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„OFDI DETERMINANTS OF CHINESE MNEs

with specific focus on the role of home-country institutions and strategic-asset-seeking: A literature review“

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

BOP	Balance of Payment
DFEC	Department of Foreign Economic Cooperation
DITEA	Department of International Trade and Economic Affaires
EU	European Union
FERT	Foreign Economic Relation & Trade
FSA	Firm-specific advantage
IMF	International Monetary Fund
M&A	Mergers and acquisitions
MFTEC	Ministry of Foreign Trade and Economic Cooperation
MNE	Multinational enterprise
MOC	Ministry of Commerce
NPC	National Planning Commission
OECD	Organization for Economic Co-operation and Development
OFDI	Outward foreign direct investment
PBC	People's Bank of China
PRD	Policy Research Department
RBV	Resource-based view
SAFE	State Administration of Foreign Exchange
SAS	Strategic Asset Seeking
SASAC	State-Owned Assets Supervision and Reform Commission
SDPC	State Development Planning Commission
SDRC	State Development and Reform Commission
SOAA	State-owned Assets Authority
SOE	State owned enterprises
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

1. Introduction

The first chapter provides information on the problem statement and objectives as well as the research questions of the thesis. Likewise, the reader will be introduced to the structure and organization of the thesis.

1.1 Problem Statement and Objectives

In the past, only companies from advanced economies invested in other advanced economies or in emerging economies (Dunning 1998). The rapid development that took place recently is demonstrated by a fulgurant growth of OFDI from approx. 26% in 2010 up to 41% in 2018 (percentage of total world) invested by emerging MNEs (UNCTADSTAT n. d.).

Internationalization of China took place in 1979 and had a profound effect on the rise of the Chinese economic power (Young et al. 1996). However, in the beginning China responded only passively to the globalization, the focus was made on FDI inflows rather than on FDI outflows and the last one is associated with the going global policy that was launched in 1999 by the Chinese government (as cited in Luo et al. 2010, p. 69).This policy led to liberalization of the OFDI approval process, removal and relaxation of certain administrative controls and reduction of foreign exchange restrictions (Cross et al. 2007), these strategic moves resulted in Chinese expansion abroad.

It is worthwhile noting that an enormous expansion of the share on the Fortune Global 500 took place from 0 in 1990 to 61 companies in 2010 (Peng 2012). Additionally, MNEs from emerging markets operate in a broader range of industries than their counterparts from developed countries, this is mainly due to the fact that the first ones participate in numerous cross-border mergers and acquisitions (Luo et al., 2010).

The topic of Chinese OFDI determinants is especially interesting due to the rising influence of Chinese MNEs in the world's political and economic scenes. Moreover, conclusions drawn from the expansion of Chinese MNEs are especially relevant for practitioners and policymakers in both host and home countries. The specific focus on strategic-asset-seeking was chosen, because according to empirical evidence, acquisition of strategic assets is the main OFDI motivation (Deng 2009; Luo & Tung 2007; Rodriguez & Bustillo 2011; Sun et al 2012). We also chose to explore the role of the Chinese government and its institutions, since

OFDI growth is caused by favorable measures undertaken by them (Luo et al. 2010), hence, institutional factors play an important role in expansion abroad.

The thesis aims to provide answers to the following questions at home-country and host country levels:

i. What role do home-country institutions play in promoting OFDI?
ii. Why do Chinese firms conduct strategic-assets-seeking OFDI?

Overall, the main objective of this thesis is not only to provide a literature review of recent empirical studies from 2007 to 2019, but to identify and analyze OFDI determinants of Chinese MNEs, while trying to answer the research questions, and to propose future research directions.

Nevertheless, there is a challenge, namely, the difference between MNEs from developed and developing countries, which was explored by the academics Estrin et al. (2018). This difference is due to the involvement of emerging country governments that influences company structure and OFDI motives, for instance. Likewise, there is a supposition that the reason why previous authors wanted to test conventional theories is that in the literature of 1990s (Ellingsen & Wärneryd 1999; Kogut & Chang 1991; Mutti & Grubert 1991; etc.) observations are based on developed countries (European countries and the United States of America). However, the majority of scholars that focused on Chinese MNEs and OFDI (Cross et al. 2007; Estrin et al. 2018; Hurst 2011; Li et al. 2018; Rodriguez & Bustillo 2011) argued that there's no need for a new theory to explain determinants of Chinese OFDI. Likewise, Luo & Zhang (2016) claimed that institutional theory, resource-based view, springboard perspective, organizational learning theory and OLI model are in position to explain OFDI from emerging economies.

Last but not least, even though a large number of studies was conducted in the field, there is no 'true' set of OFDI determinants (Kok and Ersoy 2009).

1.2 Organization and Structure

In order to achieve understanding of the topic, the second chapter provides the reader with definitions of FDI according to IMF and UNCTAD, as well as information is given on different types of FDI. This chapter is a general introductory chapter.

In the third chapter FDI literature review is presented in order to comprehend historical development of the topic. The chapter consists of two subchapters: FDI determinants and FDI theories. The first subchapter provides literature review on traditional FDI determinants that were explored by the scholars in the 80's and the 90's, back then the main focus was on developed countries, namely, on the United States. The second subchapter lists neo-classical and modern FDI theories, it enables understanding of the theoretical development as well as it presents the most prominent scholars in the field.

The fourth chapter is the main chapter of this thesis and deals with the research questions. In the first research question institutional determinants at the home-country level are identified and analyzed, they are grouped as follows: political connections; regulatory policy and administrative decentralization. In the second research question asset location and state ownership determinants of strategic-asset-seeking are explored.

After each research question a summary section is introduced, where we will attempt to answer the research questions presented above. The section has the following objectives: to provide an overview of the determinants, to analyze the results of hypothesis testing and to conclude whether these results provide enough evidence in order to answer our research question.

The fifth chapter presents summaries of the empirical studies mentioned in the previous chapter. In the beginning of the chapter a table presents the resume of the empirical studies with key findings and research details. Afterwards, a comparison of the studies demonstrates whether there are similarities and/or dissimilarities in research methodologies. The research method used in this literature review includes the secondary data of the empirical studies published in the last 12 years.

Next, based on the summary chapter, the fifth chapter lists possible directions for future research.

Finally, the seventh chapter is the concluding chapter, it summarizes the outcomes of the thesis and provides a review on the main parts of the paper.

2. Definitions of FDI

According to UNCTAD (2017, p. 3), the definition of FDI is:

> …an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)

Another important part of the definition, mentioned in the UNCTAD Report (2017), is influence, which the investor exercises on the company resident in the other economy.

IMF's definition of direct investment is consistent with the OECD Benchmark Definition of Foreign Direct Investment (as cited in IMF 2009, p. 101). As mentioned in the IMF's balance of payments manual (2009, p. 100):

> Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy

It is important to note that, according to this definition, the investor should pass the 10 percent threshold of voting power entitled to it by equity ownership, in order to be qualified as a direct investor. If a company is determined to exercise control in the foreign enterprise, than more than 50% of the voting power should be exercised. In other words, in order to be able to exercise a significant influence in the foreign enterprise, a company should own between 10 and 50 percent of the voting power (IMF, 2009).

FDI has two types of flows: inward and outward. In this paper outward FDI will be considered. The only difference is that in OFDI there's a capital outflow, whereas in inward FDI there's a capital inflow. As mentioned in the UNCTAD Report (2007, p. 246) in the definitions section, FDI outflows and inflows influence balance of payments in the following way:

> Net decreases in assets (outward FDI) or net increases in liabilities (inward FDI) are recorded as credits (recorded with a positive sign in the balance of payments), while net increases in assets or net decreases in liabilities are recorded as debits (recorded with an opposite sign in the balance of payments).

That's to say, if an MNE decides to sell its assets abroad, it is regarded as a positive increase in the balance of payments, whereas if an acquisition is concluded, a negative sign will be put right next to the indicator.

Last but not least, in order for an investment to classify as an ‘investment’, it should be carried out in obedience to the laws of the host country, in other words, if the laws were broken, there won’t be any guarantee of investment protection by the home-country government, as it is usually done under bilateral treaties (as cited in Sauvant and Nolan 2015, p. 26, 27).

Greenfield and Brownfield investments

If a company decides to opt for a greenfield investment, it decides to build its own facilities instead of leasing or purchasing them. One of the focal reasons is the efficiency and flexibility that allow the company to meet the project’s needs (Segal 2017). Likewise, it is usually less costly to build a new facility rather than to maintain the old one (Segal 2017).

When pursuing a brownfield investment, a building is already constructed and this is a clear advantage over the greenfield investment, since costs and time can be considerably reduced due to the availability of the facility (Segal 2017). However, it is pretty rare that a company finds the exact facility that it needs (Segal 2017). Similarly, if the facility is leased, no modifications can be undertaken (Segal 2017).

Mergers and Acquisitions

An acquisition is defined as a market transaction of unrelated parties, who act in their own interests, where the acquirer purchases the majority stake of the acquiree. If considering a simple acquisition, the acquiree is allowed to preserve its name and organizational structure (Kenton 2019).

In a merger, two companies decide to merge with each other under the consent of shareholders. After the transaction, the acquiree ceases to exist and becomes part of the acquiree (Kenton 2019).

Joint Ventures

According to Investopedia, a joint venture is a business arrangement, where two or more parties agree to work together in order to achieve a joint task, this task can take the form of a new project or business activity, in which each party bears responsibility for any profits or losses incurred. Likewise, a joint venture is a separate entity and should be treated as such (Kenton 2018).

3. FDI Literature Review

This chapter is an essential part of the thesis, since it provides topic-introductory information that the reader should consider before proceeding to the next chapter. In the first subsection, definitions of OFDI will be provided. After having understood the definitions, the next subchapter will be about different types of OFDI. All in all, the main objective of the third subchapter is to provide a review on OFDI determinants, more specifically: firm-specific and external factors, as well to provide as a review on OFDI theories: from neoclassical to modern.

3.1 Determinants of FDI

There are general determinants that influence decisions of the MNEs to invest abroad. Among them are project profitability, the degree of integration of the subsidiary's foreign operations into global strategies and host-country environment (as cited in Kok & Ersoy 2009, p. 106). The determinants will be clustered in the following way: firm-specific and external factors. However, the scholars Kok & Ersoy (2009) stated that there are no 'true' determinants of OFDI, notwithstanding numerous researches conducted in the field. Hence, such factors, as trade barriers, labor costs, R&D, tax and exchange rate can have both negative and positive effects. So the set of factors that has only a negative effect on OFDI is unknown, the same applies to the set of factors with a positive effect.

Firm-specific factors

The subchapter will begin by mentioning firm-specific factors, afterwards, the section will continue with external factors. The section will present a brief literature review of OFDI determinants and will be constructed in the following way: firm-specific factors and external factors. It is fundamental to understand why companies choose to establish a foreign subsidiary instead of conducting a licensing agreement, for instance (Blonigen 2005). And one of the standard answers is the possession of intangible assets, such as managerial skills and technologies (Blonigen 2005). However, this answer does not explain why a firm becomes multinational (Blonigen 2005).

There are various reasons why a firm chooses FDI over a non-FDI mode. For instance, as stated by Rugman (1980), for a firm it is difficult to appropriate rents through a license agreement. The scholar also posited that a licensee might not be willing to conclude a contract, if the intangible asset is not fully revealed, at the same time, the licensor intends to reveal the asset fully only when a contract is finalized. In this situation, the most optimal decision would be to exercise ownership (Dunning 2001) in a given market. However, OFDI factors are unobservable. As a consequence, Blonigen (2005) suggests that R&D intensity and advertising intensity are used as explanatory variables at a firm-level in determining whether firms are multinational or not. The scholar states that many empirical researches have included such variables in order to analyze a firm's FDI decision at a firm-level. Blonigen (2005) also pointed out that, according to empirical literature, R&D intensity is almost always correlated with multinationality whereas advertising intensity provides mixed results.

Nevertheless, as we have stated earlier in the problem statement, the analysis is based primarily on firms from developed countries, whereas the focus of this thesis is on companies from emerging markets, namely, on Chinese companies. As already introduced in the problem statement and objectives section, one of the challenges of this paper is the difference between MNEs from developed and developing countries. From one side, if a company is already in possession of firm-specific assets, they might be willing to internalize them in a foreign market, thus becoming an MNE. This is the case of companies from developed states. If we are talking about an emerging enterprise, than the reasons to explore opportunities abroad might be different. This difference can be seen in the researches presented below.

The scholars Kogut & Chang (1991) in their study developed a model, which enabled them to analyze the behavior of Japanese companies' and their tendency to pursue FDI in the United States. The results showed that in industries, where Japanese companies are able to increase their technological capabilities locally, there is a tendency to invest less in the US, because exports are seen as the most optimal mode. Similarly, other scholars (Audretsh & Yamawaki 1988; Dunnung 1988) also posited that home-country R&D promoted trade advantages of developing countries. That's to say, if a company is in a possession of FSAs, it won't consider expanding abroad by internalizing its FSAs. Nevertheless, as Kogut & Chang (1991) claimed, if it concerns an industry, where the technological capabilities are not as developed, in that case Japanese companies will opt for foreign expansion in order to access firm-specific assets. It is also stated in their research paper that R&D expenditures, for instance, create intangible assets, such as new product knowledge and process technologies, and this is extremely vital for companies seeking to develop their FSAs.

The second study provides support to the study mentioned above. Blonigen (1997) collected data on Japanese acquisitions in the United States from 1975 to 1992, and the data clearly demonstrated that there is a strong correlation between periods of a weaker dollar and a higher level of Japanese acquisitions in the US. It is worthwhile to note that the Japanese acquisitions were conducted in industries, which involved firm-specific assets. This evidence demonstrates that the Japanese entered the US market in order to access FSAs, but not to internalize their own, because they did not possess them.

