



Chinese OFDI in Australia: Drivers and Entry Modes

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Abstract

Until recently entry mode studies focused largely on the choices made by North American and European firms and entry mode choices of firms from developing countries were largely neglected. In recent years the focus of entry mode research has attempted to remedy this neglect in large part because of the rapid economic growth that has taken place in several emerging economies and, increasingly, the rapid increase in their direct investments in foreign markets. China is perhaps the most frequently investigated case. However, although there are now a limited number of studies looking at the investment motivations and entry mode choices of Chinese investors and their determinants, there has been no detailed study of Chinese OFDI and entry mode choices in regard to Australian markets. This is despite the fact that Australia is a major recipient of Chinese OFDI and has been so for some thirty years. Hence the goal of this study is to remedy this deficiency and, in addition, to throw further light on the determinants of entry mode choice by firms from emerging economies.

The study adopts no single theoretical or conceptual framework, given that each has a number of limitations. Instead, it draws upon a range of frameworks, notably Dunning's eclectic paradigm on firms' internationalisation process (1980 & 1988), the institutional framework (for example, North, 1990; Scott, 1995; Peng, 2002), and the resource-based perspective (for example, Barney, 1991).

The thesis, based on a series of case studies, found that Chinese firms invest in Australia for a variety of reasons, including market-seeking, resource-seeking, asset-seeking, as well as a newly identified permanent residency or welfare-seeking motivations. It also found that larger Chinese MNEs with previous international experience preferred to have full control in their Australian affiliates, while those who perceive a high level of scrutiny and constraints imposed by the Australian government upon their investments were prone to choose a shared control mode.

The findings of this thesis suggest that a single theoretical perspective is not comprehensive enough to explain OFDI initiated from China into a developed country such as Australia. On a practical level, it may provide some guidance on the internationalisation decisions of those Chinese MNEs who intend

to conduct OFDI. In addition, the significant effect government can bring upon towards Chinese MNEs' entry mode decisions as found in this study also signals that thesis is of value to policy makers.

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Chapter 1: Introduction

1.1 Introduction

The primary aim of this thesis is to examine the entry mode choices of Chinese firms entering the Australian market. It also examines the factors influencing their decision to internationalise, drawing upon the Australian experience.

The implementation of the Open Door policy by the Chinese Communist Party (CCP) after the Third Plenary Session of the 11th Central Committee of CCP in 1978 marked perhaps the most significant event in its economic development since the founding of the People's Republic of China. It resulted in a dramatic acceleration in economic growth and radical changes to the structure of its economy, changes that are still unfolding. From that year, the planned economy structure of the country was transformed into a socialist market economic structure where competition was gradually encouraged and a free market is under formation. It was introduced by Deng Xiaoping, who was then the General Secretary of the Communist Party of China. The Open Door policy, together with the development of associated rules and incentives for attracting foreign funds, triggered a tide of incoming investments, and therefore, faster economic development in China. Appendix 1 provides a selection of the major policies, regulations and circulars since the Open Door policy was introduced, illustrating their important influence on the internationalisation of Chinese firms.

Not surprisingly, before the government decided to open the trading door and abandon its policy of economic autarky, inward foreign direct investment (FDI), and outward foreign direct investment (OFDI), was essentially zero (Yang, 2003). The definition of FDI provided by the Organisation for Economic Co-operation and Development (OECD) is that used in this study. It is,

“[A] category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy in an enterprise that is resident in an economy other than that of the direct investor... The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is

evidence of such a relationship.” (OECD, Glossary of foreign direct investment terms and definitions, 2012: 7)

China has been a recipient of large amounts of FDI for more than twenty years. The economic reforms in the late 1970s dramatically increased the inward FDI at an average annual growth rate of 15 per cent from 1978 to 2008 (MOFCOM, 2009). By 2009, the total number of FDI projects approved by the Chinese government had exceeded 660,000, with an accumulated foreign investment of USD870 billion. This has positioned the nation as the largest host country for inward FDI among the developing countries since 1992 and second only to the US as a host country for FDI (UNCTAD, 2005; and MOFCOM, 2010).

Somewhat less well known until recent years, is the fact that China’s OFDI has also been developing rapidly. However, unlike inward FDI, the nation’s OFDI only started to experience exponential growth from the beginning of the new millennium, after the formal adoption of the Go Global strategy through the Third Plenary Session of the 9th National People’s Congress in early 2000. It has since become an “integral part of the country’s overall strategy of economic openness” (OECD, 2006: 210). Its aim is to promote the international operations of Chinese firms with a view to improving resource allocation and enhancing the global competitiveness of Chinese multi-national enterprises (MNEs). The broad Go Global strategy has been accompanied by a number of policies aimed at stimulating OFDI, such as the “Comprehensive external investment results evaluation procedures”, released by the Ministry of Commerce (hereafter MOFCOM) to clarify standards and procedures for evaluating OFDI applications in 2002 (see Appendix 1 for a list of key OFDI regulations from 1984 to 2007). As a result, by the end of 2010 the number of OFDI projects initiated by domestic enterprises and approved by the Chinese government was over 13,000, and the number of foreign affiliates thus established exceeded 16,000 in 178 countries (MOFCOM, 2011). Also by 2010, Chinese OFDI reached USD68.81 billion, an increase of 21.7 per cent compared to the previous year (MOFCOM, 2011). Note should be taken when interpreting statistics from the Chinese government sources (including MOFCOM and the State Administration of Foreign Exchange-SAFE), because financial sector FDI was not included in official statistics from 2002 to 2005, so the extent of Chinese OFDI in

official sources is underestimated (Buckley, Cross, Tan, Xin & Voss, 2008). To conclude, as a developing country with a very short history of OFDI, China's achievements have been remarkable.

1.2 Research Rationale

While China's flourishing inward FDI development has already attracted much attention from researchers, its impressive OFDI performance remains relatively under investigated, though research is growing rapidly, largely because it has only achieved significant progress in the last ten years. As Fan, Zhu and Nyland concluded, perhaps "Chinese multinationals operating in advanced economies have not existed long enough to attract a large body of research" (2012: 6). Berning and Holtbrugge, for example, identified only 62 articles in fifteen peer-reviewed journals for the period 1986 to 2012 that investigated Chinese OFDI activities (Berning & Holtbrugge, 2012: 169).

The primary focus to date of studies of China's OFDI activities has been the factors driving such investments. Moreover, in examining motivation and determinants, the studies, for the most part, have been looking at the investment patterns of Chinese MNEs into unspecified or various destination countries at the national, aggregate level of analysis (see, for example, Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007; & Voss, 2010). Among the 62 studies Berning and Holtbrugge (2012) have identified examining Chinese OFDI motivations and determinants, only five specified the exact destination country of the Chinese investments involved in their studies. As a result, the bulk of existing studies concerning Chinese OFDI only provide a general picture of the overall OFDI activities (for example, see Cheng & Ma, 2008).

The number of studies of market entry for foreign firms entering the Chinese market has grown rapidly (for example, Teng, 2004; Gaba, Pan & Ungson, 2002; Tse, Pan & Au, 1997; and Pan & Tse, 2000). However, while growing, the number of market entry studies of Chinese firms engaged in OFDI is still limited, especially in contrast to the large number of market entry studies published over several decades ago for firms of other countries entering other markets (see for example, Erramilli &

Rao, 1993; and Agarwal & Ramaswami, 1992). According to Berning and Hultbrugge (2012), out of the 62 studies concerning Chinese OFDI activities since 1986, only a limited number examined their entry mode choices (for example, Cui & Jiang, 2009; Voss, Buckley & Cross, 2010; Quer, Claver & Rienda, 2012; and Xu, Hu & Fan, 2011). Hence, we have only a limited understanding of trends in the market entry characteristics of Chinese firms engaging in OFDI. There is some understanding that, compared to firms from more developed countries, whose OFDI is driven largely by cost efficiency or natural resource endowment factors, firms from developing countries such as China may be characterised by different, or additional factors (for example, Buckley *et al*, 2007; Duanmu, 2012; Klossek, Linke & Nippa, 2012; Ramasamy, Yeung & Laforet, 2012; and Alon, Child, Li & McIntyre, 2011). In particular, there has been a growing concern as to the validity and usefulness of established theoretical frameworks in explaining the internationalisation process of Chinese firms (Berning & Holtbrugge, 2012).

In light of the above analysis, this thesis will look at Chinese MNEs' entry mode choices and the factors influencing such choices when entering into a single country, Australia. Australia has been one of the major destinations for Chinese outbound direct investments since the beginning of the Open Door era. According to MOFCOM, China had established direct investments in twenty-three countries by the end of 1982, the main destinations being the US, Japan, Canada, Australia and Spain in terms of investment value (MOFCOM, 1982). In 2010, Australia ranked as the first on the list of destination countries which had attracted the highest level of FDI flow, excluding Hong Kong, the British Virgin Islands and the Cayman Islands (MOFCOM, 2011). The ongoing importance of Australia as one of the major destination countries of China's OFDI makes this study strategically valuable.

In the 1980s, British academic John Dunning synthesised the main streams of discussion in theoretical studies of firms' FDI decisions, including the ownership and internalisation perspectives adopted by Hymer (1960) and Buckley and Casson (1976), as well as the location aspect analysed by Vernon (1966), developing what is described as an eclectic paradigm. He claimed that firms' decisions to engage in FDI activities are a combined effect of three main factors: their ownership advantage,

internalisation advantage, and location advantage, frequently abbreviated as the OLI model (1981). Due to its relative inclusiveness and broadness, this eclectic paradigm possesses strong explanatory power in many cases, and therefore was recognised as a “classical” FDI theoretical understanding (Buckley, *et al.*, 2007: 501). However, as the extent of globalisation deepened and studies of FDI from or to different countries accumulated, the classical eclectic paradigm has come under increased challenge, especially as regards its applicability to developing countries.

The eclectic paradigm and most of earlier FDI theories were generated based largely on studies of developed countries that started to engage in FDI long before most developing countries. Therefore, it is argued that, in comparison, developed countries and emerging countries may have very different motivators to conduct FDI. They may have different comparative advantages, and the relative importance of the OLI factors might be different. Hence, this study, with its focus on a major developing country, China, might throw further light on the adequacy of existing theory.

1.3 Research Questions

As noted above, until recently entry mode studies focused largely on the choices made by North American and European firms; entry mode choices of firms from developing countries were largely neglected. In recent years the focus of entry mode research has attempted to remedy this neglect in large part because of the rapid economic growth that has taken place in several emerging economies and, increasingly, the rapid increase in their direct investments in foreign markets. China is perhaps the most frequently investigated case. However, although there are now a limited number of studies looking at the FDI motivations and entry mode choices of Chinese investors and their determinants, there has been no detailed study of Chinese FDI and entry mode choice in regard to Australian markets. This is despite the fact that Chinese FDI is one of the largest foreign investors in Australia, and Australia has been a major recipient of Chinese FDI for some thirty years. Hence another goal of this study is to remedy this deficiency and, in addition, to throw further light on the determinants of entry mode choice by firms from emerging economies.

