Chinese companies when dealing with host institutions, hence mitigating the perceived uncertainty (Luo *et al.*, 2010). Accordingly, the rapid expansion of Chinese MNEs in BRI countries indicates assets, instead of liabilities, for the country of origin (Wang *et al.*, 2020).

TRADITIONAL THEORETICAL FRAMEWORKS VS. NEW APPROACHES

This idiosyncratic behavior of Chinese MNEs, characterized by an accelerated internationalization process, sometimes without prior competitive advantages, and low-risk aversion, has sparked an epistemological debate. This debate revolves around whether traditional theories, built upon developed country MNEs, can be applied to explain the behavior of EMNEs, or if it is necessary to develop new theories.

Whereas some international business scholars posit that new theories should be developed to properly analyze EMNEs (Luo and Tung, 2007; Mathews, 2006), others defend that it is not necessary, as traditional theories are still valid (Narula, 2012; Rugman, 2010). An intermediate viewpoint argues that EMNEs can contribute to theory development. In other words, the study of EMNEs allows us to identify some unspoken assumptions on which existing theoretical frameworks were built, thereby expanding their predictive capacity (Cuervo-Cazurra, 2012; Ramamurti, 2012). This is in line with the proposal of Xu and Meyer (2013), who consider that emerging economies represent an empirical setting that contributes to advancing extant theories, by providing a laboratory to investigate the interaction between the strategies of companies and the local contexts.

Within this intermediate position, we also find the viewpoint of Gammeltoft and Cuervo-Cazurra (2021), who argue that the study of EMNEs can help enrich our understanding of the internationalization process. These authors suggest that research on EMNEs reveals three contextual accelerators to which existing theories must be adapted: government support (financial backing, state ownership, diplomacy, etc.); the need to catch up (becoming local partners of MNEs from developed economies in the home country, making intensive acquisitions to access advanced capabilities, etc.); and positioning in global value chains (for example, becoming subcontractors of leading companies, which generates valuable learning).

This need for context is also behind the position of some scholars who advocate not using traditional theories, generated in the West, to study the specific problems of a country like China. This is the case of Bruton *et al.* (2022), who consider that, by treating these theories as universal and trying to apply them in other settings, scholars tend to overlook subtle cultural and ideological differences, thus ignoring relevant research questions in those contexts. For this reason, these authors argue that, instead of simply putting "bandages" on existing theories, researchers should develop indigenous theories, based on the distinctive character of local contexts, which can also promote innovations in research methods, improving the rigor and relevance of the findings. Indigenous research is defined by Van de Ven *et al.* (2018, p. 452) as "scientific studies of local phenomena using local language, local subjects, and locally meaningful constructs, with the aim to build or test theories that can explain and predict the phenomena in their local social and cultural contexts".

Arikan *et al.* (2022) contribute to fuel this debate between traditional and new theories, adding that efforts have usually focused on generalizing, without considering the differences in the institutional dynamics of each country, when the reality is that there is no "one type" of emerging market from which to generalize. For this reason, they advocate carrying out case studies that facilitate further explanation of complex relationships and that, instead of being generalized to the population, should be used to generalize to a theory.

The most relevant new theoretical frameworks that have been developed to explain the international behavior of EMNEs are presented below, as well as their relationship with traditional theories.

Linkage, Leverage and Learning (LLL) Model

Dunning's Eclectic Paradigm (1981, 1993) is one of the traditional theoretical models that has sparked the most debate. According to the Eclectic Paradigm, the decision to invest abroad is determined by the confluence of three types of advantages: ownership advantages (specific to the firm), location advantages (referred to the host country), and internalization advantages (derived from carrying out the international transaction internally, that is, between two units of the same corporation, instead of resorting to an external company).

Defending the applicability of the Eclectic Paradigm, Narula (2012) argues that ownership advantages matter regardless of MNE's nationality, as the company must possess a minimum level of specific assets to succeed in international expansion. Additionally, he adds that, as EMNEs evolve, the observable differences between them and MNEs from advanced economies will diminish. Hennart (2012) admits that some EMNEs have specific assets before going global. However, he argues that the Eclectic Paradigm cannot fully explain FDIs of EMNEs looking for intangible assets. In developed countries, many complementary local resources (land, natural resources, labor force, and distribution capabilities) are not readily accessible to all foreign MNEs. Therefore, the FDI of EMNEs seeking intangible assets can be understood as the way by which those with preferential access to complementary local resources acquire abroad the specific assets that they lack to compete with foreign MNEs, first at home and later in international markets.