External factors

In the subsection below external factors, such as trade effects, institutions, taxes and exchange rate will be discussed.

Trade effects

There is an undisputable link between trade and FDI, governments use this mechanism in order to encourage affiliate production or exports (Blonigen 2005). For instance, if there is a trade protection, companies will be seeking to do business in the host country via exports in order to avoid extra costs of trade protection (Blonigen 2005). At the first sight the theory may seem straightforward and simple, nevertheless, mixed results are provided, some of them claim that trade protectionism does encourage foreign direct investment (Mutti & Grubert 1991; Kogut & Chang 1991). Of course, trade protection implies not only tariff barriers, but the non-tariff ones as well and the former one is difficult to measure (Blonigen 2005). Also there are different types of protection, such as industry protection. Usually local companies want that industry to be protected, in which a home country has a comparative disadvantage, because it will be more expansive for foreign companies to pursue direct investment there (Ellingsen and Wärneryd 1999). Nevertheless, according to Rugman (1980), protection could have an opposite effect, since the customs duties could be avoided by replacing exports with host-country production, namely, with foreign direct investment. This reverse effect was discussed by the scholar and Canada was taken as an example. The local government wanted to protect its domestic industry, but it had led to foreign ownership of nearly all of its natural resources along with most of its manufacturing industry (Rugman, 1980). Here, the mechanism of trade protection was not used efficiently by the Canadian government.

Consequently, it is expected that modest protection could be preferable to a trade policy, since trade barriers induces foreign competitors to start production in a host country (Ellingsen &

Wärneryd, 1999). First of all, direct investment evades all tariffs (Ellingsen & Wärneryd, 1999). Secondly, a high level of protection signalizes that the domestic market is more valuable (Ellingsen & Wärneryd, 1999), as demonstrated by the example of Canada. As a result, domestic firms prefer to have foreign exports, but not FDI. It concerns especially markets in a close physical proximity to one another, since it enables a foreign firm to save on transportation costs and to adapt quickly to changing market conditions (Ellingsen & Wärneryd, 1999). These arguments are in line with the arguments presented above. Mutti and Grubert (1991) also claim that trade barriers are very likely to encourage FDI. Likewise, they underline the importance of close physical proximity to the target market, thus the affiliates located far away are costly to maintain and a special attention would be required to those foreign factors, which otherwise would not have been necessary.

Institutions

According to Blonigen (2005), institutions play a vital role in FDI activity determination, it especially concerns companies from emerging economies. The scholar claimed that: (i) insufficient protection makes expropriation of firm's assets more likely and (ii) poor quality of institutions increases costs of doing business, as a result, diminishes FDI activity.

Still, it' is difficult to estimate the magnitude of the institutional effect on FDI, because there are no universal measurements of institutions (Blonigen, 2005). Most measures are based on the indexes of legal, political and economic institutions (Blonigen, 2005). For instance, the scholar Wei (2000a) found out that a high level of corruption and a raise in taxes in host countries would reduce inward FDI.

Taxes

Taxes is another mechanism that is applied by host and home countries, which aim is to foster or to reduce FDI inflow (Blonigen 2005) .When discussing taxes, a self-evident hypothesis is that high taxes will discourage FDI. Nevertheless, as the literature points out, effects depend to a large extent on the following factors: type of taxes, FDI activity measurement and tax treatment in host and home countries (Blonigen 2005). Moreover, home and host countries handle the issue of double taxation differently, hence, it is challenging to assess the effect of taxes on FDI flows (Blonigen 2005).

The first studies published on the topic were by the scholar Hartman (1985), the most cited scholar in the field. In his paper the scholar concluded that the effect of taxes on FDI is not comprehensive. The results obtained in the empirical study were intermediate between responsiveness and irresponsiveness to taxes. Furthermore, Hartman (1985) claimed that earnings generated by an affiliate in a foreign country will be subject to host and home country taxes, regardless of their repatriation or reinvestment in the foreign affiliate in order to generate further earnings (as cited in Blonigen 2005, p. 387). As a result, companies are willing to finance its FDI through retained earnings to the utmost, rather than to transfer new funds from the parent company. That's to say, retained earnings will be subject only to host country tax rates, whereas new transfer of funds will most probably be subject to both home and host country tax rates (Blonigen 2005).

Slemrod (1990) was one of the first scholars, who attempted to analyze the effect of taxation not only on the home-country level, as it was usually done, but he takes into account the effects of host country tax rates as well. The results of the study found a negative correlation between tax rates and total FDI together with new transfers of funds from parent company. Albeit, retained earnings of an MNE operating abroad were not affected by an increase in the host country's tax rates (Slemrod 1990). There should have been a correlation, for retained earnings to be taxed in the host country (Slemrod 1990).

Whereas the papers mentioned above dealt with the US internal FDI, a study conducted by Mutti and Grubert (1991) dealt with the US outward FDI and also focused on the effects of host country tax rates. The study demonstrated that taxes play a vital role in the decision-making process of capital allocation. From the study it became evident that apart from having an influence on financial practices of an MNE, tax rates also influence the allocation of capital. Thus, it is understandable why some MNEs shift their production to low-tax countries. However, the study examined only the very effect of taxes, without considering its various types.

Exchange rate effects

Exchange rate is one of the many determinants that influence FDI activity (Blonigen 2005). Exchange rates are defined as the domestic currency price of a foreign currency and they matter 'in terms of their levels and their volatility' (Goldberg, 2005, p. 1). According to the Vice President of the Federal Reserve Bank of New York (2005), exchange rates are in position to influence the total amount of inward and outward FDI in the following way: when a currency of country A depreciates, its value diminishes relative to the currency value of country B. This decline influences FDI in two ways: (i) the country's production costs and wages decline relative to the foreign country and (ii) the country, where the domestic currency is depreciated, is seen as more attractive by country B in terms of locational advantage for FDI, when compared to its counterpart (Goldberg 2005). And since capital markets are imperfect (Froot & Stein 1991), it means that lenders have no perfect information about their investment, it automatically raises the cost of capital (when borrowed externally), because it becomes costly to monitor the investment abroad (Goldberg 2005).

From one side, the cost of external capital increase (country B), but from the other side, the cost of internal capital decreases (country A). This happens, because the currency of country B appreciates relative to the currency of country A. As a result, firms located in country A have an increase in wealth and an increase in low-cost funds (Froot & Stein 1991). It was proven by a number of studies (Froot & Stein 1991; Klein and Rosengren 1992) that currency depreciation leads to an increase in inward FDI. For instance, Klein & Rosengren (1992) discovered in their study a relationship between a weak exchange rate or a weak dollar and an increase in inward FDI into the United States. The results demonstrated firm's wealth as an important determinant to purchase foreign assets, the exchange rate has a significant effect on it. So whenever the dollar was cheap, foreign companies were seeking to acquire American FSAs. Similarly, Blonigen (1997) in his work argued that exchange rate movements affect acquisition FDI, especially when it concerns the purchase of FSAs. The results of this study are already mentioned in the 'Firm-specific factors' subsection, which demonstrated that during the periods of dollar depreciation, Japanese companies were actively buying American FSAs.

3.2 Theories of FDI

As the scholar Hosseini (2005) stated in his paper, before the WWII international production made up only a small share of international business and production factors were considered as perfectly immobile, resulting in zero OFDI. Nevertheless, the whole situation changed after the World War II, because neoclassical economics was too narrow in explaining cross-border activities, known as OFDI of MNEs. As this activity has increased, the importance of MNEs has increased as well.

To introduce the topic, the following section will present neo-classical and modern FDI theories in order to grasp the FDI theoretical development.

Determinants and perfect markets

The first theory that tried to explain the movement of capital goods was the neo-classical theory. As cited in Jorgenson (1963, p. 247): ‘a production plan for the firm is chosen so as to maximize utility over time’. According to Jorgenson (1963), the production plan under certain conditions leads to the net worth maximization and to capital accumulation. The scholar summarized the capital input and output in a production function. Nevertheless, the theory excluded the whole idea of FDI. Before 1960s, investments abroad were regarded solely as capital outflows and no theories were developed to explain the reasoning that stands behind the capital outflow (Forsgren, 2013). The neo-classical theories will be discussed in the current section.

Capital theory

Mundell (1960) conducted a study in order to analyze American investments to Europe and an observation was made that during 1950’s American companies did indeed obtain higher rates of return from their investments (as cited in Castro 2000, p. 9). Capital theory is based on neo-classical theory and takes into account that markets are perfect meaning that each and every company has equal access to resources and, as a result, no competition takes place. Firms have seen FDI as a tool that enabled them to get a higher rate of return on capital abroad rather than in their home market (as cited in Castro 2000, p. 9). Nevertheless, the hypothesis failed to explain the inverse relationship in the 1960s, when low rates of return form European investments were registered (as cited in Castro 200, p. 9), likewise, the theory did not receive much empirical support (Castro 2000)

Hymer (1960) was the first one who opposed to this approach. According to the scholar, the companies increase their domestic market share by conducting mergers and acquisitions, afterwards, when limits are reached, the companies expand their operations abroad. This expansion is carried out thanks to monopolistic advantages that MNEs possess, under this category fall: product differentiation, government aid, exclusive access to resources, innovation capabilities and etc. (Hymer 1960). By that time, American MNEs were the most developed ones and by expanding in Europe, they exploited their monopolistic advantages at home (Hymer 1960). This explanation can be applied to the events of the 1950s and 1960s demonstrated above.

International trade theory

Propagandists of the international trade theory were among the first scholars to study the phenomenon of MNEs' investments abroad. They posited that under perfect competition exports can be reduced by foreign production, automatically, the whole idea of specialization changes. (Castro 2000). According to the Ricardian version, 'we are faced with a two factor, two commodities, two country model in which productive factors are perfectly mobile domestically but perfectly immobile internationally' (as cited in Hosseini 2005, p. 530).

Nevertheless, the factor model completely abandons the existence of FDI and international production as a whole as well as its complexity, because it resembles more to the short-term portfolio investment (Hosseini 2005). First of all, FDI is not necessarily concerned solely with capital movements, since financing can be obtained in the host country as well (i.e. joint venture) (Hosseini 2005). Secondly, OFDI has other factors, such as managerial and technical knowledge (as cited in Hosseini 2005, p. 531).

Determinants and imperfect markets

The situation changed dramatically during the 1960s, when the US companies that decided to invest abroad grew larger and invested more capital in overseas markets. By that time the topic received the needed attention, since the capital theory was not in the position to explain the occurrence of cross-border investments (Forsgren, 2013). In other words, the theory failed to explain the creation of MNEs that existed due to high and differential costs of factors of production, technology and market information (Hirsch, 1979). The first scholar that made his contributions was a Canadian economist Stephen Hymer (1960), he rejected the neo-classical theory and pointed out that markets cannot be perfect. Along with Hymer's theory, other theories were developed, they will be discussed below.

Hymer

According to Hymer (1960), firms are not equal in their ability to operate in an industry. For instance, as stated by the scholar, national firms are more likely to have advantages, when compared to foreigners, since they possess information on their home country, such as its language, law, its politics and its economy. A foreign company, as a result, must incur some costs in order to acquire this information. Nevertheless, it is about having an 'advantage' (Hymer 1960, p. 44). These advantages should outweigh liability of foreignness, what the scholar claims is one of the biggest obstacles, due to disadvantages that a foreign firm faces, when it competes with locals. Consequently, a firm should possess advantages in order to go abroad (Hymer 1960).

The scholar did not examine in detail the types of advantages that firms may use in order to operate abroad. Kindleberger in his work made it clear that market imperfections can take various forms of internal and external advantages: (i) the former one implies firm's managerial skills or patents that it holds and (ii) the latter one is about governmental support or subsidies that a company receives (as cited in Forsgren, 2013, p. 18). Caves (1974) indicated that exporters should pay high attention to the development of company's image by investing in intangible assets, if a company possessed already these assets at home, then its export activities will be greatly facilitated.

Internalization approach

Among the supporters of the theory are such prominent scholars, as Rugman, Hennart and Casson, the scholars agree that internalization can be seen as a general theory of FDI. Other supporters claim that multinational activity cannot be explained by the concept of ownership advantage (as cited in Castro 2000, p. 21-22). Coase (1937) was the one, who managed to demonstrate that firms grow and benefit from allocating resources internally within a firm, rather than through the market or 'price mechanism' (p. 390). According to Coase (1937, p. 388):

> Outside the firm, price movements direct production, which is coordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur-coordinator, who directs production.

The scholar defended his position by explaining that this price mechanism has its own disadvantages that arise from the costs incurred. For instance, sometimes a firm might prefer to opt for a long-term contractual relationship, because it will avoid the costs of making the short-term ones. The scholar adds that the former one implies less risk than the letter one.

Dunning (2000) opposed to the theory, the scholar claimed that it is incomplete:

1. It ignores other functions of a firm, which are not transaction-related. For instance, apart from profit maximization, there are other functions, such as intangible assets and market power;

2. The theory gives little guidelines in how to organize firm's activities to create future assets. Instead, the theory focuses on the optimization of the existing assets.

Resource-based view

Resources can be an opportunity or even pose a threat to company's growth. So what matters the most is the way such internal resources, as the knowledge and innovation are utilized. However, there are indeed external opportunities and threats, for instance, demand (Ietto-Gillies, 2012). But Penrose (as cited in Ietto-Gillies 2012, p. 174), the scholar whose works contributed to the development of the topic, posited that demand can be created by managers and entrepreneurs in the first place; secondly, demand cannot pose a threat to a modern firm, since it usually deals with more than one product, in other words, is concentrated in more than one product markets. According to Barney (1991, p. 105-106), the resource-based view claim that firm resources must consist of the following attributes:

> (a) it must be valuable, in the sense that it exploit opportunities and/or neutralizes threats in a firm's environment, (b) it must be rare among a firm's current and potential competition, (c) it must be imperfectly imitable, and (d) there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable.