In order to achieve these aims the study focuses on two research questions:

1. Why have Chinese firms chosen to invest in Australia?
2. What factors have influenced their choices of entry modes for Australia?

In addition, as indicated in Chapter 3 Literature Review, a number of research propositions are generated in order to systematically guide thesis and provide material that will enable detailed answers to the two research questions.

1.4 Research Methodology

A qualitative, case study approach has been used throughout the study, based on eight case studies of individual Chinese firms. It is, essentially, an exploratory study that will generate provisional findings that can provide the basis for further research. Many scholars (e.g., Marschan-Piekkari and Welch, 2004; Werner, 2002) have argued it is necessary to bring qualitative methods back into the mainstream of international business research for several reasons. In particular, as described by Yin (2003), the case study is “an empirical enquiry that investigates a contemporary phenomenon within its real-life context” (p.13). It can be extremely useful for exploring new processes and behaviours, for example when there is a lack of previous knowledge and understanding regarding an issue, where the details or the extent of the problems concerned is largely unknown to the researcher (Yin, 1994). This is largely the case for this thesis, as it explores an issue which has received very little previous study, the factors determining the selection of the Australian market for investment by Chinese firms, as well as those determining their entry mode choices. At the commencement of this study, for example, no existing study was found that examined these factors in the Australian context.

Eight Chinese MNEs who have OFDI in Australia were contacted and agreed to be the subject of research. These eight companies were selected from a list of 445 Chinese MNEs made available on the MOFCOM online database, who have had direct investments in Australia since the 1980s (MOFCOM, 2013a). The eight cases were selected in order to cover firms of various sizes, ownership

types, duration of Australian operations, industries and entry mode choices. For each company, a number of one to three senior managers, or owners in the case of smaller enterprises, who were either directly responsible for, or had sufficient knowledge about the issues relating to their entry mode choices were interviewed. In addition, two government officials, one each from China and Australia, were contacted to provide a rather different perspective towards the issue of Chinese investments in Australia in contrast to the findings from the corporate level. Most of the interviews lasted approximately one hour. In addition to the interviews, a range of company reports and other corporate documents were examined, where available, in order to better understand the firms' operational strategy and performance across time.

1.5 Summary of Findings

The findings indicate that Chinese firms have a variety of reasons for investing in Australia, often more than one, and that they have been rather different from those reported as driving their investments in other countries by existing studies. In particular, resource-seeking, market-seeking and strategic asset-seeking motivations have been identified as the most common, including firms in different industries. In addition, unusually, a “permanent residency”, or “welfare-seeking”, motivation was identified as important for the owners of small private enterprises. This is a factor that has hardly been addressed in the existing literature, and it is believed that it may have significant influence for individual Chinese investors in Australia, and, possibly, small Chinese firms in a range of developed countries.

The research also found that most Chinese firms, regardless of their actual choice of entry mode for Australia, would have preferred to establish firms over which they had full control, the wholly-owned subsidiary (hereafter WOS) mode. However, in practice, a variety of factors sometimes led their final selection of entry mode choice to vary, with five out of eight chosen the joint venture (hereafter JV) mode, and the rest selecting the WOS mode. The major factors influencing the final choice of mode

included corporate size, previous international investment experience and the Australian regulatory environment.

In regard to existing theoretical and conceptual frameworks, this thesis found that all had at least some value in suggesting and explaining internationalisation and entry mode decisions, but that all were somewhat limited, confirming the decision to use a range of frameworks to guide and inform the study.

1.6 The Structure of the Thesis

This thesis is structured into seven chapters, including this introduction. Chapter 2 provides a contextual description and assessment of the development of China's OFDI, which is characterised chronologically into three broad stages. Attention is primarily focused on the period from 2002 to 2012, where Chinese MNEs' internationalisation activity had been the most active.

Chapter 3 reviews the relevant literature and its theoretical underpinnings as regards the thesis. As explained, the thesis draws most heavily on Dunning's eclectic paradigm, the institutional perspective and the resource-based perspective to provide a broad framework that guides the study.

Chapter 4 outlines the research methodology implemented in the study. The use of the case study method is justified, as is the use of interviews as the dominant research technique. It also explains how the cases were selected and the supporting, secondary information drawn upon.

Chapter 5 provides the results of the research and an analysis based on the eight cases.

Chapter 6 further elaborates on the research findings and their implications for the existing literature, systematically assessing each of the research propositions in regard to existing findings in the literature.

Chapter 7 provides a short, concluding chapter.

Chapter 2: Background: China's OFDI Development

The purpose of this chapter is to provide some background context for the more detailed analysis of Chinese entry mode choice regarding the Australian market. It starts with a brief overview of Chinese economic policy development in Section 2.1. Then it analyses Chinese OFDI activities during the past 30 years by breaking them down into three development phases in Section 2.2. Detailed discussion of the geographical distribution of China's OFDI, the industry sectors they cover, distribution of firm types, and entry modes adopted by those Chinese firms are given relating to the latest and most important period of development, namely from 2002 to 2011. A discussion of how Chinese enterprises have penetrated the Australian market is provided in Section 2.3, which links the two subjects studied in this thesis together: Chinese MNEs and the Australian market. The chapter concludes in Section 2.4.

2.1 The Economic and Policy Development of China

China, as the largest emerging country has attracted much attention from both the business and academic world. As Child and Tse (2001: 5) describe, the country is the “most singular of the transition economies”, not only because of its vast landscape and huge population, but also because it has managed to achieve the most outstanding economic development in the past thirty years.

Table 2-1 compares China's GDP in 1978 and 2012. The two years represent the beginning of the implementation of the Open Door policy and the most recent figures available some thirty years later. As the table indicates, China's GDP has undergone an impressive growth, rising from USD148 billion in 1978 to USD7.91 trillion in 2012. Table 2-1 also provides a horizontal comparison of GDP increases in a number of different countries across the same period of time, which includes large developed nations and other emerging countries, further demonstrating China's outstanding performance.

Table 2-1: Increase of GDP from 1978 to 2012 in developed and developing countries

Year	GDP (USD, Trillion)								
	China	Developed Countries					BRIC Countries (except China)		
		the US	UK	Australia	France	Japan	India	Brazil	Russia
1978	0.148	2.28	0.325	0.116	0.502	0.968	0.135	0.201	N/A
2012	7.906	14.991	2.445	1.379	2.773	5.867	1.851	2.477	1.858
GDP increase (times)	53	7	8	12	6	6	14	12	N/A

(Source: World Bank, 2012)

While the Open Door policy was designed primarily to stimulate domestic economic development and attract foreign investments, the Go Global strategy introduced in late 1999 was designed to encourage Chinese firms to look for opportunities in other markets, both for sales and as sources of supply for raw materials in short supply domestically. Both the Open Door and Go Global strategies were supplemented by a related range of new and modified policies and regulations in the years following their introduction (see Appendix 1 for a list of the associated, later policies).

As indicated in two of the important documents released regarding the implementation of the Go Global strategy, “Suggestions on the making of national economy and social development for the 10th five-year-plan” (CPC Central Government, 2001) and “Suggestions on the making of national economy and social development plan for the 11th five-year-plan” (CPC Central Government, 2005), the significance of the Go Global strategy was three-fold:

- With the country being admitted into the World Trade Organisation (WTO) in early 2000, there is a growing desire by domestic companies to compete with foreign corporations in foreign markets; an open posture of both Chinese corporations and government towards overseas investments can help the country gain foreign market shares and therefore gain more power in the global economy;
- The ongoing industrialisation process of China calls for great demand for various resources, both tangible and intangible. The former include: financial and natural resources; and the latter type include: technology, human resource, research ability, and managerial skills. Going global makes it possible for domestic companies to gain access to those resources that

is relatively abundant in other countries as compare to their domestic reserve and production; and

- China has accumulated massive foreign exchange reserve since 1978, and there has been growing pressure from the international community for it to abolish the pegged exchange rate system for RMB. Investing abroad is a way to utilise the excessive amount of foreign exchange reserve through the purchasing of overseas assets, thereby balancing the country's foreign exchange reserve.

In part, the Go Global strategy was designed to prepare Chinese firms for the increased competition they would face once China gained membership of the WTO in 2001. The Membership required changes to a number of domestic policies and regulations. In addition, the US-China agreement also required major regulatory changes, which were implemented in the following areas (Barshefsky, 2000):

- The granting of trading rights to foreign firms;
- Reduction of state control over the internal distribution of goods;
- Lowering of trade barriers, such as tariffs;
- The opening up of more industries (such as information industry) to foreign participation; and
- Reforms to FDI policy and other industrial policies.

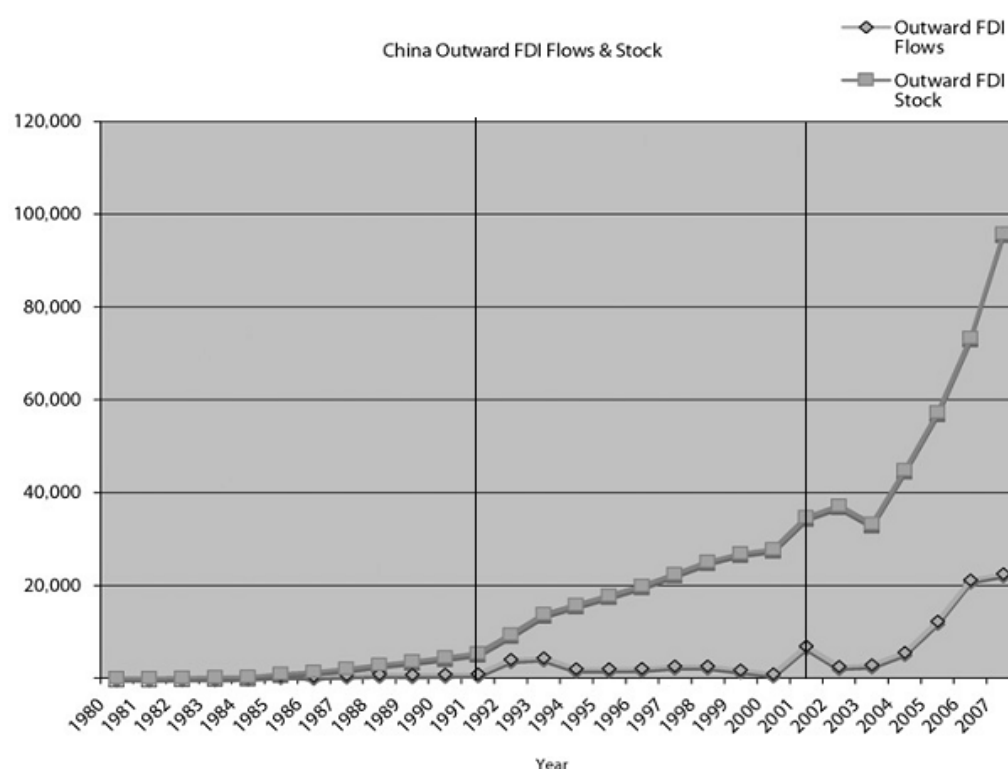
2.2 Chinese OFDI Activities

In this section, an overview of the rapid growth in Chinese OFDI over the last thirty years is provided. The analysis of the development trends is broken down into several periods. The development of Chinese OFDI in Australia across time is then examined.