This debate has given rise to an alternative theoretical framework, namely, the LLL model, proposed by Mathews (2006). This author argues that MNEs from Asia, including those from China, are newcomers to the global scenario and do not depend on the prior possession of resources for international expansion, as was the case with many US, European, and Japanese MNEs in the past. Instead, these new MNEs use international expansion to take advantage of resources that would otherwise be unavailable. This internationalization is quite different from that seeking to exploit existing resources, which is a clear challenge for the Eclectic Paradigm. The LLL model is based on three elements:

- Linkage. Rather than focusing on firm-specific advantages, focusing on the resources and capabilities that can be accessed by establishing connections with other players.
- Leverage. To exploit or take advantage of the resources and capabilities that are accessed through those linkages.
- Learning. Repetition of linkage and leverage processes to enhance the firm's dynamic capabilities.

Springboard Perspective

The accelerated internationalization characterizing EMNEs poses a challenge for another traditional theoretical framework, the Uppsala Model, which defends a gradual internationalization process, opting for increased resource commitment as the company accumulates experience (Johanson and Vahlne, 1977, 1990, 2009; Johanson and Wiedersheim-Paul, 1975; Vahlne and Johanson, 2017). The springboard perspective, proposed by Luo and Tung (2007, 2018) has emerged as an alternative theoretical framework. This model is based on the aforementioned argument that some EMNEs seek intangible assets in developed countries to overcome drawbacks as latecomers. Government support is a key factor that encourages EMNEs to use internationalization as a springboard to gain strategic resources and catch up with incumbent MNEs (Luo and Tung, 2007).

This perspective was named "springboard" for two reasons (Luo and Tung, 2018). First, the main objective of EMNEs is to go global to increase resource endowment and thus jump from their status as newcomers to a new height in global competition. Second, international expansion provides EMNEs not only with increased capabilities ("hard" skills) but also with global vision and experience ("soft" skills). If they stayed at home, they would not be able to make that leap in global competition.

Several jump trajectories reflect this springboard behavior (Luo and Tung, 2007). First, EMNEs tend to internationalize very quickly and do not reach FDI after a gradual process of increasing resource commitment as the Uppsala Model posits. A second jump path is that many EMNEs tend to be radical when choosing destination countries. The conventional logic of the Uppsala Model suggests that companies progressively enter new markets involving successive greater psychic distance in terms of language, culture, etc. However, many EMNEs do not seem to be deterred by psychic distance, but instead first enter countries where the distance is greater. As Luo and Tung (2018) point out, the springboard perspective assumes a certain evolution in the internationalization process but departs substantially from the Uppsala Model. Thus, although this perspective recognizes the effect of learning and experience, it does not correlate jumping movements with the accumulation of host country-specific experience.

Composition-Based View

The composition-based view is another theoretical framework that has been developed to explain the idiosyncratic behavior of EMNEs, which grow without relying solely on the resources and capabilities they possess. Initially proposed by Luo and Child (2015), this approach postulates that companies with initial ordinary capabilities can obtain competitive advantages through the creative composition or combination of internal and external resources (Luo, 2021). Sun *et al.* (2021) argue that compositional ability is broader and more flexible than a simple combinational ability. Instead, it reflects a managerial ability to flexibly and creatively use malleable ordinary resources obtained through imitation and transformed through innovation to generate new competitive strategies.

As already noted, EMNEs are newcomers to international markets, thereby lacking strategic assets such as internationally recognized brand names and negotiation skills with stakeholders in other countries. Therefore, they often rely on external resources (information, knowledge, talent, government support, etc.) which they blend with their own generic resources (large-scale profitable manufacturing, networking, resilience, skills to adapt quickly, etc.). By doing so, these companies can offset their weaknesses while capitalizing on their strengths to survive in global competition (Luo and Bu, 2018).

Sun *et al.* (2021) examine how organizational and environmental conditions in emerging markets like China stimulate the development of a compositional capability. To do this, they draw on the so-called strategy tripod, a perspective that posits that a firm's strategy is determined by the conditions of the industry, the firm, and the institutional framework (Gao *et al.*, 2010; Peng *et al.*, 2008, 2009). Their results indicate that competitive intensity and openness of intermediate product markets (as industry factors), cooperative and improvement orientation (as firm-related factors), and government support and weak protection of intellectual property rights (as institutional factors) positively influence the development of the compositional capability (defined as a blend of imitation and innovation).

RESEARCH ON CHINESE MNEs

After having analyzed the idiosyncratic characteristics of Chinese MNEs and the theoretical frameworks used by scholars, this section examines the current state of research in this area. Since the early 2010s, when Chinese MNEs had just burst onto the international scene, several literature reviews have been published.