In fact, the resource-based view literature proposes that the main reason for conducting an acquisition is to gain access to strategic assets, such as product differentiation, superior managerial and marketing skills or through acquisition of natural resources and patent-protected technologies (Barney 1991; Vermeulen & Barkema 2001). MNEs will be willing to expand only to a particular location, where it can establish competitive advantage through asset exploration or exploitation (Sharma & Erramilli 2004).

The theory was criticized for its lack of a precise definition and explanation. Notwithstanding the shortcomings, the theory still gained its influence. The debate itself is inconclusive and Peng (2001) proposed to accept the RBV as a representation of theoretical innovation. The scholar proposed to divide innovation into three types, as suggested by Rogers (1983, p. 29, 30): (1) 'authority' (carried out by higher authorities), (2) 'collective' (carried out by group consensus) and (3) 'optional' (carried out by individuals). Peng (2001) suggested that the RBV embodies all the three types that enable the diffusion of innovation.

Institutional theory

According to DiMaggio & Powell (1983, p. 153), institutional theory has the following basic assumptions:

> …each of the institutional isomorphic processes can be expected to proceed in the absence of evidence that they increase internal organizational efficiency. To the extent that organizational effectiveness is enhanced, the reason will often be that organizations are rewarded for being similar to other organizations in their fields. This similarity can make it easier for organizations to transact with other organizations, to attract career-minded staff, to be acknowledged as legitimate and reputable, and to fit into administrative categories that define eligibility for public and private grants and contracts.

Institutional environment is considered to represent rules of the game. The institutional environment itself has two levels: an informal level – religion, customs and norms; and an informal level: propriety and contract laws, polity and judiciary (Henisz & Williamson 1999). Depending on business systems, legal systems, labor and financial markets, political contexts and etc., possibilities and difficulties of establishing a business entity are determined. In addition to that, while doing business in a foreign country, its legal framework should be taken into account as well, that's to say, a foreign company should attain a certain degree of legitimacy in order to operate abroad, this degree depends on how a foreign company is viewed by society (Forsgren 2013).

Neo-classicists have assumed that both economic and political institutions do not matter due to believe in perfect market and the key element of efficient markets is low transaction cost. However, in today's business world it is nearly impossible to have zero transaction costs due to non-existence of perfect markets and involvement of cutting-edge technology (North, 1990).

Dunning

The development of the theory was led by the dissatisfaction with the Hymer (1960) approach and internalization theory. According to Dunning (1979), there was not an appropriate theory that was able to explain international production, as a result, the scholar developed the eclectic paradigm (Dunning, 1979, p. 274). The scholar claims that for a firm in order to engage in OFDI, the three conditions should be satisfied (p. 275):

1) Ownership advantages, imply largely the possession of intangible assets;
2) Internalization advantages, imply that it should be more profitable for a firm to use them internally instead of selling or leasing them to foreign firms;
3) Location advantages, if the two conditions above are satisfied, a firm should explore its ownership advantages abroad.

As we have already mentioned in the determinants section above, a firm would prefer to establish its own production facility over the licensing agreement, since the letter one implies revealing intangible assets before conducting a contract. In this case, a firm will be willing to internalize, because it is in the possession of the intangible assets that, at the end of the day, will enable it to become multinational by exploring location advantages and appropriating rents (Blonigen 2005).

Dunning (1979) tried to integrate FDI motivations in one comprehensive framework, but the framework is criticized for a decreased operationality, since it involves so many variables of OLI advantages and the large number of elements makes it a descriptive and explanatory theory (Ietto-Gillies, 2012).

4. OFDI Determinants of Chinese MNEs

According to various analysis conducted by financial newspapers and economic magazines, China is one of the leading emerging economies, when considering the value of outward OFDI, market size and growth rate. This factor makes China an ideal example to illustrate the applicability of classical FDI theories, while comprehending the expansion of Chinese companies abroad. The analysis will be based on two levels: home-country and host-country. Before proceeding to the research questions, it is important to define Chinese MNEs. According to the scholar Peng (2012, p. 97), Chinese MNEs are ‘unique’ and can be characterized by the following aspects: (i) the underappreciated role of the domestic government as an institutional force, (ii) the challenge of going abroad due to the absence of FSAs and (iii) the adoption of acquisitions as a main OFDI mode.

4.1 Research Question 1

In the following subchapter, the research question: ‘What role do home-country institutions play in promoting OFDI?’ will be examined and the analysis will be conducted at the home-country level. This question is relevant, because the development of institutional infrastructure is directly related to FDI outflows, as well as economic development. Institutional environment of emerging economies involves changes in business policy and law, ownership patterns and government involvement. Thus, institutional development has an enormous impact on companies in emerging economies. As a result, when analyzing OFDI of Chinese MNEs, it is important to analyze the local institutional environment and its interaction with it. The determinants political connections, regulatory policy and administrative decentralization were chosen for the analysis, since, according to empirical literature, they play a significant role in Chinese OFDI.

The main objective of this subchapter is to underline the important role of institutional factors in the strategic choices of Chinese MNEs. These choices are impacted to a great extent by the institutional factors and not only by firm-specific resources together with industry conditions (Barney 1991; Porter 1990), as a result, considerations should be taken not only of resource-based and industry-based characteristics. Here, we are talking about the firm’s embeddedness in its institutional environment (Wang et al., 2012b). More specifically, both advantages and disadvantages of domestic institutions have an equal impact on the firm’s strategic choices.

In order to emphasize the importance of the institutional perspective, the subchapter will begin by presenting briefly domestic institutions and its functions. Afterwards, OFDI determinants at the home-country level will be identified and analyzed together with corresponding empirical studies. The analysis is crucial to understand the role of the local government and its institutions.

Governmental Institutions and its functions

According to Hymer (1960), a firm should possess FSAs in order to go abroad. In case of China, these FSAs can result from governmental intervention and support. Douglass North (1990) has already demonstrated the importance of institutions as a determinant of economic growth in Western countries and the same is applicable to emerging economies, especially to China, since it can lead to the creation of competitive advantage.

To begin with, domestic institutions will be presented briefly. They serve as a basis for development, they provide companies with resources and capabilities. Some of the institutions that are critical for companies are education, financial (Estrin et al. 2018), property rights and the quality of governance institutions (Gugler et al. 2013). The former one is vital, since is provides companies with knowledgeable personnel; the second one is important, since it gives capital injections; and the letter institution types are crucial, since they protect intangible assets of a company and enable or disable company's development.

In the late 1990's the government started to be more supportive and play a positive role in promoting Chinese OFDI (Luo et al. 2010). For this purpose, a number of certain policy tools were applied, such as: reduced taxation, favorable exchange rates, low interest financing and subsidized insurance for expatriates (Luo et al. 2010). These institutional incentives played a big role in creating favorable conditions for Chinese MNEs to expand abroad (Peng 2012; Voss et al. 2009).

In China there are only a few political and regulatory institutions that manage Chinese FDI. Among them are: the State Council, Ministry of Commerce, People's Bank of China, State Administration of Foreign Exchange, State-owned Assets Supervision and Administration Commission and State Development and Reform Commission (Luo et al., 2010; Voss et al. 2009). A brief overview of their functions is presented below by the scholars Luo et al. (2010).

State Council

The institution takes on a central leadership role in the long term. The State Council is not engaged in policy initiatives. Instead, it is involved in more general and fundamental issues, for instance, in regulatory or policy changes that will impact Chinese OFDI in the long run.

People's Bank of China (PBC)

The central bank was established in 1983 and has an influence over Chinese OFDI through several channels: monetary policy and foreign exchange policy. For instance, by increasing the value of yuan or RMB Chinese companies are motivated to buy foreign assets abroad, since they have more buying power. Likewise, if the foreign exchange ratio is reduced, Chinese companies will get funding from foreign companies.

State Administration of Foreign Exchange (SAFE)

The institution was established in 1979 and its main responsibility is monitoring inflows and outflows of foreign exchange. Among other roles, it carries out its OFDI mandates by providing a report of BOP to the State Council, reforming foreign exchange policies and managing foreign exchange reserves.

Ministry of Commerce (MOC)

The Ministry plays a central role in managing and promoting Chinese OFDI. Its main functions are: (i) drafting OFDI regulations and policies and ratifying of large projects in non-financial sectors, (ii) representing China at the WTO and other international economic organizations along with negotiating bilateral and multilateral treaties, (iii) providing the alignment of local laws with international treaties and agreements and (iv) managing relevant funding and loan schemes along with coordinating of China's foreign policy.

State Development and Reform Commission (SDRC)

The main aim of the commission is to establish China's industrial and economic policies, in addition to that, reform plans are set for the State Council. It publicly lists countries and industries for investment favored by the Chinese government. More importantly, the institution mentions financial means that the government is ready to provide in case the listed investment is undertaken. It especially concerns large scale projects, because they always require approval of the commission.

State-Owned Assets Supervision and Administration Commission (SASAC)

The commission was established in 2003 and its key objective is to administer state-owned assets in non-financial sectors. The institution is a major stakeholder and investor of Chinese non-financial SOEs. Similarly, it exercises control over large SOEs. As a result, if one of these large SOEs decides to pursue OFDI, then this commission is in position to provide support to them in a form of facilitation of approval process, financial backup, etc.

Based on the information from China Internet Information Center and from MOFCOM, the scholars Luo et al. (2010) constructed a figure that depicts the institutions and their interrelationships in the process of OFDI management from 1988 to 2003 (see Figure 1).

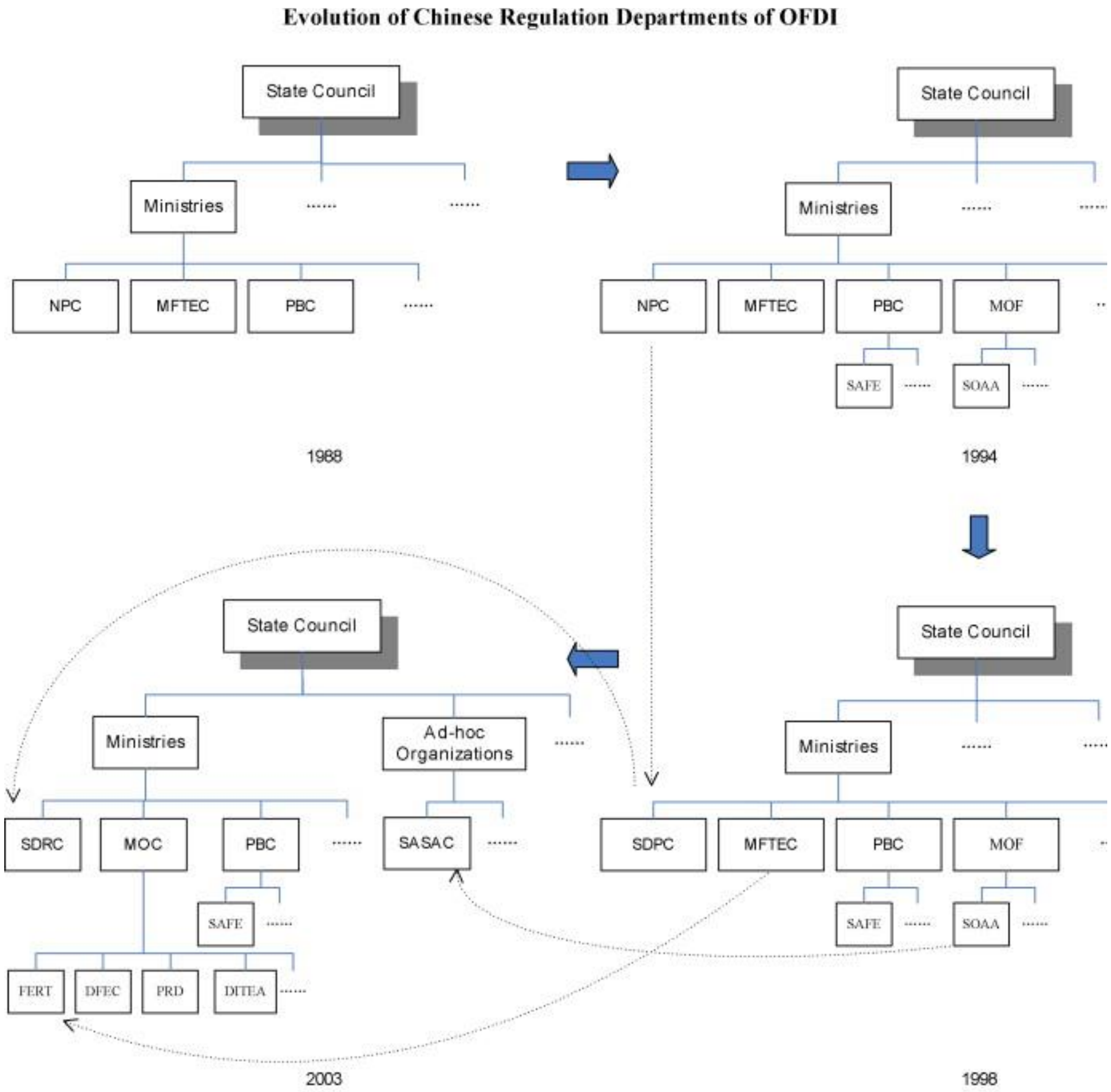

Figure 1 Evolution of Chinese Regulation Departments of OFDI (adapted from Luo et al. 2010, p. 71)

One of the roles that the government and its institutions play is collecting information on commercial investment opportunities that aids in identifying potential merger targets and in overcoming obstacles abroad (Luo et al. 2010). For instance, an information service network was created and is constantly updated on issues investors face (Luo et al. 2010). The issues are included in the following report: ‘Obstacle Report Rules on the Investment to Different Countries’ (Wei 2010, p. 90). Likewise, the government managed to build an information bank, where companies communicate and their investment intentions are published (Luo et al. 2010). In addition to that, special associations were created, such as China Council for International Investment Promotion, to support companies in achieving their objective in the global market (Luo et al. 2010; Wei, 2010). According to the scholars Luo et al. (2010), the first ever regulation on the provision of statistical report of OFDI was formulated by the Ministry of Foreign Trade and Economic Cooperation (MFTEC) in 2002, the key objectives of this regulation were to: (i) master the primary data about overseas investment, (ii) provide trainings on correct reporting for local companies and (iii) make accessible the data on entrance mode, OFDI performance and current situations of operations. Luo et al (2010) mentioned the other two regulations that were enunciated by MOC: (i) an information bank on OFDI proposals, which was established in 2003, was set up for Chinese companies that intended to pursue OFDI, this data provided enterprises with coordination and guidance and (ii) statistical reporting of OFDI set up 2007, but its primary aim was to track the activities of private enterprises by quarterly collecting information on the overseas investment projects and capital round-tripping.