China has been a recipient of large amounts of FDI for more than thirty years. More recently Chinese firms have started to invest in overseas markets. Figure 2-1 depicts China's OFDI flow and stock

from 1980 to 2007. As Figure 2-1 illustrates, China's history of OFDI falls into three distinct periods. The first period ranges from late 1970 to 1991, the early years of China as a more open, increasingly market-based economy in which levels of OFDI grew slowly. The second period spans from 1992 to 2001, during which China underwent a rapid liberalisation of its domestic market and OFDI flows and stocks grew rapidly. The third period is from 2002 to 2008, a period in which China took up membership in the WTO and became increasingly subjected to its regulations and agreements regarding international trade. As Figure 2-1 demonstrates, with the exception of the 2003-04 downturn that was brought about as a result of government policy aimed at controlling illegal capital movements and speculative capital flows, the period was one of a very rapid expansion in both the flows and stock of OFDI. This stage-classification has been applied widely in the literature, including Buckley *et al.* (2010), Buckley *et al.* (2008), Buckley *et al.* (2007), UNCTAD (2006), and Yang (2003), and it will be used to structure the discussion of the key aspects during each stage. In the next three sections major trends in the above periods are outlined in more depth.

Figure 2-1: OFDI from China



(Source: Buckley *et al.*, 2010, as extracted from UNCTAD FDI database)

2.2.1 1978 to 1991: the beginning of a new era

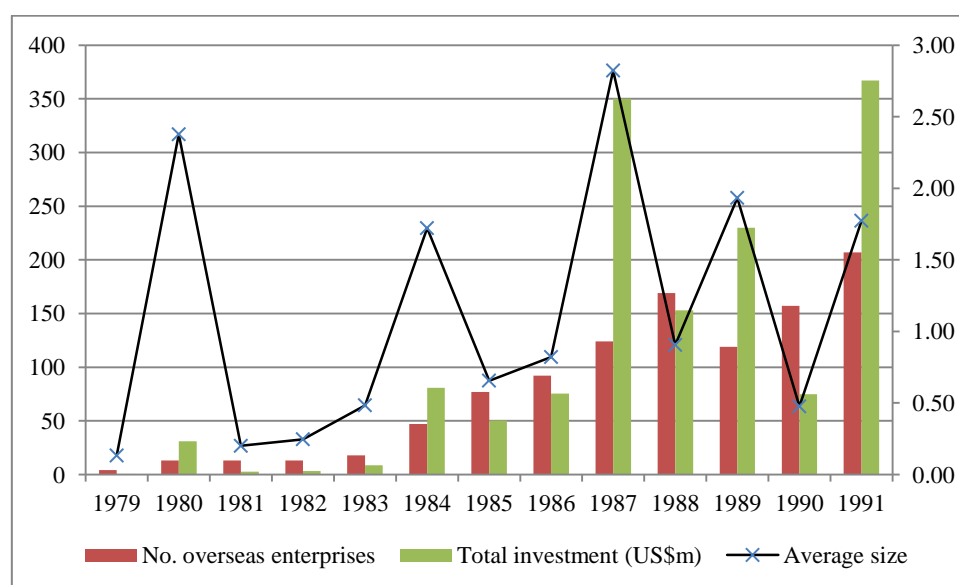
China's MOFCOM published its first Almanac of China's Foreign Economic Relations and Trade in 1980 (MOFCOM, 1980). According to the first Almanac, in November 1979, the Beijing Friendship Business Service Company established a joint venture named "JingHe Co., Ltd" with Maruyichi Business Co., Ltd in Tokyo, Japan. This marks the start of Chinese OFDI activities in the following thirty years. Other early Chinese enterprises engaged in overseas investments include: in March 1980, the China Shipbuilding Industry Corporation and China National Chartering Corporation established the International United Shipping Co. Ltd with the Hong Kong Global Shipping Group in Bermuda; in July 1980, the Bank of China joined with the First National Bank of Chicago, Industrial Bank of Japan, China Resources Group Ltd (Hong Kong) and established CCIC Finance Co., Ltd in Hong Kong. The above examples, aside from non-Chinese partners, were largely state-owned Chinese foreign trade and financial companies that had accumulated relatively greater experience in conducting foreign business, and with monopolistic advantages in importing and exporting goods and services. However, the number of Chinese companies involved in OFDI was very limited in this period, not only in terms of the number of projects, but also as reflected in the small investment scales and limited industries these investments covered. Tan (2011) noted that investments during the period were mainly concentrated in sectors such as shipping services, finance and insurance, and catering. Table 2-2 and Figure 2-2 show the yearly situation of China's non-trade enterprises and their FDI from 1979 to 1991.

Table 2-2: China's non-trade enterprises and their foreign direct investments from 1979 to 1991

Year	No. overseas enterprises	Total investment (US\$m)	Average value (US\$m)
1979	4	0.53	0.13
1980	13	30.9	2.38
1981	13	2.6	0.20
1982	13	3.2	0.25
1983	18	8.7	0.48
1984	47	80.9	1.72
1985	77	50.5	0.66
1986	92	75.5	0.82
1987	124	350	2.82
1988	169	153	0.91
1989	119	230	1.93
1990	157	74.7	0.48
1991	207	367	1.77

(Source: Foreign economic cooperation of contemporary China, China Social Science Press, 1989, MOFCOM, 1980-1991)

Figure 2-2: Number of China's non-trade enterprises, yearly OFDI flow, and average investment size from 1979 to 1991



A number of characteristics are evident from Table 2-2 and Figure 2-2:

- In general, during this period, the annual number of enterprises established overseas increased gradually (except for 1989). The figure increased more than fifty fold from 4 in 1979 to 207 in 1991;
- The trend for total annual investment is non-linear (as was that for average size), nevertheless, by the end of this period, the amount invested annually had increased significantly to USD361 million as compared to USD0.53 million in 1979;
- China's cumulative OFDI for the period was USD1427.53 million, and the total number of enterprises established overseas reached 1053. On average, 81 JVs or WOSs were set up every year; and
- The annual average investment varied during the period, for example, it increased abruptly from USD0.48 million per investment in 1983 to USD1.72 million per investment in 1984,

and decreased to USD0.66 million per investment the following year. The fact that some large investments approved in a year can significantly affect the average investment size in that particular year clearly reflects that the total number of investments each year was relatively small compare to later periods.

By the end of this period, Chinese OFDI had resulted in the establishment of 1053 non-trade enterprises scattered in over 80 countries. Among them, the US, Japan, Germany, Australia, and Canada attracted nearly 40 per cent of the population; and another 20 per cent was established in what was then British Hong Kong and Portuguese Macau (MOFCOM, 1991).

2.2.2 1992 to 2001: experience accumulating continuously

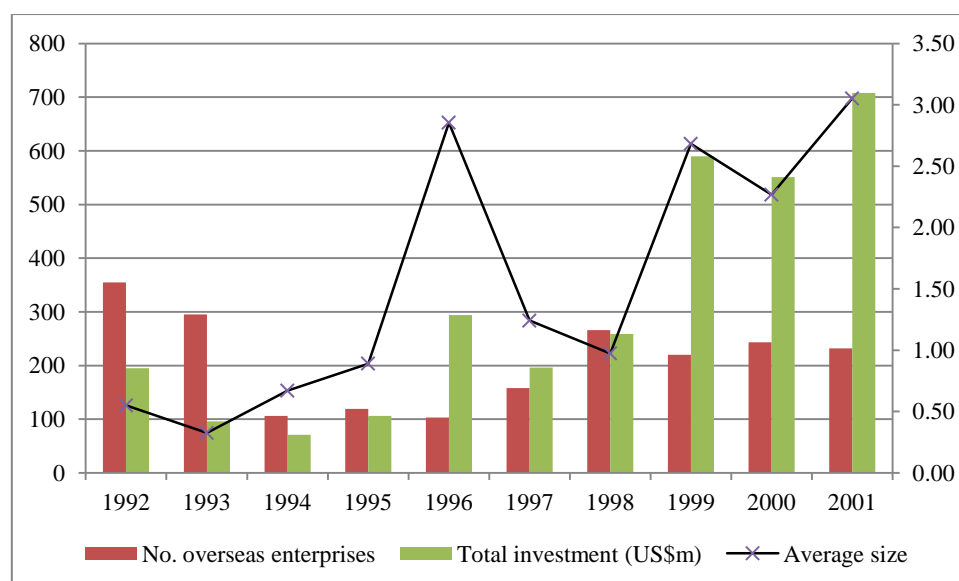
Table 2-3 and Figure 2-3 provide statistics for new, non-trading enterprises and yearly OFDI flow from 1992 to 2001.

Table 2-3: China's non-trade enterprises and foreign direct investment, 1992 to 2001

Year	No. overseas enterprises	Total investment (US\$m)	Average value (US\$m)
1992	355	195	0.55
1993	295	96	0.33
1994	106	71	0.67
1995	119	106	0.89
1996	103	294	2.85
1997	158	196	1.24
1998	266	259	0.97
1999	220	590	2.68
2000	243	551	2.27
2001	232	708	3.05

(Source: MOFCOM, 1992-2001)

Figure 2-3: Number of China's non-trade enterprises, yearly OFDI flow, and average investment size from 1992 to 2001



In comparison to the 1979 to 1991 period a number of trends can be identified:

- The number of overseas enterprises established during this period initially continued the expansion experienced in 1979-1991, with 355 new enterprises in 1992 but then decreased sharply to a trough in 1996 of 103. It then picked up and remained at around 220 to 240 enterprises per year from 1999 to 2001. The trough was attributable to the concerns about loss of control over state assets, which led to a tightening of approval procedures in that year (Buckley, *et al.*, 2007: 504);
- Annual investment commenced with USD195 million in 1992, but fell back sharply to USD71 million in 1994, and then gradually picked up in the following years and reached USD708 million in 2001;
- The yearly average size of investment in this period is not as volatile as it was during the last period as Table 2-2 demonstrates. Although variation does occur from time to time (for example, the figure for 1996 was USD2.85 million, up from USD0.89 million in 1995, before falling back to USD1.24 million in 1997), a rough trend of increasing size per investment is

observable, which grew from USD0.55 million in 1992 to USD3.05 million in 2001. This indicates that although the number of Chinese non-trade OFDIIs may not have experienced an increase on a yearly basis during this period, the value per investment did increase gradually;

- Both the number of overseas enterprises established and the total investment increased quite dramatically during the 1997 to 1999 period. In part this resulted from the Asian Financial Crisis in 1997, which gave many state-owned Chinese enterprises good opportunities to expand abroad with bargain prices (Tang, 2006: 95).