Wei (2010) argued that the globalization of Chinese MNEs could not be viewed as a simple "catch-up" game with incumbent developed country MNEs, and advocated further empirical studies at a company level to analyze how company characteristics affect strategic decisions. Deng (2012) identified three main research trends in early studies: antecedents, processes, and consequences of the internationalization of Chinese companies. Berning and Holtbrügge (2012) found that most early studies considered traditional theories to be inapplicable in explaining Chinese FDI. Laying some ground for the aforementioned epistemological debate, Deng (2013) argued that research on the international expansion of Chinese MNEs offered a unique opportunity to extend and develop existing theories in four main streams: the perspective of latecomers; the influence of governments; the dynamics of companies and institutions; and the liability of foreignness, namely, the disadvantages of being a foreign company coming from a distinctive institutional environment.

Other literature reviews covering a greater number of studies offered a broader perspective. First, Quer *et al.* (2015) reviewed 112 empirical articles dealing with Chinese FDI published between 2002 and 2014. They found that institutional theory, both alone and in combination with others, clearly dominated as the theoretical foundation of research on Chinese MNEs. In addition, they reported that most studies applied a quantitative methodology using secondary data.

Second, Alon *et al.* (2018a) carried out a bibliometric analysis of 206 articles published during the period 2003-2016, revealing four main research streams on Chinese MNEs: applicability of traditional FDI theories; location choice; entry mode choice; and drivers and reasons of going global. They also found that while generalist journals on international business, like the *Journal of World Business*, the *Journal of International Business Studies*, and *International Business Review*, took a leading role in promoting the research on Chinese MNEs, other journals with a more regional focus, such as the *Asia Pacific Journal of Management* and *Management and Organization Review*, made significant contributions as well.

Third, a decade after the publication of a pioneering article considered one of the first empirical studies on Chinese FDI with a solid theoretical underpinning (Buckley *et al.*, 2007), Buckley *et al.* (2018) elaborated a retrospective and an agenda for future research. They proposed four research challenges that, going beyond the Chinese context, may have broader applicability in the future:

- Impact on performance (in particular, the post-acquisition performance).

- Role of government (focusing not only on SOEs, but also on Chinese firms that are not state-owned but are influenced by the government at the central, provincial, or local level through the so-called "lishu" relationships, a Chinese word which can be translated as "subordinated to" or "directly controlled by").
- Investments in offshore financial centers and tax havens (examining their impact on home and host countries).
- Chinese management practices (given that they are unknown in Western advanced economies, even with a possible misperception, although this could change in the future, as happened with Japanese management practices decades ago).

Finally, Bruton *et al.* (2021) reviewed 446 articles published between 2013 and 2018, reporting that many articles drew on the literature on emerging and transition economies as a research framework. They argued that this background was appropriate when economic reforms began in China in the late 1970s, but may now be outdated, as China no longer strictly fits the defining features of an emerging economy: low income, rapid economic growth with institutional instability, and dependence on low-cost production to fuel its development. Accordingly, these authors advocated that future research consider China as an "aspirant economy", namely, one that "is on the move from an upper middle-income to a high-income economy " one that can in the future potentially join the Organization for Economic Co-operation and Development (OECD)" (Bruton *et al.*, 2021, p. 2).

CONCLUSION

As discussed above, the globalization of Chinese MNEs is a phenomenon that poses a challenge to the conventional view of international business. Chinese MNEs have developed faster and with less risk aversion than MNEs from developed countries in the past. This distinctive way of going global has been favored by a number of factors. First, the availability of financial resources derived from several decades of exports from China. Second, the previous international experience acquired at home, thanks to the strategic alliances with foreign MNEs established in China. Third, the essential support of the Chinese government has paved the way for Chinese MNEs in host institutional environments, thanks to diplomatic relations, especially under the umbrella of the BRI.

As Pedersen and Tallman (2022) point out, Chinese MNEs are competing in the global environment based on a different set of specific resources, linked to their particular environment, their home country government, their national culture, etc.; in short, based on unique perspectives that require us to get rid of the conventional vision derived from the context of developed countries, to approach this phenomenon from the perspective of a broader and more complex global reality.

Regarding the future evolution of the international expansion of Chinese MNEs, there is no doubt that it will not be exempt from overcoming a series of challenges in the short and medium term. First, their relatively recent internationalization means that they still need to accumulate more experience in post-acquisition processes, particularly with regard to managing cultural differences. Second, they need to improve their international brand image so that in other countries it is associated with high-quality products and services, although some of them are already achieving this. In addition, new regulations enacted by the Chinese government in 2017 to promote a more rational, orderly, and sustainable Chinese FDI (Latham & Watkins, 2017) are leading some Chinese companies to slow down their international expansion, even by carrying out divestments. Finally, the state ownership of many Chinese MNEs raises concerns in some countries, which is exacerbated in a global environment characterized by growing geopolitical tensions.

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