The second role, according to Luo et al (2010), is risk-safeguard mechanism that the government applies in order to create confidence for local companies in surmounting fear of commercial and political risks abroad. The scholar posited that on the macro-economic level the risk is reduced by signing mutual investment agreements, whereas on the micro-economic level the risk is managed by China’s People’s Insurance Company, which bears responsibility in defending companies from capital or commercial risks (Wei, 2010). In order to overcome the fear of investing abroad, MOC annually issues a report on operational obstacles since 2004, the key objective of this report is to collect problems and obstacles that companies encounter while going abroad (Luo et al., 2010).

Thanks to the governmental sponsorship, the biggest state institutions, such as the China Export and Import Bank and China Development and the like, support crucial project with yearly credit funds, which are at low lending rates and usually extensible and fast approvable

(Wei 2010). Other advantages include: tax exemption of intermediate products, raw materials and equipment export; double taxation avoidance; and exemption from foreign exchange controls (Taylor 2002; Luo et al. 2010). Thanks to the financial support, the purchasing power of Chinese firms enhances and the number of foreign acquisitions increases. Even though some firms might differ in their ownership structure, all of them were in a way supported by the state (Luo et al. 2010; Peng et al. 2008). According to the information provided by Luo et al. (2010), a principal regulation on providing credit support to OFDI projects encouraged by the State was issued in 2003. The scholar demonstrated that this regulation had several aims and one of them was to provide stimuli to mergers and acquisitions that would, at the end of the day, result in increased competitiveness and market exploration of local companies. Another regulation, according to the scholar, is concerned with privately owned enterprises and was issued in 2006, it was the first one to focus exclusively on private companies.

Indeed, the Chinese going global policy (Du and Boateng 2015; Luo et al. 2010; Voss et al. 2009) encouraged MNEs to conduct foreign operations. The policy initiated in 1999 contributed to a great extent to the growth of cross-border activities. Apart from it, the scholars accentuated other practical examples that contributed to the surge of cross-border activities:

(i) Establishment of two stock exchanges in 1989 and 1991, namely, Shanghai and Shenzhen Stock Exchanges;
(ii) Decentralization and simplification of foreign exchange administration;
(iii) Establishment of a foreign exchange market to enable trading of the Chinese Renminbi with other currencies.

Nevertheless, some of the advantages are available only for state-owned companies, since they have a privileged access to education markets and sources of scientific and technical research together with domestic market. The scholar Deng (2009) gave as example the case of favorable treatment of Lenovo, when the company bought IBM pc’s technology. Lenovo was able to get a privileged access to education market, domestic government and was in a position to establish its headquarters in New York, what enabled the company to overcome commercial obstacles (Deng 2009). This example perfectly demonstrates the role of local institutions, especially the financial ones, in supporting SOEs.

A. The Role of the Chinese Government and its Institutions in OFDI

As claimed by Witt & Lewin (2007), OFDI activities of Chinese MNEs can be perceived as a response to a misfit between company's needs and conditions of domestic institutions. For example, when a company expands abroad to an advanced economic environment, it seeks to operate in an environment that is more transparent, efficient and encouraging. The scholars Witt & Lewin (2007) stated that thanks to such conditions, a company will be able to build its knowledge and develop competitive advantages. In Chinese literature (Rui & Yip 2008; Deng 2009), foreign expansion of Chinese firms is seen as a means to overcome disadvantages of local institutions. In other words, the domestic government was not always supportive and did not play a positive role until the late1990's. For example, OFDI was restricted by the Chinese government due to an attempt to conserve foreign currency (Luo et al. 2010). This long-term capital control by the Chinese government had drastic effects, what impeded the expansion of Chinese domestic capital market (Luo et al 2010), since the main players of the market are state-owned: China Construction Bank, the Bank of China, Industrial and Commercial Bank of China and Agricultural Bank of China (Morck et al. 2008). The four banks are the main lenders of commercial loans that are mainly given to SOEs for their OFDI transactions abroad, while private enterprises, on their part, are mainly active in the domestic market (Morck et al. 2008). And even nowadays the Chinese government puts its interests before the interests of legal persons or individual investors.

Empirical literature tested the influence of political connections, regulatory policy and administrative decentralization on Chinese OFDI, the study outcomes are presented below.

Political Connections

As cited in the academic paper by Chinese scholar Ziyi Wei (2010, p. 91), on one side the local government provides support, but on the other side it exercises political control, institutes strong policies and disciplines firms for non-adherence. In addition to that, the reason why the state supports local companies in their expansion strategies is that the majority of these companies are state-owned, consequently the control is exercised at both central and local levels (Morck et al. 2008) and this influence has a direct impact on firm's strategy and management (Alon 2010). For instance, a typical ownership structure of a Chinese MNE: state, legal person, foreign financial institution and individual investor (Alon 2010). Albeit legal persons are given the opportunity to hold shares, they are not in position to control them, since the control is given to the regional and central government and their ministries (Chen & Young 2010; Wei 2007).

Besides political control, political connections are also present in emerging economies (Shirodkar & Mohr 2015). Nevertheless, the topic and its role in Chinese OFDI remains underexplored. Deng et al. (2018), Inoue et al. (2013) and Sun et al. (2015) were one of the first ones, who tackled the topic. According to Deng et al (2018), there are two types of political connections: (i) 'ascribed' – is linked to the state intrinsically and (ii) 'acquired' – develops equity-based or managerial political ties (p. 893). The scholars Huang et al. (2017) provided a perfect definition of Deng's ascribed political connections, it is assumed by them that such companies bear no interest in foreign investments, because they have no resource constraints at the local market, hence, they do not have to acquire resources abroad. Acquired political connections, on the other hand, were defined by the scholar Siegel (2007), he claimed that managerial ties to the government may prompt companies to initiate risky cross-border projects abroad. Based on the theory, Deng et al. (2018) hypothesized that when compared to companies without any political connections, companies with acquired political connections exhibit higher OFDI. The scholars used resource dependence theory to test their results and their hypothesis was supported by empirical results. The scholars decided to apply such theory, because it enables the researchers to test ideological discrimination in granting favorable political treatment that will affect OFDI commitment (Cuervo-Cazurra 2014). Cuervo-Cazurra (2014, p. 921) argued that:

> An alternative to the market failure explanation takes a political point of view and explains the existence of SOEs as a result of the ideology and the political strategy of government officials regarding private ownership of particular productive assets.

Other scholars, Wang et al. (2012b), also dealt with political connections, namely, with governmental affiliation. The scholars hypothesized that high governmental affiliation level has a greater positive effect on MNEs OFDI. The topic was tackled from another standpoint, as a result, a combination of resource-based view and institutional theory was used. The theories used by Wang et al. (2012b) are different to the one used by Deng et al. (2018), because the scholars argued that institutional and resource-based constructs are highly dependent on one another. Wang et al. (2012b) argument demonstrates that SOEs and private enterprises do not possess equal abilities to internationalize. After conducting an empirical research, the results were clear – the greater the involvement of the higher governmental levels, the greater are the positive effects on OFDI, when compared to the involvement of the lower governmental levels , such as provincial, city and village governments (Child & Tse 2001). Still, even though the two factors have a positive influence on OFDI, they demonstrate flows of the Chinese system. In the first case, despite the fact that companies with political connections are more prone to expand abroad, companies without any are deprived, political connections have also its downside. In the second case, it demonstrates that if a company is connected to the lower governmental level, this apparatus won't be able to support companies in expanding abroad.

What was not taken into account by Deng et al. (2018), is the effect of different governmental levels and types of involvement on OFDI, the scholars did not specify in their study on which level, state or regional, political connections work (Wang et al. 2012b). It is important to consider, since different governmental levels pursue different objectives, put different institutional pressure on companies, hence, impact OFDI differently. Likewise, as Wang et al (2012b) claimed, not all types of governmental connections are equally beneficial, as we have seen from the results of the second study mentioned above. The scholars posit that political control plays also a role, since it is in power to shape firm behavior. As a result, the degree of political influence depends on two factors: (i) 'state ownership' refers to situations where government influences OFDI by owning a company and (ii) 'government affiliation' refers to an MNE-government relationship, for instance, embeddedness of officials into company's hierarchy (p. 657, 658). The former factor is described by Deng et al. (2018) as ascribed political connection and the latter one as acquired political connection.

Regulatory Policy

Regulatory policy is another mechanism that is very vital in boosting Chinese OFDI. According to the OECD (n. d., para. 1) definition: 'Regulatory policy is about achieving government's objectives through the use of regulations, laws, and other instruments to deliver better economic and social outcomes and thus enhance the life of citizens and business'. Nevertheless, domestic regulatory policy can also be a negative factor that forces Chinese MNEs to expand abroad, an example is provided below.

The Chinese government humbles the development of its local companies by providing more favorable terms to international investors in China. It is clearly seen that not all attention is concentrated on local companies and their foreign acquisitions. For instance, Morck et al. (2008) demonstrated a very descriptive example: the top three destinations of the Chinese

OFDI are – Cayman Islands, Hong Kong and British Virgin Islands. According to Peng (2012), the flow of investments to these destinations has even outpaced OFDIs to Great Britain and the United States. Nevertheless, the scholar provided an explanation to this phenomenon, namely, it is capital round-tripping that attracts Chinese companies. Peng (2012) claimed that they invest in the 'tax heavens' to transform themselves into foreign companies. Later on, these companies can invest in China and be treated as foreign investors, as a result, they will receive multiple tax advantages and other concessions. The scholar clarifies that Hong Kong was one of the main destinations for such investments, however, since China's influence over it intensified, Chinese companies go as far as Cayman Islands in order not to be discriminated at home as domestic firms. From this example it becomes clear that favorable treatment by the Chinese government of foreign investors has a direct impact on the willingness of Chinese MNEs to invest abroad. Chinese MNEs invested abroad not only due to favorable conditions offered by its domestic government, but also due to its malfunction. The local policy of boosting foreign investment to China seems to rally with the local policy of boosting Chinese OFDI abroad.

Wang et al. (2012a) in their study on drivers of Chinese MNEs found support for their hypothesis, which states that favorable home-country regulatory policy is positively related to the level of OFDI by Chinese MNEs. In their study the scholars applied institutional theory to their empirical model. In this case the theory is a good fit, regulatory features could be perceived by some companies as an advantage, since it mitigates natural market failures, secures critical resources and supports their political and economic positions against competitors (Rugman & Verbeke 1990). Nevertheless, unfavorable governmental regulatory policy has also fostered Chinese expansion. For instance, according to Hitt et al. (2004), inefficiency of legal frameworks and weakness of intellectual property rights, labelled as institutional constraints, encourage Chinese companies to look for opportunities abroad rather than to pursue them domestically. For instance, the scholars state that these institutional drawbacks hinder domestic companies from fostering R&D investment and innovation in China. It is argued in the literature that weak legal framework forces MNEs from developing countries to expand abroad to countries with stronger institutions (Stoian & Mohr 2016; Yamakawa et al. 2008; Witt & Lewin 2007).

Another research paper by Cross et al. (2007) combined the home-country and host-country institutional factors that influence OFDI. The study focused on how government engagement and policy helped Chinese firms to shape the investment decisions. For this purpose, the researchers applied institutional theory as well. Cross et al. (2007) defended their choice by claiming that institutional framework of a developing country can determine to a substantial degree the willingness and ability of local companies to conduct OFDI. Moreover, the scholars identified positive and negative ‘push’ factors (p. 57) that force Chinese MNEs to expand abroad. The former ones include the employment of underutilized resources, risk diversification, favorable treatment and the ability to exploit certain cost and knowledge advantages that arise from spillovers in the domestic economy (Cross et al. 2007). Negative factors include unfavorable domestic environment and the avoidance of business restrictions in the local market (Cross et al. 2007). In their study the scholars examined the determinants of Chinese OFDI, such as market size, market growth, exchange rate, trade intensity with China, policy direction and etc. In the research paper was captured the effect of the going global policy, since trade intensity, market openness and exchange rate differences are positively associated with Chinese OFDI and the time period 1991-2003 was considered, these factors triggered an increase in Chinese OFDI.

Other studies mentioned below have examined the effect of host-country regulatory policy development on Chinese OFDI. They were still included in the thesis, since they demonstrate the weakness of Chinese institutions, namely, the weaknesses at the home-country level, because by expanding abroad Chinese companies are willing to escape inefficient domestic institutions. In this case, inefficiency of local institutions acts as a negative push factor.