By the end of this period, a total of 3150 (1053 plus 2097) non-trade enterprises had been set up overseas, located in more than 160 countries. The top four countries which had attracted the most Chinese OFDI flow by 2001 were: Hong Kong – USD3,522 million; the US – USD649 million; Canada – USD432 million, and Australia – USD378 million (MOFCOM, 2001). Generally speaking, with respect to geographical distribution, other than increased global coverage, this period displayed no significant shift in terms of the most attractive destination countries. Developed countries still dominate the list.

2.2.3 2002 to current: the “Go Global” accelerator

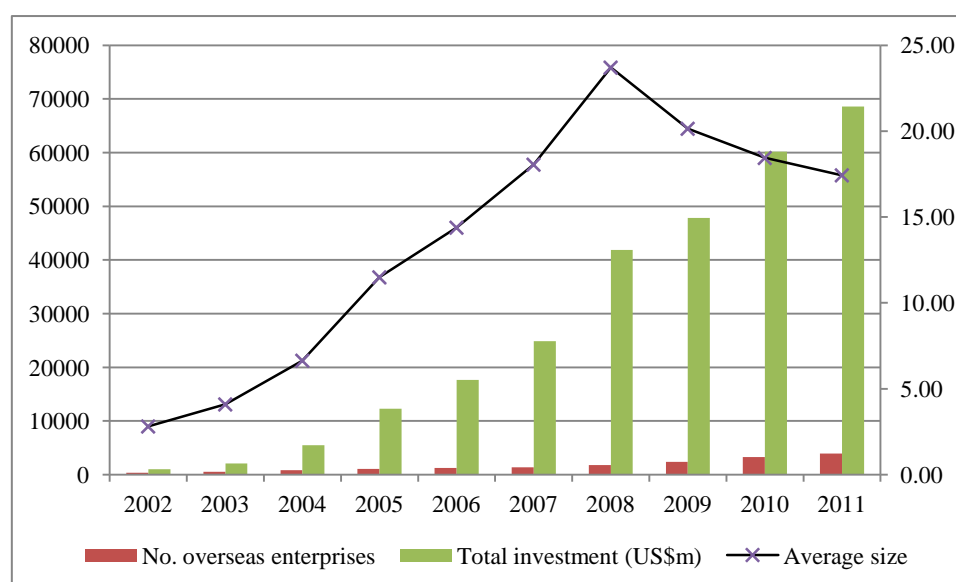
In the third, 2002 to 2011 period, the country’s OFDI stock increased dramatically, as indicated in Figure 2-1. It was driven by a combination of factors, including: one, further market liberalisation; two, following admission to the WTO, the reduction of barriers to overseas market entry by Chinese firms (see discussion in Section 2.1); and three, the implementation of the Go Global strategy as well as its associated regulations and incentives. Table 2-4 and Figure 2-4 provide statistics for newly set up enterprises and yearly OFDI flow from 2002 to 2011.

Table 2-4: China's non-trade enterprises and their foreign direct investments from 2002 to 2011

Year	No. overseas enterprises	Total investment (US\$m)	Average value (US\$m)
2002	350	983	2.81
2003	510	2087	4.09
2004	829	5504	6.64
2005	1067	12263	11.49
2006	1226	17635	14.38
2007	1376	24843	18.05
2008	1766	41860	23.70
2009	2373	47804	20.14
2010	3263	60178	18.44
2011	3934	68582	17.43

(Source: MOFCOM, 2002-2011.)

Figure 2-4: Number of China's non-trade enterprises, yearly OFDI flow, and average investment size from 2002 to 2011



A number of trends can be identified in the above table and figure:

- During this period, the number of Chinese enterprises established overseas increased dramatically from 350 in 2002 to 3934 in 2011. The total amount of investments (OFDI flow) also increased dramatically, from USD983 million to USD68,582 million;
- While the average amount per investment increased as compared to the previous period, a peak was reached in 2008, where the figure recorded USD23.7 million per investment, after

which it then gradually decreased to USD17.43 million per investment in 2011. However, the number of individual enterprises increased sharply, possibly as a result of opportunities offered by the global financial crisis, combined with the strong and continuing support from the Chinese governments at all levels (Larum & Qian, 2012:3).

2.2.3.1 Geographical distribution of China's OFDI

The aim of this section is to describe and explain the major trends in the geographical distribution of China's OFDI from 2002 onwards. The significance of the Australian market during this period is also reviewed.

Table 2-5 shows the top 10 largest host countries for Chinese OFDI from 2003 to 2010. Across the eight years, Hong Kong ranked the most popular destination for six years, with its relative significance as represented by percentage of total OFDI flow ranging from 40 per cent in 2003 to a peak of 69 per cent in 2008. However, recent research shows that these figures do not accurately reflect the investment situation in Hong Kong. Many Chinese firms, for example, remit funds to Hong Kong and then have their Hong Kong affiliates reinvest the funds back into China in order to take advantage of, for example, lower corporate tax rates (Larum & Qian, 2012). This is the so-called round-tripping investment, described as “the channelling by direct investors of local funds to special purpose entities abroad and the subsequent return of the fund to the local economy in the form of direct investment” (Patterson, Montanjes, Motala & Cardillo, 2004: 70). UNCTAD has suggested that round-tripped investments via Hong Kong accounted for 25 to 50 per cent of total Hong Kong-related OFDI (UNCTAD 2006: 45, Xiao, 2004).

The Cayman Islands, British Virgin Islands and Luxembourg, three world-renowned tax havens remained at or near the top of the list for most years. Their combined percentage of China's total OFDI flow fluctuated from as high as 52 per cent in 2005 to as low as 6 per cent in 2008. Though the significance of tax havens in terms of Chinese OFDI activities is beyond the scope of this thesis, possible explanations for the fluctuation are: one, the global economic downturn in 2008 slows down

the overall internationalisation activities of Chinese MNEs, especially those with illicit purposes (Yang, 2012: 13); two, the government has long realised the significance of loss of capital, and has since 2004 put in place more stringent policies monitoring capital flows (Chen & Yin, 2004).

Australia is the only other country to have remained on the list for the past eight years. It ranked as the tenth largest in 2003, and reached third place in 2009, with a peak of 4.3 per cent of Chinese OFDI. However, it should be noted that official (both Australian and Chinese) data is affected by the widespread practice of Chinese investors “sending their funds to Australia via third countries”, so the actual figures are very likely to be higher than that published (Larum & Qian, 2012: 5). Although Australia’s rank does fluctuate slightly over time according to Table 2-5, it is one of the largest and perhaps most popular host country for Chinese OFDI other than the tax havens.

2.2.3.2 China’s OFDI by host country industry

This section describes and assesses the different host country industrial sectors that receive Chinese OFDI. Since China only started to publish relevant data in 2004, it does not cover the first two years of this final period of OFDI growth.

In general, the investment focuses of Chinese OFDI are diverse. According to SAFE, Mining, Manufacturers, Transport, Banking, and Business Services have attracted the most Chinese OFDI in recent years, as indicated in Table 2-6. However, OFDI flows in some industries such as mining are very volatile, largely because mining related investments usually involve major expenditures in the development phase.

Table 2-5: Top 10 largest host countries (regions) of Chinese OFDI flow from 2003 to 2010

Rank	2003	%	2004	%	2005	%	2006	%	2007	%	2008	%	2009	%	2010	%
1	Hong Kong	40.3	Hong Kong	47.8	Cayman Is.	42.1	Cayman Is.	44.4	Hong Kong	51.8	Hong Kong	69.1	Hong Kong	63.0	Hong Kong	56.0
2	Cayman Is.	28.3	Cayman Is.	23.4	Hong Kong	27.9	Hong Kong	39.3	Cayman Is.	9.8	South Africa	8.6	Cayman Is.	9.5	Br. Virgin Is.	8.9
3	Br. Virgin Is.	7.3	Br. Virgin Is.	7.0	Br. Virgin Is.	10.0	Br. Virgin Is.	3.1	Br. Virgin Is.	7.1	Br. Virgin Is.	3.8	Australia	4.3	Cayman Is.	5.1
4	Korea Rep	5.4	Sudan	2.7	Korea Rep	4.8	Russia	2.6	Canada	3.9	Australia	3.4	Luxemburg	4.0	Luxemburg	4.7
5	Denmark	2.6	Australia	2.3	US	1.9	US	1.1	Pakistan	3.4	Cayman Is.	2.7	Br. Virgin Is.	2.9	Australia	2.3
6	US	2.3	US	2.2	Russia	1.6	Singapore	0.7	UK	2.1	Singapore	2.8	Singapore	2.5	Sweden	2
7	Thailand	2	Russia	1.4	Australia	1.6	UAE	0.6	Australia	2.0	Macau	1.2	US	1.6	US	2
8	Macau	1.1	Indonesia	1.1	Germany	1.0	Algeria	0.6	Russia	1.8	Kazakhstan	0.9	Canada	1.1	Canada	1.7
9	Russia	1.1	Singapore	0.9	Sudan	0.8	Australia	0.5	South Africa	1.7	US	0.8	Macau	0.8	Singapore	1.6
10	Australia	1.1	Nigeria	0.8	Kazakhstan	0.8	Mongolia	0.5	Singapore	1.5	Russia	0.7	Myanmar	0.7	Myanmar	1.3
		91.5		89.6		92.5		93.4		85.1		94.0		90.4		85.6

(Source: MOFCOM, 2003-2010)

Table 2-6: China's OFDI flow by sector from 2004 to 2010 (millions of US\$)

Industry	2004		2005		2006		2007		2008		2009		2010	
Total OFDI	5498	%	12261	%	21164	%	26506	%	55907	%	56529	%	68811	%
Mining	1800	33	1675	14	8540	40	4063	16	5824	10	13343	24	5715	8
Manufacture	756	14	2280	19	907	4	2127	8	1766	3	2241	4	4664	7
Transport & Post	829	15	577	5	1376	7	4065	15	2656	5	2068	4	5655	8
Banking	--	--	--	--	3530	17	1667	6	14048	25	8733	15	8627	13
Business Services	749	14	4942	40	4522	21	5607	21	21717	39	20474	36	30280	44
Retailing	800	15	2260	18	1114	5	6604	25	6514	12	6136	11	6729	10
Utility	78	1	8	0	119	1	151	1	1313	2	468	1	1006	1
Real Estate	9	0	116	1	384	2	909	3	339	1	938	2	1613	2
	92		97		97		95		97		97		93	

(Source: MOFCOM, various years)

According to the table, China's OFDI has concentrated on a few industries including Mining, Manufacturing, Transport, Retailing and Business Services in recent years. However, their dominant position in total overseas investments seems to be decreasing across time. Since most of the firms engaged in mining, transport, and utility services are state-owned enterprises (SOEs), their decrease in shares signals, to some extent, that more non-government based investments have been initiated by corporations and private firms recently. This may be a combined result of maturing domestic markets and, of course, the continuing incentives offered for OFDI by the Go Global strategy.