Estrin et al. (2018) identified weak intellectual property rights as a barrier to entry for foreign investors and their argument was that the better IPR is protected, the more likely MNEs will choose to locate there. And it is important to mention that this tendency is more typical for MNEs from emerging economies, rather than from the developed ones, since their legal framework is inefficient. The scholars have a solid argument for developing such hypothesis, it especially concerns OFDI transactions. According to Estrin et al. (2018), Chinese MNEs are willing to have control over technologies of the acquired firm by preventing the uncontrolled diffusion of knowledge and this control can be implemented only in countries with developed legal framework. As a consequence, Chinese MNEs become highly dependent on this factor. The property rights environment should assign and protect intellectual property of companies, the letter one is especially important, since IP leakage is expected to be prosecuted and penalized by host-country authorities (Teece 1986). The scholars applied the general theory of the MNE to their model. The choice of this general theory could be due to broader nature of the research, the scholars included MNEs from emerging and developed countries and analyzed their locational choice. The researchers were the first ones to estimate the model on the full set of 31 host country alternatives. A further dependency on the efficiency of the regulatory policy can be clearly seen in the example below. The scholars Papageorgiadis et al. (2019) hypothesized that a higher level of Chinese OFDI is attracted by European countries that provide strong IP institutions. The researchers applied the general FDI theory to their empirical model. The reason why the theory is different to the ones applied by other scholars could be that longer time period from 2003 to 2015 is chosen. Another reason could be the fact that Papageorgiadis et al. (2019) were the first ones to provide empirical evidence on the importance of IP institutions for EMNEs. In fact, the hypothesis was supported, meaning that there's a positive relationship between Chinese OFDI and levels of IP institutional strengths. Unfortunately, as stated by the scholars, in the literature was mainly studied the effect of strong IP institutions on OFDI from developed countries, little attention was devoted to OFDI originated from Chinese MNEs. As a result, it becomes challenging to examine the topic in more details.

The scholars Luo & Wang (2012) claimed that in order to understand OFDI strategies, it is necessary to grasp the competitive advantage of entry scale, location and timing (Buckley & Casson 1981), namely, their combination (Rivoli & Salorio 1996). For example, as the scholars Rivoli & Salorio state, in the OLI paradigm only the 'why' is explained, but not the 'when' (p. 354). As stated in the Luo & Wang (2012) study, companies consider the degree of legal protection, such as intellectual property rights, in home and host countries. This institutional arbitrage (Boisot & Meyer 2008) takes place, when a Chinese MNE expands abroad in order to avoid institutional hardship in their home country. Of course, such companies prefer countries with a favorable institutional environment. Nevertheless, as Luo & Wang (2012) posited, Chinese MNEs cannot completely ignore their home-country institutions, because they have an influence over the companies in one way or another. As a result, they hypothesized that institutional hardship will result in early OFDI entry, greater investment scale and in tendency to expand to developed countries. Their hypothesis was approved. The researchers used modern theories, such as springboard and leverage, linkage & learning (LLL). According to Luo & Wang (2012), these perspectives enabled to explain why MNEs from developing countries, given the fact that they lack resources and international experience, can quickly enter foreign markets. The scholars provided reasons why they chose these particular theories. Firstly, they claim that Chinese MNEs display an 'intentional springboard action' (p. 258) that is triggered by the domestic business development stage.

Secondly, they claim that emerging MNEs expand abroad in order to explore new competitive advantages, rather than to exploit the existing ones, and this intention is reflected in the LLL logic.

Administrative Decentralization

Another institution-level factor is administrative decentralization. According to Child & Tse (2001), the main aim of decentralization and privatization in China was to withdraw central government from direct business governance. The very goal is ambitious, however, as the scholars argue, one of its limiting factors is central government's fear of control loss and central-local tensions. Even though the decentralization of the Chinese economic system has considerably liberalized the cross-border expansion, it has led to local protectionism, as the scholars Boisot & Child (1988) stated. Likewise, the scholars also claimed that administrative decentralization has resulted in provinces and municipalities competing against each other in order to achieve economic targets. As a consequence, various anti-competitive measures were undertaken (Boisot et al 2008). This protectionism inhibited domestic firms from conducting rational OFDI activities and generating of R&D activities (Steinfeld 2004).

However, administrative decentralization is viewed positively by Li et al. (2018). The scholars hypothesized that the negative direct effect of state ownership on company's OFDI frequency will be reduced by the presence of strong regional market institutions. The researchers applied institutional theory to their model. After conducting an empirical study, Li at al. (2018) found support for their hypothesis. Chinese OFDI depends on strong regional institutions to a large extent. Likewise, another study found positive effect on OFDI of strong regional institutions. This study was conducted by Liu et al. (2014), where the scholars examined the link between regional institutions and Chinese OFDI. The scholars hypothesized that well-established regional institutions positively affects the extent of OFDI of Chinese firms in terms of factor markets, product markets and legal systems. The researchers also applied institutional theory to their model. Their hypothesis was approved meaning that strong regional institutions help Chinese companies to undertake OFDI activities.

The scholars Qu et al. (2017) claim that the Chinese coastal regions (eastern and southern parts) are more favorable than the inland areas. For example, as stated by the scholars, the coastal regions promote inward and outward FDI by implementing favorable investment policy and by having lower tax rates, this is also due to special geographic location.

Furthermore, the researchers Li et al. (2018) posited that in more developed regions the government plays a less important role, hence, the scholars claimed that is less likely that it will grant a favorable access to resources to certain companies. This resistance is due to the fact that the state and Chinese regions pursue the often conflicting objectives and the context, in which internationalization decisions are taken, is often different (Wang et al., 2012b). As the scholars Child & Tse (2001) argued, the reason of this objective difference lies in ineffective implementation of decentralization process by central government. For example, the scholars claim that it is usual that policy changes are frequently accepted by the central government, whereas local governments resist to such changes.

B. <u>Summary</u>

In the following subsection the role of the government at the home-country level was examined. We classified the determinants into three separate entities: political connections, regulatory policy and administrative decentralization.

The role of local governments was initially ignored until now, the reason behind it was a focus on OFDI conducted by developed countries. However, from an institutional view, since companies are affected by the 'rules of the game' at their home country and abroad, the role played by domestic governments cannot be simply ignored (Peng, 2012). Nevertheless, Chinese companies decided to expand abroad not only due to favorable conditions created by local institutions, but because of the unfavorable conditions that urged them to acquire FSAs abroad in order to stay competitive, since it is difficult and almost impossible to develop them locally. At the same time, it is almost impossible not to notice the support that the Chinese government provided to local companies by implementing various supportive OFDI policies and by promoting SOEs, it was already discussed in depth in the previous section. When considering the institutional theory, it becomes apparent that the institutional factors, regardless of their positive or negative effects, push Chinese MNEs to explore opportunities abroad.

Firstly, weak domestic regulatory framework, such as inefficient property rights protection, forces companies to search for a more advanced institutional environment abroad. Majority of the scholars agreed that regulatory policy is still underdeveloped in China. However, its negative effect motivates Chinese companies to expand abroad, it acts as a negative push factor. As it is stated by Luo et al. (2010), the governmental policy does not have to necessarily work as it is intended. All in all, domestic regulatory policy is regarded negatively by the scholars, but it motivates Chinese expansion abroad.

Secondly, political connections. Here, it is important to distinguish between acquired and ascribed political connections, since the former one enables the company to take more risky OFDI projects. Likewise, the governmental level, state or regional, should be considered as well. In empirical literature it is clearly stated that support from high rank officials has more influence on the success of OFDI. Overall, political connections are regarded positively by scholars and they foster Chinese OFDI, it acts as a positive push factor.

Thirdly, administrative decentralization. Here, the scholars agree that strong regional institutions motivate Chinese companies to pursue OFDI. Hence, developed regional governments create an environment that enables local enterprises to opt for opportunities abroad. As a result, these institutions are regarded positively by scholars, hence, they play positive role in Chinese OFDI. This determinant also acts as a positive push factor.

Unfortunately, the topic of political connections is new and only a few studies have focused on the link with Chinese OFDI. The same applies to regulatory policy, scholars have primarily focused on developed countries. Likewise, less attention was devoted to Chinese regional institutions, despite their central role in the OFDI process. From this we can conclude that empirical literature devoted special attention to the home-country institutional OFDI determinants, albeit no consensus was reached on which of the determinants are the most relevant ones (Rodriguez & Bustillo 2011).

To sum up, a firm's ability to expand abroad is either facilitated or constrained by a multiple number of institutional factors (Wang et al., 2012a). As a result, the first research question: 'What role do home-country institutions play in promoting OFDI?' can be answered thanks to the conducted empirical studies and analysis of the local institutions. The government and its institutions do, indeed, promote Chinese OFDI, hence, they play a vital role in the process. But this promotion occurs due to both negative and positive aspects displayed by them. Additionally, we might conclude that close political connections, weak regulatory policy and well-established regional institutions act as institutional determinants of Chinese foreign expansion.

Here, it is important to highlight that China is interested in increasing its political influence together with its economic power. Of course, the country has a long way to go, taking into account all the disadvantages of the system that were previously listed. And foreign expansion to developed countries is a way to outweigh the drawbacks of local institutions and/or to enjoy the governmental sponsorship.

4.2 Research Question 2

There are four types of OFDI activity (Dunning 2000, p. 164, 165): (i) ‘market seeking’; (ii) ‘resource seeking’; (iii) ‘efficiency seeking’ and (iv) ‘strategic asset seeking’. However, the focus of this subchapter will be on strategic asset seeking and there will be an attempt to answer the following research question: ‘Why do Chinese firms conduct strategic-asset-seeking OFDI?’ The main objective of this subchapter is to examine determinants that stand behind strategic asset seeking at the host-country and home-country levels and to choose the relevant empirical studies and to analyze the theories that were applied to the studies. Simply put, the subchapter will highlight the importance of asset location and the role of the Chinese government in making strategic choices related to asset seeking. We chose to analyze asset location, because strategic assets seeking orientation of EMNEs received evidence from location choice studies (Sutherland et al. 2018). Location choice methodology is one of the most commonly used approaches to conduct an empirical test whether EMNEs undertake SAS (Sutherland et al. 2018). State ownership was also included in the analysis, due to the key role that the government plays in the OFDI process, as stated in the previous section on the institutional role.

To begin with, it is important to understand that any acquisition of an asset that results in advancement towards achieving the desired market position is ‘strategic’ (Meyer 2015, p. 59). Consequently, strategic asset seeking OFDI becomes synonymous with ‘foreign acquisition’ (Meyer 2015, p. 59). Similarly, acquisitions are perceived as the dominant entry mode for strategic asset seeking (Anderson & Sutherland 2015) .Compared with MNEs from developed countries, MNEs from emerging economies are more asset seeking and are influenced by their home-country institutions to a great extent (Li et al. 2017; Luo et al. 2010; Peng 2012). Other scholars also claimed that the majority of Chinese companies are more asset-seeking and tend to expand abroad in order to acquire superior resources, such as brand names, managerial competencies and technologies (Dunning 2009; Sun et al. 2012), when compared to companies from developed economies (Rui & Yip 2008), which already possess them. And together with these firm resources Chinese MNEs acquire competitive advantage. From the view of RBV foreign expansion is seen as a means by which companies can appropriate rents by either exploiting or exploring valuable resources, such as scientific knowledge, brand names and technological capabilities (Wang et al. 2012).

The subchapter will be structured in the following way: in the beginning a short introduction on strategic asset seeking will be made; afterwards, asset location determinant will be analyzed; then, the role of state ownership will be examined. These determinants were identified after a thorough analysis of empirical literature on strategic-asset-seeking.

A. The Role of Asset Location and State Ownership in Strategic-Asset-Seeking Objective

Strategic assets are defined as 'the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities' (Amit & Schoemaker 1993, p. 36). It is common knowledge that not only acquisitions are used as an entry mode strategy, but exports as well. However, to source and access strategic assets, foreign direct investment is seen as the most effective way (Chung & Alcacer 2002) and out of various FDI modes acquisitions is the preferred one (Sun et al 2012). Nevertheless, as reported by UNCTAD (2019), M&A activity by Chinese SOEs slowed down substantially. In 2018 SOEs M&A activity accounted only for about 4 per cent, whereas in 2008-2013 the average was more than 10 per cent. It was also mentioned in the report that financial services, extractive industries and utilities were mainly targeted by Chinese SOEs. But why do Chinese MNEs prefer this type of entry? Definitely because of the weak firm-level capabilities (Peng 2012). Deng (2007) posited that since Chinese MNEs are latecomers, they are urged to engage in strategic-asset-seeking FDI in order to catch up with the MNEs from developed countries. However, Shimizu et al. (2004) suggested that companies engage in M&A activities in order to exploit intangible assets. This view is based on Caves (1990), who claimed that the acquirer benefits from foreign acquiree, since the former one brings under control a more diverse portfolio of specific assets, hence, it seizes more opportunities (as cited in Boateng et al. 2008, p. 265). Assets seeking motivations are the focal objectives of acquisitions of Chinese MNEs. Albeit, more attention was devoted to case study approaches in order to investigate the topic of SAS, it concerns especially the acquisition of IBM PC Business by Lenovo Group Ltd., than to empirical approaches.

Empirical literature tested the influence of asset location and state ownership on strategic asset seeking, the study outcomes are presented below.

Asset Location

Counties differ in their knowledge stocks and innovation activities due to dissimilarity in their level of R&D investment and innovation systems (Furman et al. 2002). These cross-country differences in technology advancement motivate MNEs form developing markets to expand abroad via OFDI to access skills and new knowledge (Deng 2007; Luo & Tung 2007), because by doing so, emerging MNEs gain proximity to technology leaders (Fu et al. 2018). In addition to that, it is widely known that developed countries have higher quality standards than their developing counterparts. For instance, Buckley et al. (2008) dealt with location choice of Chinese MNEs. The scholar demonstrated that Chinese international expansion started in natural resource-rich North American countries – Canada and the US. Nevertheless, as the scholars Rodriguez & Bustillo (2011) claimed (see Figure 2), there was recently a redirection towards emerging and developing countries, such as South East Asia, Australia, New Zealand and Latin America. The scholars commented on the interest on South East Asian countries by stating that it is due to close market proximity, whereas Latin America is a relatively new destination. The interest was also highlighted in the study by Ramasamy et al. (2012), who demonstrated that in 2005 90% of Chinese OFDI spilled over to developing countries, particularly to Asia and South America.