2.2.3.4 China's OFDI by firm ownership type

This section examines the composition of China's OFDI by firms' ownership type. As noted above, in the early stage of China's internationalisation process SOEs were the dominant type engaged in OFDI (Zhang & Ebberts, 2010). This situation started to change during the latest period of the country's OFDI development, as indicated in Table 2-7.

The classification of firm ownership types in Chinese official documents is slightly different from that of western countries such as Australia and is outlined in Appendix 2. For example, as Appendix 2 indicates, Chinese companies with limited liability and companies limited by shares are differentiated by the number of shareholders (companies with 50 shareholders or

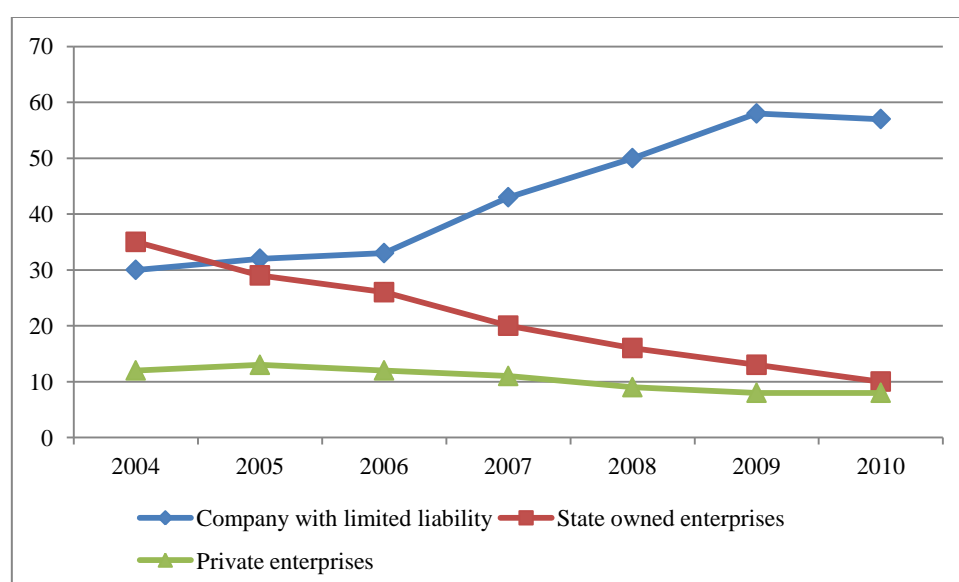
less are classified as limited liability companies, and companies with more than 50 shareholders are limited by shares). In contrast, in Australia there are no shareholder restrictions imposed upon companies limited by shares or guarantees or even with unlimited liabilities, with only the 50 non-member employee criterion differentiating between proprietary and public companies (Corporations Act, 2001).

Table 2-7: Firm ownership type distribution by number of corporations from 2004 to 2010

Registration Type	2004	2005	2006	2007	2008	2009	2010
	%	%	%	%	%	%	%
Company with limited liability	30	32	33	43	50	58	57
State owned enterprises	35	29	26	20	16	13	10
Private enterprises	12	13	12	11	9	8	8
Company limited by shares	10	12	11	10	9	7	7
Cooperative equity enterprises	3	4	9	8	7	5	5
Foreign-funded enterprises	5	5	4	4	4	3	3
Hong Kong, Macau, Taiwan funded enterprises	2	2	2	2	2	2	2
Collective enterprises	1	1	1	1	2	1	1
Others	2	2	2	1	2	3	7

(Source: MOFCOM, various years)

Figure 2-5: Relative weights of different ownership types of companies engaging in OFDI from 2002 to 2011



As indicated in Table 2-7, Chinese OFDI has involved every business type. The dominant type of ownership from 2005 to 2010 was the company with limited liability, which accounted for nearly 60 per cent of the total number of corporations in 2010, up from 30 per cent in 2004. In contrast, SOEs, which was the most common type in 2004, at 35 per cent, had fallen to 10 per cent in 2010. The third most common type in 2010 was private enterprises, with 8 per cent of the total, though this had declined slowly from 12 per cent in 2004. Figure 2-5 presents graphically the changing weights of the three most important company types during the period.

Based on Table 2-7, it is speculated that the investment activities of limited liability companies will continue to grow and that for SOEs will continue to weaken. Regarding private enterprises, Keller and Zhou (2003) and Taylor (2002) suggested that after China's accession into the WTO, growing domestic competition would force many Chinese privately-owned enterprises to search for new markets abroad, as they do not possess the level of monopolistic power or political advantages (such as easy access to financial assistance) as do their state-owned counterparts. Despite that, because of the large monetary inputs which are usually involved in SOE-initiated projects, SOEs still plays a significant role in Chinese OFDI (MOFCOM, 2008).

2.2.3.5 China's Overseas Entry Mode Choices and Approaches

The purpose of this section is to view the entry mode choices made by Chinese firms. The concept of entry mode choice refers to the decision as to the type of firm ownership selected when entering a foreign market (Pan & Tse, 2000). The most commonly used classification in the FDI literature is two-fold: JV and WOS. Somewhat confusingly, the term WOS is also applied to firms which are not wholly owned, but effectively controlled by the parent body, as in the OECD's definition below. This two-fold classification is also used, for example, by both the Chinese authorities and UNCTAD (Liu, Liu & Wei, 2004).

As defined by OECD (2008), a joint venture:

“... is a contractual agreement between two or more parties for the purpose of executing a business undertaking in which the parties agree to share in the profits and losses of the enterprise as well as the capital formation and contribution of operating inputs or costs.”

A direct investment enterprise, or wholly owned subsidiary involves the following two criteria being:

“(i) in which an investor owns more than 50% of its voting power i.e., it is controlled by the investor;

(ii) Where an investor and its subsidiaries combined own more than 50% of the voting power of another enterprise, this enterprise is also regarded as a subsidiary of the investor for FDI purposes.”

When China permitted domestic companies to invest overseas from the early 1980s, JVs were the initial, dominant entry mode choice (Nicolas, 2010). It was not until recently that the use of and number of Chinese WOSs set up overseas has increased significantly, a trend similar to that experienced by other developing countries and regions such as Taiwan (Tsai & Cheng, 2002). As Table 2-8 indicates the distribution of JVs and WOS in Chinese OFDI from 2004 to 2010 has not varied significantly, with the number of WOS substantially exceeding those of JVs.

Table 2-8: Percentage distribution of JV and WOS in Chinese OFDI from 2004 to 2010

Firm Type	2004	2005	2006	2007	2008	2009	2010
JV	3.4	3.9	5.0	5.0	4.0	4.9	4.7
WOS	96.6	96.1	95.0	95.0	96.0	95.1	95.3

(Source: MOFCOM, various years)

2.3 The Australian Market

Australia was among the earliest recipients of Chinese OFDI after the introduction of the Open Door policy (MOFCOM, 1982), and it has remained as China's top OFDI destination since the start of the Go Global era (Larum & Qian, 2012: 4). Table 2-5, above, clearly demonstrates Australia's relative importance among major destinations for Chinese OFDI.

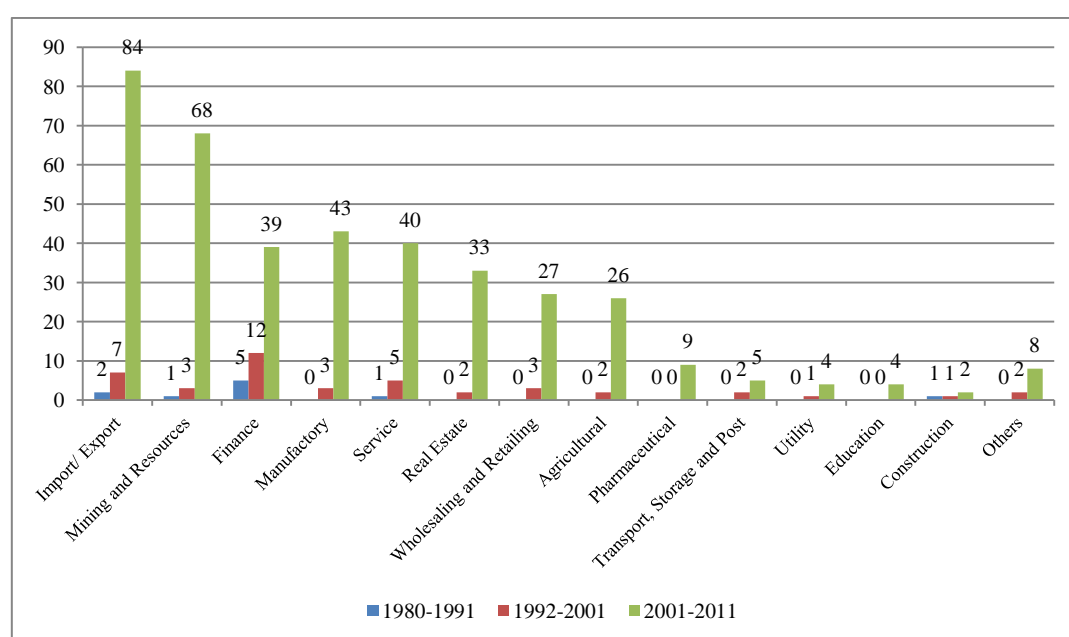
The industrial sector distribution of Chinese MNEs in Australia differs from that of their global distribution. Using the MOFCOM database available online, the author has identified 445 Chinese companies which have had overseas direct investments in Australia from January 1980 till July 2011 (MOFCOM, 2013a). It includes those that later withdrew from the market. Based on that list, Table 2-9 indicates the distribution of the firms by industrial sector. Twenty-one per cent of Chinese OFDI was in the general import and export sector and 16 per cent was in the mining and resources extracting sector. The third largest percentage was in the finance category, accounted for 13 per cent of total Chinese OFDI into Australia. The manufacturing and the service sectors each accounted for 10 per cent, real estate for 8 per cent, wholesaling and retailing for 7 per cent and agricultural for 6 per cent. The "others" at the bottom includes, but is not limited to, pilot training, sports training and publishing. Table 2-9 also breaks down the number of firms in each sector according to their year of entry approval, which corresponds to the classification of Chinese OFDI development stages as discussed earlier in this chapter. Figure 2-6 is thus generated to represent the sectoral distribution of Chinese MNEs in Australia in a year-of-approval manner.

Table 2-9: The sector distribution of Chinese MNEs in Australia by 2011

Industries	No. firms	%	Year of approval		
			1980-1991	1992-2001	2001-2011
Import/ Export	93	21%	2	7	84
Mining and Resources	72	16%	1	3	68
Finance	56	13%	5	12	39
Manufactory	46	10%	0	3	43
Service	46	10%	1	5	40
Real Estate	35	8%	0	2	33
Wholesaling and Retailing	30	7%	0	3	27
Agricultural	28	6%	0	2	26
Pharmaceutical	9	2%	0	0	9
Transport, Storage and Post	7	2%	0	2	5
Utility	5	1%	0	1	4
Education	4	1%	0	0	4
Construction	4	1%	1	1	2
Others	10	2%	0	2	8
Total	445	100	10	43	392

(Source: compiled from information available on MOFCOM.com; MOFCOM, 2013a)

Figure 2-6: The sector distribution of Chinese MNEs in Australia across time



Similar to the overall development of Chinese OFDI, the country's OFDI in Australia has witnessed a rapid rise in the latest stage from 2002 onwards, with a total of 392 firms (or over 88 per cent of total approvals) being granted permission by MOFCOM to carry out their investments. The corresponding number for the period 1980 to 1991 and 1992 to 2001 was a mere 10 and 43 respectively.

Trading companies were pioneers of Chinese OFDI in Australia, which accounted for over 60 per cent of companies set up from 1980 to 1991. It is still the area in which most Chinese MNEs are engaged in during the latest period. In contrast, the number of firms in the mining and resource industry remained low until the most recent period, 2002 to 2011, when it started to grow rapidly. Sixty-eight resource-oriented enterprises have been established in Australia since 2002, or 94 per cent of the total approved for that sector. The booming number of mining and resource firms recently is related, in large part, to the high priority given to the sector by the Chinese government, the increasing Chinese domestic demand, limited domestic supplies and the rocketing prices of those raw materials in the global market during the period. For instance, the per ton price of iron ore in August 2006 was USD33.45; five years later, in August 2011, the price had soared to USD177.45 per ton, representing a 530 per cent increase; its price as at February 2013 was USD154.64 (International Monetary Fund, 2013). As a result, more Chinese MNEs, nearly all of them SOEs, have invested in resource abundant countries like Australia, Canada and Brazil so as to secure the long-term supply of those resources and to influence price movements in their favour.

From the Australian market perspective, Table 2-10 shows the top seven countries ranked by number of investments approved by the Australian Foreign Investment Review Board (FIRB) from 2003 to 2011. China first appeared on the list in the year 2004-2005 with 206 investments; the figure more than doubled in the following year (437), then fell to 258 in the year 2006-2007. Significant increases in approved investments occurred in 2007-2008, when the number rose sharply to 1761. As a result of the global financial crisis in 2009, the number of investments approved by FIRB shrank to a fraction of that of the previous year; however, as both Australia and China were two of the countries least impacted by the crisis, the growth in the number of approved Chinese investments soon recovered, reached a historic height of 5033 in 2010-2011.

In terms of total Australian FDI inflow, the US was still the largest source of proposed foreign investments in 2010-2011, as it has been for the past eight years (FIRB annual reports, 2003-

2011). China contributed a total of AU\$14,976 million FDI inflow, the third highest among all countries in 2010-2011, and roughly half of the US's amount of AU\$27,590 million (FIRB, 2011).

With the rapid growth of Chinese investments in recent years, increasing media attention, both positive and negative, has been cast upon them. The negative media attention is perhaps strongly associated with the fact that most of the largest Chinese investing firms are state owned, especially in the mining and resource industry. The natural resources of a country, such as mining deposits and utility infrastructure, are usually deemed of national importance to sustainable development.

The negative attention is a result of at least three factors. First of all, as indicated in the OECD's "State owned enterprises in China: Reviewing the Evidence", one of the goals of "going global" – to exploit natural resources abroad – "is done solely by large scale SOEs" (OECD 2009: 8). In addition, Morck, Yeung and Zhao (2008) have also reported that the biggest companies in China by their OFDI are those highly profitable SOEs with an officially sanctioned monopoly in some major industries. It is thus understandable that both governments and investors are concerned at the control of important resources being placed in the hands of foreign governments, especially when those enterprises are from a country whose newly reformed "Socialist Market Economy" is often considered to be immature, inefficient, bureaucratic, and perhaps being lax in promoting fair trading (Lee, 2009; Zeng & William, 2003).

Second, again as noted in the OECD paper (2009), the reform of Chinese SOEs since the mid-1990s has filtered out several uncompetitive and redundant smaller SOEs through aggressive buy-outs or allowing bankruptcy, and, as a result, the remaining larger SOEs are even more dominant and better resourced, further exacerbating concerns. In 2007, for example, of the ten largest companies by capitalisation on the Shanghai Stock Exchange, eight were SOEs, accounting for almost 50% of market capitalisation on the Exchange.

Table 2-10: FIRB approvals by country of investing company from 2003 to 2011

Rank	2003-2004		2004-2005		2005-2006		2006-2007		2007-2008		2008-2009		2009-2010		2010-2011	
	Country	No. aprvl	Country	No. aprvl	Country	No. aprvl	Country	No. aprvl	Country	No. aprvl	Country	No. aprvl	Country	No. aprvl	Country	No. aprvl
1	UK	1980	UK	2027	UK	2204	US	4790	UK	2547	US	95	China	1766	China	5033
2	US	361	US	302	China	437	Singapore	1927	China	1761	UK	72	Malaysia	524	UK	1004
3	Singapore	252	China	206	US	307	Germany	945	South Africa	459	China	57	UK	410	Malaysia	896
4	Malaysia	210	Singapore	182	South Africa	278	Netherlands	944	Malaysia	356	Germany	49	Singapore	320	Singapore	536
5	Japan	149	Malaysia	128	Singapore	213	UK	848	US	316	Japan	46	South Africa	149	India	320
6	Germany	111	Germany	117	Canada	114	Switzerland	467	India	287	France	30	US	142	US	189
7	Canada	82	Japan	93	Germany	109	China	258	Singapore	246	Switzerland	27	Germany	74	Germany	126

(Source: FIRB annual reports, 2003 to 2011)

Third, these SOEs are provided with government subsidies and tax incentives, giving them a distinct advantage in competing overseas with privately owned firms that for the most part do not have the benefit of such subsidies and incentives (Long, 2009).

The extent of concerns can be seen in the cases of Chinalco's attempted purchase of a controlling share in Rio Tinto and Shenhua Watermark Coal's purchase of coal-rich agricultural land, both in Australia. In Chinalco's case, in February 2009 it attempted to purchase 18% of Rio's equity for a sum estimated at USD\$19.5 billion, the largest ever purchase by a Chinese company (having already purchased 9.3%, Anand, 2009). It was an offer that would have given Chinalco a greater security of iron ore supply and, possibly, the opportunity to influence its prices in a favourable direction. The offer was rejected by Rio, in favour of a joint enterprise with one of its major rivals, BHP Billiton, so that the FIRB did not have to offer a judgement as to the merits of the proposed investment. While no formal announcement was made by FIRB, there is little doubt that the Government welcomed Rio's decision. Australia's concerns were made evident, for example, by Mr Miles, a former member of FIRB, who stated that "Virtually every company that does invest in Australia out of China really is controlled by the Communist Party...that is always a concern" (Madden & Ryan, 2011).

More recently, Chinese mining giant Shenhua Watermark Coal bought large areas of coal-rich farmland in the Liverpool Plains area in northern New South Wales, stirring up another round of debates. Greens leader Bob Brown, for example, accused the Australian government of putting coal sales ahead of food security by allowing foreign miners to buy agricultural land: "It would be better to knock down the Sydney Opera House to build a mine than to give up prime agricultural land" (Franklin & Kelly, 2011). Liberal Senator Heffernan, who attacked FIRB's approval of the project, said that the national interest test was not being properly applied when it came to the country's most precious resources (Madden & Ryan, 2011). As one of the contacts in the confidential discussion held by Larum indicated (2011: 3), it was understandable that the existence of FIRB is necessary to protect Australia's national interest; it is just that the Australia government should have "the right mix between process transparency and flexibility" (Larum, 2011: 22).

2.4 Conclusion

This chapter has provided a general overview of Chinese OFDI. It identified three major stages in its development, with discussion focused on the most recent period, from 2002 to 2011. It focused on the geographical distribution of its OFDI, the major host countries and the major ownership types selected. In particular, the chapter provided a summary of Chinese investment trends in Australia, noting that it has been a major host country for Chinese investment for over two decades, focusing on the industries concerned. While the rapid growth of OFDI in the last decade is the most outstanding feature, the Chinese government has played a major role in promoting and sustaining OFDI, both in terms of changes to policy and, indirectly, in supporting large scale OFDI by SOEs. It is the combination of the rapidly increased scale of Chinese investments, plus the extent of SOE investments, that have stimulated increasing concerns in Australia, a concern that will be identified in several of the eight cases studied in later chapters.

Chapter 3: Literature Review

The aim of this chapter is to describe and assess what the existing literature can contribute to understanding the entry mode choices of Chinese firms in entering Australian markets and develop a number of research propositions based on that assessment.

The basic concepts used in the study are defined in Section 3.1. Section 3.2 provides an assessment of the relevant theoretical literature. Three major perspectives are assessed and used in this thesis, Dunning's eclectic paradigm regarding MNEs' internationalisation activities, the resource-based view in the formation of organisational competitive advantage, and the institutional perspective. Research questions and propositions are developed in Section 3.3. The chapter concludes in Section 3.4.

3.1 Definition of Key Concepts

While a number of concepts are used in this study, those most frequently used are institution, strategy and resources. As is often the case, a wide number of meanings have been attributed to the three concepts and this section briefly indicates the way in which they were interpreted in thesis.

3.1.1 Institution

Most of theoretical approaches drawn upon for this thesis refer to institution as a social custom, tradition, social norm or general behavioural tendencies or traits. North (1990: 3), for example suggests that institutions are "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction". In a similar fashion, Scott (1995: 33) describes institutions as "cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour". The essence of these two definitions is the same, in that institution is

abstract, it can be implied or explicitly regulated, and it shapes people's behaviour in the society. It is this definition that will be used in this study.

3.1.2 Strategy

The term strategy is used extensively in the business literature but it is rarely defined with any degree of precision (see for example, Kendall, 1992; Ghemawat, 2003; and Peng, Wang & Jiang, 2008). It is therefore necessary to articulate the exact meaning of this word in the context of this study in order to avoid any confusion.