Country/region	Average	Percentage
Laos	27.08	0.37
Myanmar	75.48	1.03
Japan	96.69	1.32
Cambodia	97.68	1.34
Thailand	152.17	2.08
Malaysia	186.39	2.55
New Zealand	217.10	2.97
Vietnam	229.98	3.15
Philippines	269.63	3.69
Indonesia	363.97	4.98
Korea	523.66	7.17
Australia	555.76	7.61
Singapore	639.63	8.76
Asia-Pacific	**3435.22**	**47.04**
United States	582.30	7.97
Canada	1357.63	18.59
North America	**1939.93**	**26.56**
Estonia	3.05	0.04
Slovakia	5.09	0.07
Greece	6.12	0.08
Portugal	13.45	0.18
Czech Republic	28.80	0.39
Spain	31.79	0.44
Austria	31.91	0.44
Finland	45.08	0.62
Sweden	48.05	0.66
Italy	54.69	0.75
Netherlands	59.58	0.82

Poland	66.33	0.91
Hungary	70.54	0.97
France	186.16	2.55
Ireland	217.90	2.98
Great Britain	246.92	3.38
Denmark	294.85	4.04
Germany	296.85	4.07
Europe	**1707.18**	**23.38**
Mexico	53.27	0.73
Chile	81.29	1.11
Brazil	85.79	1.17
Latin America	**220.34**	**3.02**

Table 1 Host Country Chinese OFDI Stock for the Country Sample (Mill. $ and Country Share) (Rodriguez & Bustillo 2011, p. 719-720)

The scholars Buckley et al. (2008) and Rodriguez & Bustillo (2011) agreed that European and other developed countries receive negligible amounts of investments. However, Rodriguez & Bustillo (2011) stated that Chinese MNEs expand to Europe in light of asset seeking purposes. Here, Buckley et al. (2008) posited that Chinese MNEs, when expanding to Europe, often consider the purchase of loss-making businesses.

In literature it was identified that companies from emerging economies are driven by aggressive acquisitions in order to seek strategic assets, and these acquisitions took place predominantly in developed markets (Kedia et al. 2012; Luo & Tung 2007). ‘EMNEs are often latecomers to the industry in which they compete, forcing them into accelerated internationalization with the explicit goal of gaining access to assets, resources, or capabilities not found in their home market’ (Kedia et al. 2012, p. 158). As a result, ‘EMNEs will try to overcome their latecomer disadvantage through aggressive, proactive and risk-taking acquisitions’ (Kedia et al. 2012, p. 159). Some argue that Chinese MNEs do possess competitive advantage at domestic level (Deng 2009; Rodriguez & Bustillo 2011). For instance, low labor costs in China are often translated to low manufacturing cost (Rodriguez & Bustillo 2011). But they see themselves having an average level of competitiveness (Deng 2009), when compared to their peers form developed countries. As a result of this average competitiveness, MNEs are seeking more actively locations rich in strategic assets. Albeit, Ding (2000) claimed that notwithstanding financial, political and other assistance provided by the Chinese government, they barely constitute MNEs’ firm-specific advantages. Similarly, some scholars claim that MNEs from developed economies are as prone to develop competitive advantage through asset seeking, as MNEs from developing economies are (Sutherland et al. 2018). Simply put, both of them are motivated to acquire strategic assets.

MNEs form developed markets are not the focus of this thesis, since we focus on Chinese MNEs.

Rodriguez & Bustillo (2011), in their empirical study tried to find evidence that Chinese location choice is driven by asset seeking objective, for this purpose the number of granted patents was used as a SAS proxy. In the study Chinese investments to 36 OECD countries were considered, and as it is widely known, the majority of OECD countries is developed. The scholars decided to apply Dunning's paradigm by including a fourth home-country leg ('H') (p. 716) to their model, because they claimed that home-country incentives and support are the main driver of the competitive advantages of Chinese MNEs. Nevertheless, in their econometric model only several determinants based on the paradigm were tested. Unfortunately, the scholars did not find any support for the asset seeking objective. That's to say, it seems that Chinese MNEs are not attracted by strategic assets of developed countries. Likewise, there are other studies that did not manage to find support. For instance, the results of the empirical study conducted by Hurst (2011) are consisted with the studies presented in this paragraph. The scholar investigated the relationship between SAS objective and location choice in OECD and non-OECD countries. The scholar also applied Dunning's eclectic paradigm to its model. Evidence of SAS support in OECD countries was not found, that's to say, acquisitions by Chinese SOEs in developed countries have not changed significantly since post-WTO accession (Hurst 2011).

The second study by Buckley et al. (2007) was the first one to formally model OFDI determinants of Chinese MNEs. The scholars used the general theory of the multinational firm to their model and they wanted to test the applicability of the general theory. The main reason behind choosing such theory is because China presents many conditions that are rarely encountered in one country. The reason why Buckley et al. (2007) chose such general theory could be due to the fact that the scholar tested conventional and novel hypotheses and for this purpose employed a wide range of main and controlled variables. The researchers also did not find any evidence of strategic asset seeking. The scholars hypothesized that Chinese OFDI is positively associated with host country endowments of ownership advantages. In the study the number of registered patents in the host country was used as a proxy.

Albeit, other scholars claim that there is a link between asset location and strategic-asset-seeking. As Khanna & Palepu (2006) stated, an inefficient legal framework can act as a trigger to push Chinese companies to opt for opportunities abroad in a more innovative environment. Ramasamy et al (2012) also pointed out to this argument by stating that a weak local environment and limited capabilities push Chinese MNEs to conduct OFDI activities abroad, especially through M&As. Consequently, the scholars, Ramasamy et al. (2012), hypothesized that Chinese companies are attracted to those countries, which are endowed with technical and innovative superiority. The scholars didn't specify which theory they applied, they only mentioned the existing FDI theories. As well as Buckley et al. (2007), Ramasamy et al. (2012) used a wide range of variables in their study. But, support was found, meaning that Chinese MNEs are motivated to augment their competitive advantage by acquiring strategic assets.

Similarly, the scholars Anderson & Sutherland (2015) examined motivation of Chinese MNEs to conduct greenfield and acquisition investments in the United States. The scholars claimed that the physical location of a company can have an influence on managerial competency via knowledge spillovers and these spillovers are prevalent in developed markets. In their study they gave the following example: highly competitive firms will gain little from spillovers, they will even suffer, because their technology and employees spill over to competitors; whereas less competitive firms, on the contrary, will gain ownership advantages. Consequently, Anderson & Sutherland (2015) hypothesized that when acquiring strategic assets in developed markets, emerging markets MNEs prefer to use acquisitions as opposed to greenfield FDI. Their hypothesis was supported, meaning that acquisitions are the primary mode when considering strategic assets seeking in developed markets. Their findings are in in line with internalization theory to comprehending MNE entry mode. This theory is perfectly applicable to the study, because the scholars explored motivations between different entry modes .The next study found SAS support, but presented inconsistencies to a theoretical supposition claiming that private companies are more attracted to developed countries, than SOEs.

The strategic asset seeking objective by Chinese MNEs was found in the study by Amighini et al. (2013), in which they classified human capital as strategic asset. The scholars did not precise which theory they used, they applied the traditional FDI theory, but claimed that Chinese internationalization could not be explained by the standard theory. They managed to find that human capital has a positive effect on Chinese investment, it concerns SOEs as well as private enterprises, despite some differences. This study is one of the first ones that distinguished between SOEs and privately-owned enterprises and the results demonstrated that the pattern of Chinese OFDI differs according to ownership structure. The human capital is a significant factor for both of them, nevertheless, the scholars came to the conclusion that SOEs prefer countries with poor governance, whereas private companies are more attracted to developed institutional infrastructure. This result could be due to the fact that M&A data was not included at all in the study. As it was stated earlier in the subsection, the very location of the assets plays a significant role for SOEs, since the majority of them prefer to acquire assets exclusively in developed countries.

The next study also found SAS support by location, however, there was no specific focus on China as an EMNE and acquisition as an OFDI mode. In the study by Jindra et al. (2016), the scholars focused on regional specialization externalities in the European Union, such as externalities from existing supplier linkages, access to specialized labor and relevant know-how. This industry mechanism enables regions to generate technological, organizational and production competencies over time (as cited in Jindra et al. 2016, p. 206). As a result, Jindra et al (2016) claimed that MNEs from emerging economies choose to augment their competitive advantages in regions that possess these specialization advantages. The scholars hypothesized that the probability of location choice by emerging MNEs in the EU regions will be increased due to intra-industry spillovers arising from specialization advantages. The analysis showed that emerging MNEs value location bound specialization positively, hence, the hypothesis was approved. For their empirical study the scholars used a utility maximization framework to model location choice. The reason behind choosing the framework is because the hypotheses were developed around the role of technological and knowledge spillovers for the location choice based on knowledge-seeking OFDI.

State Ownership

To begin with, it is substantial to grasp how the state exercises its influence over SOEs. As stated by Morck et al. (2008), SOE structure represents state embeddedness, whereas private firms have a similar ownership structure to those of Western firms. The scholars demonstrated the Communist Party Secretary and the Communist Party of China's Organizational Department as examples, based on the fact that there are only two governmental bodies, which are in power to exercise political control over corporate governance of Chinese MNEs. The first one is the Communist Party Secretary, it is in power to appoint company directors, who come typically from the very party, this power is frequently exercised in China's largest SOEs (Morck et al. 2008). Furthermore, it is worthwhile to notice that the Communist Party of China's Organizational Department also exercises political control over Chinese MNEs by appointing directly the CEOs of China's largest SOEs (Morck et al. 2008). Additionally, Morck et al. (2008) claimed that this structural interdependence at the top levels has a direct impact on the firm’s strategy and management. Thus, there’s a tendency to invest in those projects, which will inflate employment rate or create a feeling of national pride in the short run, but these projects don not necessarily create profits in the long run, as claimed by the scholars. Likewise, the Chinese Communist Party has recently written itself into company law by changing the articles of association of Hong-Kong listed SOE, thereby increasing dramatically the role of the government (Hughes 2017).

An understanding of the institutional framework, in which an MNE is embedded, is required in order to understand MNE’s strategic choices (North 1990). This case is particularly applicable to China, where institutional constraints are present and governmental support is vital for foreign acquisitions (Deng 2009). For instance, focus on improvement of Chinese MNEs’ innovation efforts signals the institutional transition from planned to market economy (Hitt et al. 2004). The Chinese government, while implementing all these supportive policies, expects Chinese firms to respond to its actions with strategic asset acquisitions in order to compete successfully in the global landscape (Deng 2009). Other scholars also claim that the Chinese government exercises influence over international expansion strategies of its MNEs (Liang et al. 2015; Wang et al. 2012b).

The empirical studies mentioned below confirm the link between SOEs and SAS, despite the fact that some of them didn’t test empirically the direct link between these two factors. From these studies it becomes clear that the companies that fall under this category are treated more favorably by the Chinese government, hence, are more likely to become access to strategic assets. However, Chinese acquirers are not positively viewed in the Western world due to their ambitious strategies. As a result, state ownership could exercise positive as well as negative influence over acquisition of strategic assets by Chinese MNEs.

The scholar Alon (2010) confirmed his hypothesis by using institutional theory. However, the scholar went a bit further by separately analyzing SOEs and private companies to investigate their OFDI determinants. In the study Alon (2010) stated that domestic policy distortions create FSAs for SOEs at a cost to privately-owned enterprises, this favoritism happens through various incentives and privileges that SOEs receive. That is to say, this support makes it possible for SOEs to acquire strategic assets and the Chinese government plays here a distinctive role. The scholars Wang et al. (2012a) also found support for their hypothesis, but it was about the relatedness of the level of FDI to the state ownership level, the scholars did not focus specifically on SAS. They also applied institutional theory to their model.

Furthermore, the scholars Lie & Xie (2013) built their hypothesis by using an institutional-based perspective. They argued that institutional factors can alter firm's decision making process and diminish the importance of economic efficiency. For instance, as stated by the scholars, companies that are not purely profit-driven have good reasons not to adopt the optimal governance structure suggested by economic analysis and SOEs are good examples of such companies. In the first place, they suffer from serious agency problems (Lie & Xie 2013). In the second place, SOEs are less profit-driven, because they have other obligations, such as supporting national development plans, maintaining payrolls and other politically motivated objectives (Lin et al 2009). As a result, state-owned companies are less prone to respond to information asymmetry, when choosing ownership-based entry-mode (Li & Xie 2013). After having elaborated on the state ownership effect, the scholars Li & Xie (2013) hypothesized that SOEs tend to pay less attention to information asymmetry when acquiring high-tech targets and their hypothesis was approved.

Nevertheless, in spite of the fact that the governmental support has a positive influence on acquisitions conducted by Chinese SOEs, governmental ownership has its downside. The scholars Chen & Young (2010) argued that companies in which the government is the majority owner are: (i) less capable of hindering managerial opportunism, (ii) more likely to pursue political objectives while conducting cross-border activities and (iii) less likely to possess the needed level of managerial competence needed for a successful transaction. That's to say, if an SOE needs extra finances in order to conduct an acquisition, it will be difficult for it to obtain finances. The scholars explained such skepticism by mentioning the fact that when the government is a majority shareholder, it will hugely impact the interests of minority shareholders, since the two of them have different motivations. This situation gives rise to a so-called principal-principal problem (Young et al. 2008). Consequently, Chinese MNEs are hindered from becoming funding for its acquisitions of foreign assets from international lenders, since investors view such cross-border deals in less favorable terms (Chen & Young, 2010). However, as mentioned in the academic works, it is the government that provides sponsorship for large acquisition deals, not private investors. From this we can conclude that the funding of private investors might be needed for privately owned firms conducting small-scale acquisitions. Additionally, not only investors are skeptical of governmental involvement, but negative reaction can come alike from the public and politicians in host countries (Zhang et al. 2011). Likewise, Athreye & Kapur (2009, p. 219) affirmed that state sponsorship '…creates the perception that these firms are beneficiaries of "unfair state aid"…' Zhang et al (2011) is another scholar that tackled the topic of firm ownership and overseas acquisition. According to the scholars, the focal objective of such acquisitions is to enhance firms' international competitiveness by acquiring management expertise, distribution networks and advanced technology. Consequently, they are viewed as companies that pursue empire-building strategies while taking advantage of the access to public sources (Li & Xia 2008). Based on this argument, the researchers claimed that an acquisition deal with an SOE acquirer has a low completion probability than other form of companies.