Henry Mintzberg (1987: 14) purports that strategy could be about anything, "products and processes, customers and citizens, social responsibilities and self interest" as long as they can help the firm realise some competitive advantages and achieve its operational goals. Porter (1990) argued that technology, skills, labour, equipment, and physical objects can all be of strategic value so long as they demonstrate firm-specific competitive advantages. In a more recent attempt, Hill (2000: 506) defines a firm's strategy as "the actions managers take to attain the goals of the firm". Hill's definition (2000) perhaps is more relevant to this study, which recognises the fact that strategy is critical in helping the firm to realise its long-term goals, be that as market conquering or obtaining control over some production assets. Therefore, in the context of this thesis, Hill's definition for "strategy" is adopted.

3.1.3 Resources

There are numerous possible ways to interpret resources in different situations (Thompson & Strickland, 1987). This thesis considers resources only in the context of business operations. According to Daft (1983: 540), firm resources include *all* assets, capabilities, organisational processes, firm attributes, information and knowledge, controlled by a firm that enable the firm to create value and continue its ongoing production.

Although the concept of firm resources includes a wide range of items, they can be conveniently classified into three types: physical capital resources (Williamson, 1975: 31), human capital resources (Becker, 1964: 10), and organisational capital resources (Tomer, 1987: 24). Physical capital resources refer to all those objects that physically exist, including a firm's plant and equipment, office buildings, materials, goods produced, and even such trivial items as a pen and a rubber (Williamson, 1975: 31). Human capital resources, usually abbreviated as human resources, includes all of the people working in the firm, their experience, intelligence and capability, as well as the invisible inter-personal networks (social capital) established between the members of the firm (Becker, 1964: 10). Organisational capital resources refer to the systems and structures within a firm. They comprise, for example, a firm's reporting structure, its internal control structure, planning and coordinating systems and its system of authority (Tomer, 1987: 24).

Barney (1986) points out that not all types of firm resources necessarily contribute to a firm's operational efficiency and effectiveness. In the language of the author, some resources may even "prevent a firm from conceiving of and implementing valuable strategies" (Barney, 1991: 102). For example, a complicated and overly hierarchical management structure may result in unnecessary discussions and prolonged decision making, thereby promoting bureaucracy rather than efficiency. For the purpose of this thesis, firm resources refer to those that enable a firm to conceive of and implement strategies for better operations.

3.2 Theories in FDI

The aim of this section is to examine dominant theories related to firms' internationalisation and market entry modes. Four bodies of theory are focused upon: transaction cost theory, Dunning's eclectic paradigm, the institutional perspective, and the resource-based perspective. While all four have been subject to criticisms, they are generally regarded as having considerable explanatory power towards firms' internationalisation decisions (Berning & Holtbrugge, 2012: 175), particularly entry

mode decisions (Davis, Desai & Francis, 2000: 240). Subsection 3.2.1 provides a general overview of theories. It is followed by subsection 3.2.2, which examines the application of theories in recent international business and particularly entry mode studies.

3.2.1 An Overview

Sections 3.2.1.1 to 3.2.1.4 provide a brief summary of the four major theories identified in the field of international business. They are followed by a more detailed description of studies that have drawn upon and been guided by each of theories.

3.2.1.1 Transaction Cost Theory

Transaction cost theory was first developed by Coase (1937), who argued that firms are formed when the transaction cost of coordinating production through market exchanges, given imperfect markets, is greater than within the firm. Later researchers such as Williamson (1975), Buckley and Casson (1976), and Hennart (1982) started to use this theory to explain firms' FDI activities. Specifically, they argued that firms internationalise through FDI because it was more cost efficient to operate and produce overseas than doing so through market exchange (such as exports). In this sense, transaction cost theory indicates the importance of cost minimisation and, as a result, the search for overseas markets for production when the transaction cost associated with market exchange is high.

Advanced technology, managerial skills, and organisational capabilities are important for ongoing successful business production, but they are often intangible and hard to be traded through arm-length markets (Yang, 2003). Therefore, because of their intangible property, they may result in high transaction costs when they are traded through market exchange, if it is possible or practicable to do so. However, through FDI, the technology, managerial skills, and organisational capabilities can all be relatively easily transferred within the same companies to its own overseas affiliates, and there will be noticeably less or no bargaining or negotiation associated, which may significantly lower the

possible transaction costs. Its firm-specific characteristic suggests that transaction cost theory is related to what was later described by Dunning as internalisation, or ‘an ownership perspective’ (1980), which examines firms’ internationalisation decisions through analysing the transaction costs involved in their production; and if those transaction costs could be lowered through internationalisation, then it provides an explanation for firms’ FDI activities.

In the context of the entry mode literature, transaction cost theory served as the underlying framework for many studies, particularly regarding earlier work as is discussed in the following subsection 3.2.2 ‘The research on internationalisation and entry mode selection’ (for example, see Anderson & Gatignon, 1986; Gomes-Casseres, 1989; and Hennart, 1988). Transaction cost theory has been one of the fundamental frameworks used in the international business literature (Buckley, *et al.*, 2007: 500). Most of the criticisms, when applied in the market entry literature, relate to the fact that it overlooks the effect of the external environment that firms operate in on shaping their FDI decisions, both in the home and host countries (see, for example, Meyer, 2001; Brouthers, 2002; and Yiu & Makino, 2002). Also, transaction cost theory has received extensive discussion in the context of developed MNEs making investments in developed country markets, which may provide only limited applicability when examining FDI initiated by developing country MNEs, given their distinct institutions. These points will, again, receive further discussion in subsection 3.2.2 ‘The research on internationalisation and entry mode selection’.

3.2.1.2 Eclectic Paradigm

Based in part on then existing literature, including that of transaction costs, Dunning (1980) proposed an eclectic paradigm, which aimed to provide a systematic framework for understanding firms’ internationalisation activities. The paradigm has become the dominant approach in later FDI studies (Amighini, Sanfilippo & Rabellotti, 2009). In summary, it helps explain who, where and how of international operation are determined by three broad sets of factors (Dunning, 1980 & 1988). They are:

- Ownership advantage, which is the firm's specific resources or assets that can be exploited externally, providing it with a competitive advantage, such as capital, technology, market access, management and organisational skills, economies of scale, trademarks, products. It is related to *who* will engage in internationalisation activities;
- Location advantage, which refers to the characteristics of a host country that attract foreign investment by enabling firms to minimise costs, such as natural resource endowment, labour costs, material costs, positive government policy, markets; and
- Internalisation advantage, which is the ability of a firm to reduce transaction costs by undertaking one or more operations internally, within the firm, rather than contracting them out to other firms. The ability of a firm to internalise suggests what entry mode they can choose in the foreign market: from pure exporting and contracting where the internalisation level is low, to FDI where the firm can fully internalise its production.

Dunning also studied in depth the motivations driving internationalisation and suggested that four categories of incentives drove firms to invest abroad (1993 & 2009):

- Foreign market-seeking;
- Efficiency (cost reduction) seeking;
- Resource-seeking; and
- Strategic asset-seeking (sometimes the latter two are categorised into one subset: Buckley *et al.*, 2007: 501)

Foreign market-seeking FDI is undertaken when the domestic market is close to saturation, with little opportunity to expand a firm's market share, or there are lucrative market demands available in foreign markets. Efficiency-seeking FDI will take place when an overseas market displays the potential for achieving lower costs, especially as regards lower labour costs (Dunning, 2009). It explains why so many US and other developed country-based MNEs established production facilities in less developed regions such as China, Vietnam, and Malaysia where the benefits brought by lower labour costs outweigh the expenses of setting up new factories abroad. Resource-seeking FDI focuses

on acquiring tangible natural resources such as oil and coal and intangible assets such as technology and managerial skills, in foreign markets. In China's case, for example, the largest OFDI activities in terms of capital involved in recent years have been largely resource-seeking in nature, especially regarding raw materials and energy sources (see MOFCOM, various years) as China's domestic production of those materials fell far short of domestic demand. In 2009, for example, Chinese market demand for petroleum was 398 million tons, but domestic production could satisfy only 48 per cent of the total (Sinopec Group, 2010). Last but not least, strategic asset-seeking FDI may be conducted in pursue of intangible assets such as R&D capacity, design facilities and brand names that are embedded in successful firms (Dunning, 1993, 2000 & 2001). This strategic asset-seeking incentive is classified as one aspect of resource-seeking FDI by a number of other authors (for example, Buckley *et al.*, 2007: 501).

Transaction cost theory and the eclectic paradigm are, arguably, the most commonly accepted and utilised bodies of theory in the international business literature (Buckley *et al.*, 2007: 500). The major criticism of the eclectic paradigm, which is also recognised by Dunning himself (see Dunning, 2001; and Dunning & Lundan, 2008), is that it ignores the institutional factors that may have influenced firms' internationalisation decisions, as does transaction cost theory (see, for example, Meyer, 2001; Brouthers, 2002; and Yiu and Makino, 2002). Also, the development of this framework was based exclusively on the experience of developed country MNEs, mostly on their investments into other developed or developing regions, which may not be valid in the context of developing country MNEs making FDI in developed countries. Details regarding the application and limitation of this framework will be given in the following subsection 3.2.2 'The research on internationalisation and entry mode selection'.

3.2.1.3 Institutional Perspective

As noted above, North defines institution as "the humanly devised constraints that structure human interaction" (1990: 3). Similarly, Scott (1995: 33) defines institutions as "regulative, normative, and

cognitive structures and activities that provide stability and meaning to social behaviour”. Hence, institutions represent the rules of the game established by societies through long social practice, and they have constraining power towards every entity operating in such societies. As found by North (1990) and later reviewed by Cui, Wang and Jiang (2008), institutions can be broadly classified as formal or informal and consequently, institutional constraints can be similarly classified as formal and informal constraints. In the context of international investment, organisations are subject not only to domestic institutional constraints, but additional, and sometimes different institutional constraints that are characteristic of the foreign markets in which they invest. More detailed discussion of institutional constraints will be provided in subsection 3.2.2 ‘The research on internationalisation and entry mode selection’, below. However, in general, increasing number of researchers have found the institutional perspective is very relevant in explaining firms’ internationalisation and entry mode choices, in particular those regarding emerging markets (see, for example, Davis *et al.*, 2000; Lu, Liu & Wang, 2010; and Cui & Jiang, 2012, with the latter two concerning Chinese MNEs). One major drawback of this perspective when applied in the international business literature is that it focuses exclusively on the effect of the institutions upon MNEs’ operations, which ignores the effect of ownership advantages MNEs possess towards their internationalisation activities. The perspective will receive more discussion in the following subsection 3.2.2 ‘The research on internationalisation and entry mode selection’.