B. Summary

In the following subsection the role of asset location and state ownership on strategic asset seeking was analyzed. We might conclude that the factors presented in this subsection are determinants of strategic asset seeking by Chinese MNEs, it could be seen from the conducted empirical studies.

The first determinant was asset location, the scholars conducted empirical studies to test whether there is evidence of strategic-asset-seeking of Chinese MNEs. The majority of the studies agree that Chinese MNEs pursue SAS objectives in developed countries, this strategic move is carried out in order to augment competitive advantages. Nevertheless, out of seven studies conducted in this field, three studies did not find any connection between acquisition of strategic assets by Chinese MNEs and the level of development of the host country. This discrepancy could be due to the differences in methodology: longer time spans explored or large number of host countries investigated. What is interesting to note is that many studies did not distinguish between private enterprises and SOEs. We could suppose that no distinction is made, because the majority of Chinese MNEs are state-owned and by focusing solely on private enterprises, the scholars will reduce their sample size to a great extent. Overall, asset location is regarded by the majority of scholars as a determinant of SAS, since many MNEs will prefer to acquire intangible assets in countries with developed infrastructure and institutions, because such environment is common for companies with commercially viable technologies.

Secondly, the role of state ownership. It is impossible to not to include institutional role, since, as it was said earlier, it is the government that motivates MNEs to conduct acquisitions abroad. Nevertheless, its role is not always regarded positively. For instance, foreign acquisitions might be hindered due to suspicion of SOEs by foreign investors. They assume that such firms have principal-principal issues, since business strategies of Chinese MNEs are highly politically motivated. Notwithstanding the support that the government is giving to SOEs, in a market economy it will be seen as a constraint at the end of the day. In theory, state ownership is regarded both positively and negatively by the scholars. Although, the empirical studies that focused on the government's direct and indirect role in Chinese strategic-asset-seeking managed to find support of their hypotheses. All in all, if we take into account the previous chapter on the role of the government and its institutions in promoting Chinese OFDI together with theoretical background and empirical studies, we can conclude that state ownership could be of importance for SAS.

A limited number of empirical studies was conducted on the role of state ownership in SAS, this makes it difficult to evaluate. None of them tested the direct role of state ownership in pursuing SAS, except the study conducted by Alon (2010). However, such role could be seen indirectly in the studies by Lie & Xie (2013) and Wang et al. (2012a). When taking into account the first study, it becomes clear that information asymmetry is not of importance for SOEs, while the deals initiated by private enterprises are usually discouraged by it. Here, SOEs have a clear edge over their private counterparts thanks to state ownership. The second study also highlighted the importance of state ownership as a determinant, however, it had a more general focus, since it paid particular attention to FDI and not to strategic-assets-seeking.

Unfortunately, empirical evidence relating to the studies on asset location and state ownership is scarce, despite the increasing interest that the topic received due to the fact that there is theoretical evidence of the relevance of asset seeking motivation as a key driver of acquisitions (Rodriguez & Bustillo 2011). Yet empirical literature focused on emerging market OFDI location choices without inferring facts about strategic asset seeking (Sutherland et al. 2018). Or, in the case of state ownership, there are only few studies that demonstrated the significance of state ownership in SAS.

The research question 'Why do Chinese firms conduct strategic-asset-seeking OFDI?' can be answered thanks to the analysis of the empirical works. Firstly, Chinese MNEs conduct this type of OFDI, because these assets are located in countries that are endowed with technological and innovation capabilities and with strong institutions, even though mixed results are provided, the majority of them found support. Secondly, if we consider the results obtained in the first research question, the empirical studies as well as the theoretical implication , we could suggest that Chinese MNEs do prefer to seek strategic assets, because the majority of them are state-owned, hence, they are under the patronage of the Chinese government and its institutions. After establishing the reason why Chinese MNEs prefer to seek strategic assets, we might suggest that these reasons represent determinants of strategic-asset-seeking OFDI.

5. Summary of Empirical Studies

This section will provide a resume of the empirical works used in this thesis. The summary of the works provides a good opportunity to have an overview of the scholars, details of the studies conducted and outcomes. Thus, the overview will enable scholars to develop comprehensive models and make suggestions for future research.

The criteria used for choosing empirical works for this paper:

1. Studies published in the last 12 years;
2. Empirical research with statistical analysis of at least one research question.

The summary of the research papers is presented below:

Table 2 OFDI Determinants of Chinese MNEs with specific focus on the role of home-country institutions and strategic-asset-seeking

Level	Theory	Determinant	Scholars	Sample	Key Findings
Home country	**Resource-based view and institutional theory**	**Political connections**	Wang, Hong, Kafouros and Wright (2012b)	The first data set from MOC; manufacturing firms; the second data set from *Annual Report of Industrial Enterprise Statistics;* the total sample was 626 firms from 2006-2007	The greater the involvement of the higher governmental levels, the greater are the positive effects on OFDI, when compared to the involvement of the lower governmental levels
	Resource-dependence theory	**Political connections**	Deng, Yan, Essen (2018)	Data collected on overseas investments of publicly listed Chinese firms from 2003 to 2014; the sample consists of 482 firms	Companies with acquired political connections demonstrate a more elevated OFDI involvement, when compared to companies without any political connections
	Institutional theory	**Regulatory policy**	Wang, Hong, Kafouros, Boateng (2012a)	Data taken from two sources – Annual Report of Industrial Enterprise Statistics for 2005 and 2006 and MOC China for 2006 and 2007 ;667 Chinese firms that	Favorable government regulatory policy is positively related to the level of OFDI by Chinese MNEs.

				invested abroad	
	Theory of MNE	**Regulatory policy**	Estrin, Meyer, Pelletier (2018)	Database of the Bureau van Dyck, limited to 31 OECD countries; focused on firms that were incorporated after 2005	Weak legal framework is proved empirically to force MNEs from developing countries to expand abroad
	Springboard, leverage, linkage and learning perspective	**Regulatory policy**	Luo & Wang (2012)	Data collected from a survey of 153 MNEs from China from 2008-2009; subjective and objective questions used	Institutional hardship will result in the early OFDI entry, greater investment scale and in tendency to expand to developed countries
	FDI theory	**Regulatory policy**	Papageorgiadis, Xu, Alexiou (2019)	Data on Chinese OFDI collected from MOFCOM for the period 2003-2015 in 23 European countries	The model showed a positive relationship between Chinese OFDI and the level of IP institutional strength
	Institutional theory	**Regulatory policy**	Cross, Buckley, Clegg, Voss, Rhodes, Zheng, Lui (2007)	Data collected from MOFCOM based on 695 observations; 1991-2003	Going global policy introduced in 1999 increased Chinese OFDI; Regulatory policy has a profound effect on foreign expansion of Chinese MNEs
	Institutional	**Administrative**	Li, Xia,	Data collected from the	Strong regional

	theory	**decentralization**	Shapiro, Lin (2018)	Wind database and MOC from 1990 to 2014; 2585 firms in total	market institutions weaken the negative effect of state ownership on company’s OFDI frequency
	Institutional theory	**Administrative decentralization**	Liu, Lu, Chizema (2014)	Data obtained from the Shanghai and Shenzhen stock exchanges, the website of the China Security Regulation Committee (CSRC), and the websites of listed firms; 1071 firms; 2002-2007	Well-established regional institutions positively affect the extent of OFDI of Chinese firms in terms of factor markets, product markets and legal systems
Host country	**OLI paradigm**	**Asset location**	Rodriguez, Bustillo (2011)	Data obtained on OECD/National/ASEAN, FDI stocks volume; Chinese FDI to 36 OECD countries was tested from 1995 till 2009;	No evidence of strategic asset seeking in developed economies by Chinese MNEs; no distinction between SOEs and private enterprises
	FDI theory	**Asset location**	Ramasamy, Yeung, Laforet (2012)	Firm-level data on 63 Chinese listed companies; Chinese OFDI to 59 countries was considered; 2006-2008;	Evidence for strategic asset seeking was found; Chinese MNEs are motivated to improve their competitive disadvantage and are attracted to countries that show superiority in innovation and

				technology; no distinction between SOEs and private enterprises
Internalization theory	**Asset location**	Anderson, Sutherland (2015)	Fortune Magazine and Company Websites; National Center of Education Statistics - Digest of Education Statistics; National Science Foundation – Science and Engineering State Profiles; 2003-2011; 380 greenfield and 160 acquisitions were analyzed, 540 deals in total	Chinese MNEs have a greater propensity to use acquisitions to acquire strategic assets in developed markets; no distinction between SOEs and private enterprises
MNE theory	**Asset location**	Buckley, Clegg, Cross, Liu, Voss, Zheng (2007)	Data was used from World Intellectual Property Organization (2006); 49 host countries that are recipients of Chinese OFDI were analyzed; 1984-1991; 1992-2001	Strategic asset seeking objective was not pursued by Chinese MNEs in technologically advanced countries; no distinction between SOEs and private enterprises
OLI paradigm	**Asset location**	Hurst (2011)	Data was used from MOFCOM and FDI flows; examined Chinese OFDI to OECD and non-OECD countries; 2003-2008	No significant evidence of SAS objective to OECD countries; showed difference in motives behind Chinese SOE investments in OECD and non-OECD countries

	Utility maximization framework	**Asset location**	Jindra, Hassan, Cantner (2016)	ORBIS database; 4555 emerging market firms analyzed in 93 sub-national regions of the EU; 1996-2010	Location bound specialization was positively viewed by EMNEs; evidence of strategic asset seeking in developed markets; no distinction between SOEs and private enterprises
	FDI theory	**Asset location**	Amighini, Rabellotti, Sanfilippo (2013)	Data on 915 greenfield cross-border investments, taken from fDi Intelligence (division of Financial Times group); from 2003 to 2008; M&As excluded; Chinses OFDI to 109 host countries	Asset seeking objective found in SOEs and private enterprises; in higher income countries the effect for private enterprises is even stronger than for SOEs
Home country	**Institutional theory**	**State ownership**	Wang, Hong, Kafouros, Boateng (2012a)	667 Chinese firms that invested abroad	Positive correlation between state ownership and willingness to conduct outward FDI
	Institutional theory	**State ownership**	Li & Xie (2013)	Data on 572 cross-border acquisitions by Chinese MNEs from 1987 to 2007; Securities Data Company database provided by Thomson Financial	SOE tend to pay less attention to information asymmetry, when pursuing SAS objectives; acquirers with other ownership

				structures are more likely to show a response to information asymmetry
Institutional theory	**State ownership**	Alon (2010)	Data on FDI intelligence, financial times and firm-level data collected; Chinese OFDI to 103 countries considered; 2003-2007	SOEs pursue strategic-asset-seeking OFDI with the help of the Chinese government and at a cost of private enterprises

From the studies presented above it could be seen that the topic became more attention in the recent years. Below is presented a summary of empirical studies with a detailed discussion of their proxies, time periods analyzed, sample selection and data sources. From the comparisons it becomes clear that empirical studies do reach identical conclusions directly or indirectly, however, the methodology used is different. This difference makes it challenging to compare the results. In the case of the first research question, the authors explored determinants separately, such as regulatory policy and political connections, they did not define which one of the determinants examined, or which set of the determinants, has the most influence on Chinese OFDI. Therefore, we suggest to conduct an empirical study to identify the most influential institutional determinants of Chinese OFDI

In the second case enough studies investigated SAS by applying the locational methodology. However, it was challenging to find studies that explored the role of the Chinese government in strategic-asset-seeking. Thus, our next suggestion could be to investigate empirically how the Chinese government motivates strategic-asset-seeking.

In the beginning empirical studies of the first research question will be presented, later, of the second one.

Political connections as a determinant of the role of the Chinese government and its institutions: The studies on the political connections (Deng el al. 2018, Wang et al. 2012b) are, unfortunately, scarce. The ones that were presented in this thesis came to a single conclusion, the two studies agreed that acquired political connections or governmental affiliation have a profound influence on OFDI decisions. The scholars used Chinese multinationals to conduct their empirical studies. For instance, Deng et al. (2018) included Chinese listed companies in their study, whereas Wang et al. (2012b) used manufacturing companies with annual turnover of over 5 million renminbi in their sample. Despite the fact that the scholars came to a single conclusion, they examined different time spans: Deng et al. (2018) from 2003 to 2014, when Wang et al. (2012b) explored a relatively short time span from 2006 to 2007. Both scholars included in their study a large sample size. For the future study, the scholars Wang et al. (2012b) suggested to explore empirically how the mechanism shaping reciprocal relationships between firms and governments evolve.

The other three studies (Estrin et al. 2018; Luo & Wang 2012; Papageorgiadis et al. 2019) focused on developed host country locations and demonstrated that Chinese MNEs are attracted to them, since their domestic institutions are underdeveloped, the scholars came to the single conclusion - the results demonstrate the weakness of Chinese institutions at the home-country level. Notwithstanding, different data sources, time spans and countries were chosen. Firstly, the researchers extracted data from different sources: Estrin et al. (2018) used the database that entails financial reports, Luo & Wang (2012) conducted the survey with objective and subjective questions, while Papageorgiadis et al. (2019) used the data from MOFCOM. Secondly, the scholars focused on different time spans, the longest time span was examined by Papageorgiadis et al (2019). Thirdly, the researchers focused on different host countries: Estrin et al. (2018) conducted their empirical research on European OECD countries and non-European OECD countries, Luo & Wang (2012) measured location preference by calculating the percentage of the firm’s subsidiaries located in developed countries over the total overseas subsidiaries, whereas Papageorgiadis et al. (2019) chose to include countries that are part of the EU together with non-EU countries (Norway, Russia, Switzerland, Turkey and Ukraine).

Regulatory policy as a determinant of the role of the Chinese government and its institutions: The studies on the regulatory policy found support that a strong regulatory policy will foster Chinese OFDI. However, only a few of them conducted their study at the home-country level (Cross et al. 2007; Wang et al. 2012a). The study by Wang et al. (2012a) found that favorable home-country policy is positively related to the level of Chinese OFDI, while the scholars Cross et al. (2007) precise their study in claiming that the ‘Go Global’ policy fostered Chinese expansion abroad. Despite the fact that the scholars arrived to the similar conclusion, the two studies explored different time spans: 2005-2007 and 1991-2013 accordingly. In addition to that, Cross et al. (2007) explored in their study a larger number of observations. In order to get a thorough understanding of the topic, the scholars Wang et al. (2012a) proposed to test empirically other emerging countries to extend theorizing about the role of industry-, firm- and institution-specific characteristics that contribute to firm's international expansion.

Administrative decentralization as a determinant of the role of Chinese government and its institutions: Unfortunately, only a few studies (Li et al. 2018; Liu et al. 2014) dealt with administrative decentralization. Both studies agree that regional institutions play a positive role in promoting Chinese OFDI, Li et al. (2018) even stated that the negative effect of state ownership can be moderated by subnational institutions. The scholars chose quite identical starting years for their studies. Lie et al (2018), for instance, chose 2001 as the starting year. Likewise, Liu et al. (2014) chose to explore the time period starting in 2001. The scholars gave solid arguments for choosing this year. To begin with, China accessed WTO in 2001. Then, in annual reports on foreign subsidiaries was provided less detailed information for years earlier than 2002. Nevertheless, Li et al. (2018) managed to include in their research around 21% of companies that are active in the services sector, along with subsidiaries that are active in textiles and apparel, consumables, extraction, trades, electronic equipment, equipment manufacturing and processing sectors. While Liu et al (2014) excluded companies in the financial sector, since such firms have different financial structures and ways of measuring their internationalization and performance (as cited in Liu et al. 2014). Consequently, the scholars decided to focus mainly on manufacturing companies in their study and this decision reduced their sample to 1071 firms. Although dissimilarities exist, the scholars praise the positive influence that regional institutions have on Chinese MNEs. For the future study, Li et al. (2018) suggested to explore the ways in which the Chinese government influences OFDI behavior of SOEs and distinguish between central and local SOEs.

Asset location as a SAS determinant: The results of the studies on asset location are rather mixed. The ones that didn't find any proof to their location-SAS hypothesis claimed that Chinese MNEs are not attracted by strategic assets of developed countries, that is to say, Chinese foreign acquisitions are not associated with host country endowments of ownership advantages. Interestingly enough, we can draw parallels. First of all, in some studies patents were used as a proxy for ownership advantage endowments, such as Buckley et al. (2007) and

Rodriguez & Bustillo (2011). Nevertheless, it is doubtful whether the proxy represents ownership advantage, since not all patents are commercially viable (Ramasamy et al. 2012). Similarly, Ramasamy et al. (2012) used the proportion of technology exports to total exports of host countries along with the number of patents registered in host countries as proxies for host country's endowments. Ramasamy et al. (2012) claimed that the former better represent the applicability of technology and innovation. The study by Hurst (2011) is the only exception, the scholar used laws, enforcement and private property right protection as a proxy for strategic-asset-seeking.

In terms of the time span, Buckley et al. (2017) along with Rodriguez and Bustillo (2011) chose to explore a time span of 10 years plus, whereas Ramasamy et al. (2012) and Hurst (2011) decided to focus on a shorter time period. Consequently, Buckley et al. (2017) and Rodriguez & Bustillo (2011) chose fewer countries, in which Chinese MNEs conducted OFDI, to include in their empirical study: 49 and 36 respectively. While Ramasamy et al. (2012) chose 59 countries and Hurst (2011) – 154 countries. Nevertheless, this discrepancy did not influence the final negative outcome of the studies.

The studies that proved that strategic-asset-seeking is attracted to developed countries presented other proxies. Anderson & Sutherland (2015) used as proxies state share of US Fortune 500 companies, state share of Masters of Business Degree Award and state share of national utility patents registered. The scholars argued that the notion of strategic assets is broad, hence, various proxies should be used instead of using only the number of patents. Anderson & Sutherland (2015) suggested to explore whether acquisitions have a greater tendency to target strategic assets. Amighini et al. (2013) also found SAS support, in their study were used two proxies, the gross secondary school enrollment rate as a proxy for the human capital level and the share of R&D on GDP. Since the scholars, apart from analyzing the access to advanced technologies, decided to analyze the human capital of host country, they applied the first proxy. Jindra et al. (2016) used share of science and technology employees in region together with R&D expenditures in region as proxies. The researchers (Amighini et al. 2013; Jindra et al. 2016) also focused on developed, as well as developing countries that host Chinese strategic assets investments. Amighini et al. (2013) went even further and included lower income countries in the study. Nevertheless, Anderson & Sutherland (2015) focused mainly on the US as the host country. The scholars provided weighty reasons for their choice. Firstly, they claim, the US is the largest developed market in the world, hence, more patents are granted than in any other country. Secondly, Chinese

OFDI data in the US is detailed, thus, reliable. Despite these differences in terms of proxies and countries chosen, the studies reached the same conclusion.

Interestingly enough, all three studies used human capital as a strategic asset, whereas the studies that rejected the SAS to developed countries focused solely on the applicability of technology and innovation.

Governmental role as a SAS determinant: Some studies claim that governmental involvement is a determinant of SAS, since it enables it in one or another way. Alon (2010) conducted an empirical study and proved that the government helps SOEs to pursue SAS objectives. In his study the scholar used R&D expenditure as a SAS proxy in host countries. Li & Xie (2013) used cross-border acquisition, diversification of acquirer and high-tech acquirer as proxies. The proxies are completely different, because the scholars did not focus specifically on SAS and China. Moreover, the scholars relied on second-hand data. Unfortunately, the scholars were not able to include other types of economic determinants, they were only able to find data on information asymmetry due to data limitations. Likewise, according to the scholars, due to these limitations they were not able to include some potentially influential variables. More importantly, Li & Xie (2013) were not in a position to analyze how institutional factors impact the decision-making process of cross-border acquisitions by Chinese MNEs. Since this analysis could shed light on acquisition determinants of Chinese MNEs, what could be of practical usage for both Chinese companies and countries that host Chinese investments, it is suggested to examine such question.

When comparing the two empirical studies, they are different in certain respects. For instance, the scholars decided to include different samples: Li & Xie (2013) used the data on cross-border acquisitions completed by Chinese firms and the time period was chosen from 1987 to 2007, there is no particular focus on certain countries; whereas Alon (2010) chose to focus on 800 firms investing in 103 countries from 2003 to 2007. Though, despite these discrepancies, the scholars agreed that governmental involvement is the decisive factor in Chinese strategic-asset-seeking, Li & Xie (2013) proposed to examine the effects of political institutions and governmental policies on Chinese cross-border acquisitions. Similarly, we could propose to conduct an empirical study based on the case study conducted by Deng et al. (2009), namely, to test the likelihood of strategic assets acquisition as a response to the government's national development strategy and as a response to the provision of political and financial incentives.

The case study was not included in the thesis due to the fact that the paper ignored general case studies.

6. Future Research

This paper considers the role of the home government and institutions as well as the role of asset location and state ownership in an attempt to identify determinants of Chinese OFDI based on recent empirical studies and to propose future research directions. As we have seen in the previous section 'Determinants of FDI', which included empirical literature on FDI, the studies were mainly conducted by using the US data on inbound and outbound FDI (Blonigen 2005). In addition to that, after analyzing academic papers, it became evident that more attention was devoted to developed countries, whereas the literature on Chinese OFDI is only emerging. This fact makes OFDI of emerging MNEs a relatively new field, notwithstanding the interest that the topic received nowadays. In the long run, in order to get a thorough understanding of the topic, it is advised to conduct future research in this massive field.

Based on the literature review of the empirical studies, further research directions could be of interest for future researches:

- It is suggested by Anderson & Sutherland (2015) to explore whether acquisitions have a greater tendency to target strategic assets;
- Empirically exploring the proposition formulated by Deng (2009, p. 77): 'The likelihood or intensity of acquiring strategic assets in international expansion will be higher when Chinese firms more actively (1) respond to the government's national development strategy, and (2) take advantage of political and financial incentives provided by the government';
- Exploring the ways in which the Chinese government influences OFDI behavior of SOEs and distinguish between central and local SOEs (Li et al. 2018);
- It is suggested to analyze how institutional factors, governmental policies and political institutions, impact the decision-making process of cross-border acquisitions by Chinese MNEs (Li & Xie 2013);
- Chen & Young (2010) suggested to explore empirically other moderating variables, such as environmental munificence, environmental dynamism, stages of the industry life cycle, diversification or R&D intensity;
- It is suggested to conduct an empirical study to identify the most influential institutional determinants of Chinese OFDI;
- It is suggested to investigate empirically how Chinese government motivates strategic-asset-seeking;

- Wang et al. (2012b) suggested to explore empirically how the mechanism shaping reciprocal relationships between firms and governments evolve;
- Wang et al. (2012a) proposed to test empirically other emerging countries in order to extend theorizing about the role of industry-, firm- and institution-specific characteristics that contribute to firm's international expansion.

7. Conclusion

The thesis devoted its attention to the topic ‘OFDI Determinants of Chinese MNEs with specific focus on the role of home-country institutions and strategic-asset-seeking’ and attempted to answer the following research questions: ‘What role do home-country institutions play in promoting OFDI?’ and ‘Why do Chinse firms conduct strategic-asset-seeking OFDI?’ The main aim of this thesis was to identify and analyze determinants of Chinese OFDI at the home-country and host-country levels based on recent empirical studies and to propose future research directions. After studying the empirical works we could state that the role of the government and institutions facilitates and motivates Chinese MNEs to expand abroad, furthermore, asset location and state ownership act as decisive factors in strategic-asset-seeking. Consequently, we could conclude that these factors act as determinants of Chinese OFDI.

The topic of Chinese OFDI is relatively new in the research field. Nowadays, due to economic and political importance that China plays in the today’s world, more and more attention is being devoted to this powerful country. Nevertheless, there are still limited empirical studies on Chinese OFDI, it is due to the following reasons: the first ever regulation on the provision of statistical report of OFDI was formulated by the Ministry of Foreign Trade and Economic Cooperation only in 2002 and the first ever governmental policy on OFDI was introduced in 1984 (Luo et al. 2010). Since these developments took place recently, the scholars were not able to study the topic back then and, as a result, they devoted their attention to developed countries. Therefore, it was interesting to conduct a literature review of the recent empirical studies that attempted to provide more clarity to what actually determines Chinese OFDI.

In order to see the whole picture of Chinese Outward Foreign Direct Investment, the role of the home-country institutional factors should be explored, namely, institutional determinants should be defined. The scientific papers that are included in this literature review examined such determinants, as political connections, regulatory policy and administrative decentralization. According to the research papers, these factors play an important role in promoting Chinese OFDI, hence, they determine the expansion abroad. However, not only positive factors motivate MNEs to expand abroad, but negative factors as well, this concerns domestic regulatory framework. In the second case, asset location and state ownership could be likewise perceived as decisive factors. First, asset location matters, because developed countries are endowed with technological and innovation capabilities and have strong institutions. Simply put, such environment enables the development and maintenance of commercially viable technologies. Second, we could suggest that state ownership also matters, because the majority of Chinese MNEs are intertwined with the government. As a matter of fact, our suggestion is based on the previous research question and on the theoretical background as well as on the empirical results.

Finally, empirical research on Chinese OFDI is still scarce and in some cases provides mixed results, thus, it is proposed to conduct more studies on this topic in order to get a clear picture of such complex research field.

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Appendix

Abstract

Chinese MNEs are ramping up their outward foreign direct investment to source strategic assets and to augment their competitive advantage. As a result, it is vital to identify OFDI determinants of Chinese MNEs in order to comprehend their expansionist behavior. This paper considers the role of home-country institutions as well as the role of asset location and state ownership in an attempt to identify determinants of Chinese OFDI. The paper concludes with future research directions.

Keywords: Outward foreign direct investment; Determinant; Chinese multinationals

Deutsche Zusammenfassung

Chinesische multinationale Unternehmen erhöhen ihre ausländischen Direktinvestitionen, um strategische Vermögenswerte zu beschaffen und ihren Wettbewerbsvorteil zu steigern. Infolgedessen ist es wichtig, die OFDI-Determinanten der chinesischen multinationalen Unternehmen zu identifizieren, um deren expansives Verhalten nachvollziehen zu können. In dieser Arbeit werden die Rolle der Heimatregierung und der Institutionen sowie die Rolle des Vermögensstandorts und des staatlichen Eigentums bei dem Versuch, Determinanten chinesischer OFDI zu identifizieren, untersucht. Die Arbeit endet mit zukünftigen Forschungsrichtungen.

Schlusswörter: Ausländische Direktinvestition; Determinante ; Chinesische multinationale Unternehmen