3.2.1.4 Resource-based Perspective

In the context of FDI studies, the resource-based perspective suggests that firms need to possess significant ownership advantages in order to expand overseas (Child & Rodrigues, 2005: 384). The resource-based perspective has become an influential theoretical perspective in international business research recently, as can be seen in the increasing number of studies adopting the perspective (see, for example, Berning & Holtbrugge, 2012: 176; Hitt, Bierman, Uhlenbruck and Shimizu, 2006; Westhead, Wright & Ucbasaran, 2001; Peng, 2001, Peng *et al.*, 2008; and Yamakawa, Peng & Deeds, 2008).

The growing popularity of the perspective in the context of international business can be explained by the growing consensus among researchers that firms' internationalisation activity is usefully conceived of as a process deploying organisational resources in the foreign market. How to maximise firms' control and operational efficiency over slack resources, and what impact those resources would have upon the firms' internationalisation process are the key questions underlying these types of studies (see, for example, Lu, *et al.*, 2010). In addition, the resources refer not only to tangible assets, but also intangible assets such as technology, human resources, managerial skills and R&D capability. These form the core competency of a firm and are difficult to be traded between countries. Hence, from a resource-based perspective, firms' entry mode choices may be influenced by the resources they have on hand. Not surprisingly, there are a growing number of scholars resorting to this perspective to explain their findings regarding firms' entry mode choices, as will be reviewed later in subsection 3.2.2 'The research on internationalisation and entry mode selection'.

3.2.2 The Research on Internationalisation and Entry Mode Selection

This subsection reviews the findings of the internationalisation and entry mode literature that has applied one or more of the four major theoretical approaches discussed above. It focuses on: one, the literature related to developed countries; two, the literature related to emerging or developing countries; three, the literature related to Chinese MNEs; four the literature related to Chinese investment in Australia. It concludes by noting that, as demonstrated by the review of the literature, that no one of the four theoretical perspectives examined provides a fully satisfactory perspective for the examination of the internationalisation and entry mode decisions of Chinese firms. Hence, this thesis will adopt a multi-framework perspective.

3.2.2.1 The developed country literature

The majority of earlier studies regarding firms' internationalisation decisions, in particular those related to entry mode decisions, were carried out in the context of developed nations. It was upon the findings of these studies that the bulk of theoretical work was first developed. This subsection reviews the literature regarding entry strategies of MNEs from developed nations. A number of limitations of this literature are highlighted, in particular: one, most earlier studies demonstrate a developed country bias, and tended to focus exclusively on transaction costs when analysing firms' internationalisation decisions; two, the general lack of focus of these studies in regard to the impact of the environments in which MNEs operate, environments which can have a significant influence on their internationalisation choices. The review also shows that, in the new millennium, studies of developed countries' market entry strategies started to incorporate institutional factors into their theoretical foundations, enabling a more comprehensive understanding of the process.

Anderson and Gatignon (1986), Gomes-Casseres (1989), Hennart (1988), Agarwal and Ramaswami (1992), Meyer (2001), Brouthers (2002), Yiu and Makino (2002), Gaba, Pan and Ungson (2002), and Florin and Ogbuehi (2004) provided useful discussion of the theoretical underpinning that has been adopted in market entry studies regarding developed nations. Agarwal and Ramaswami (1992), Arora and Fosfuri (2000), Meyer (2001), Brouthers (2002), and Yiu and Makino (2002) have identified a range of factors associated with foreign entry mode choices; and Agarwal and Ramaswami (1992) and Arora and Fosfuri (2000) provide support for the methodology applied in this thesis (for example, why it is necessary to analyse cases from different industries, and how some variables were measured). All of the above mentioned studies will be elaborated in the following paragraphs.

Some early pioneers of FDI studies, including Buckley and Casson (1976), Rugman (1981), and Hennart (1982), argued that the international business activities of MNEs could be best explained by looking at the transaction costs of firms. Not surprisingly, most, if not all, of the early applications of the transaction costs approach were in the context of developed regions or countries as, in this period, there were relatively few MNEs from emerging countries. For example, Anderson and Gatignon

(1986), and Gomes-Casseres (1989) looked at entry mode choices made by the US firms investing abroad. They found their choices were in large part determined by the transaction cost of transferring firm-specific capabilities to the new venture. A key point of these two studies is that both recognised the fact that the most appropriate entry mode is a function of the trade-off between control and the cost of resource commitment or transaction costs involved. However, Anderson and Gatignon (1986) failed to take into account managerial costs, which are costs associated with corporate management both in the parent company and foreign affiliates when valuing transaction cost arguments.

Another early study applying transaction cost theory to entry mode decisions is Hennart (1988). Hennart's is a qualitative study, which sketched a transaction cost theory of the choice between contract production, full ownership and JVs in American MNEs. It explained a number of characteristics of JVs, including a JV's potential ability to transfer both patented knowledge (tangible) and tacit knowledge (intangible and difficult to quantify) between the partners in the JV, and its popularity as an entry mode over that of licensing in diversifying firms (Hennart, 1988: 370). One drawback of this study is that its discussion focused exclusively on the benefits of JVs with almost no coverage of their limitations, such as that of limited control. In addition, another weakness of the study, particularly as regards firms from emerging countries, is that while recognising that factors such as country knowledge, technology and culture would have an influence on the setting up of JVs (Hennart, 1988: 365), Hennart ignored the influence of both the host and home governments in the process of establishing JVs, which could be considerable, especially when the host and home countries vary significantly in culture and extent of industrialisation (see, for example, Osland & Cavusgil, 1998; Barkema, Bell & Pennings, 1996; Bruning, Turtle & Buhr, 1997; Tatoglu & Glaister, 1998; Demirbag, Tatoglu & Glaister, 2008; and Tan & Meyer, 2011; which have all provided examples of the influence of governments).

In the early 2000s, scholars started to consider the limitations of transaction cost theory in the studies of entry mode choices. For example, Meyer (2001) examined the entry mode choices of firms from Germany and Britain when investing in the emerging economies of Eastern Europe. The author used

a questionnaire survey distributed to 677 German and British companies. He constructed a model to test the relationship between firms' entry mode choices and the institutional environment their subsidiaries faced in transitional economies. It was found that underdeveloped institutions as reflected in the high level of corruption and weak protection of intellectual property, tended to drive up the transaction costs of establishing wholly-owned ventures; to ensure their business can operate smoothly in such unfamiliar environments, entrants preferred to have local guidance, and therefore the setting up of JVs in these nations (Meyer, 2001: 364). Hence, not surprisingly, Meyer acknowledged the importance of taking into consideration institutional factors when analysing entry mode choices involving transitional economies, factors often neglected in earlier studies that had adopted a transaction cost perspective.

Brouthers (2002) provided further findings regarding market entry strategies among firms from the European Union (EU). Based on Brouthers and Brouthers (2000) and Delios and Beamish (1999), Brouthers (2002) argued that there was a need to extend the transaction cost model by including cultural context and institutional context variables. Through the use of questionnaire surveys, the author found that firms' perceived level of transaction costs, the extent of host country regulation, and host country market risk appeared to have driven their entry mode selections (Brouthers, 2002: 215).

Similarly to Brouthers (2002), Yiu and Makino (2002) analysed entry mode choices of Japanese firms' overseas subsidiaries using a number of theoretical frameworks. Recognising that the studies of foreign entry mode choices had been based almost exclusively on transaction cost theory which focused on the impacts of firm- and industry-specific factors, the authors focused on the effects of country-specific contextual factors within the context of an institutional perspective. They found that both institutional variables (regulative pressure and the entry mode choices of leading competitors' in a host country) and transaction cost variables (R&D intensity and parent experience in the host country) were important determinants for foreign entry mode choices. Their results once again,

suggested that explanations that only considered transaction cost variables were insufficient, and that institutional variables had a significant contribution in explaining entry mode choice decisions

The above mentioned Meyer (2001), Brouthers (2002), and Yiu and Makino (2002) were some of the earlier studies that found it necessary to resort to more than one theoretical framework in the investigation of developed country market entry strategies. This multi-framework approach in evaluating entry mode decisions has since been more frequently used in recent years, particularly regarding emerging countries, as will be discussed in subsection 3.2.2.2.

A number of other studies concerning developed countries have investigated the relationship between MNEs' entry mode choices and their firm-level characteristics. For example, Kogut (1988), Gomes-Casseres (1990), Agarwal and Ramaswami (1992), Aulakh and Kotabe (1997) all found a correlation between size and a preference for the WOS full control mode. In addition, researchers such as Phatak, *et al.* (1996), Chen and Mujtaba (2007), Yiu and Makino (2002), and Ekeledo and Sivakumar (2004) concluded that firms with abundant international experience were more inclined to set up a WOS, as, although a WOS required a greater understanding of international operations, this was experience which the firms had gained. In addition, Kogut and Singh (1988), Caves and Mehra (1986), Brouthers and Brouthers (2000), Klein, Frazier and Roth (1990), Sutcliffe and Zaheer (1998), Barkema and Vermeulen (1998), and Cheng (2006) examined the influence of cultural distance on the entry mode choices of firms from developed Western nations, and all found that a large cultural distance tended to encourage investors to select the WOS mode of entry, because it largely avoids daily interaction with local partners, which could bring about potential conflicts. However, none of the above mentioned studies included in their scope MNEs from emerging countries, leaving the question open as to the extent to which their findings could be generalised to such MNEs from emerging and developing countries.

In particular, Agarwal and Ramaswami (1992), drawing on Dunning's eclectic paradigm, investigated the influences of the OLI factors on the choice of foreign entry mode in the US equipment leasing industry. They found that firms with a larger size, possessing greater multinational experience and a

greater capacity for product differentiation were more likely to be associated with the WOS mode. In addition, they found that countries characterised by high market potential and a high investment risk tended to induce MNEs to choose the JV entry mode, where entrants can be assured of a relatively smooth operation and fast turnaround under the guide of local partners. Despite being limited to only firms from one service industry in a developed country and hence its limited generalisability, this study was among the first to capture the effect of OLI advantages and their interactions for entry mode decisions using a survey method. According to the authors, surveys were distributed to presidents of 536 American leasing firms, with a response rate of 22.8 per cent. Another novel feature of this study, as described by the authors, was that it used managerial perceptions for measuring the explanatory factors, including the difficult-to-comprehend factors of host country market risk and host market potential. Specifically, firms' ability to develop differentiated products was measured by the perceived ability of the firm to create new leasing transactions; firms' multinational experience was measured by managers' perceived degree of internationalisation and perceived readiness to handle international business; host market potential and investment risk were measured by managerial perceptions of the host market growth and political, social and economic conditions in the host country. The reliance on personal perceptions is a common practice in psychological and behavioural research – see, for example, Pinho (2007) who used interviews to triangulate surveys of SMEs' entry mode choices. Scott (2009), also, for example, relied on salespersons' self-perception for exploring issues related to organisational commitments, and Fan *et al.* (2012) relied on interviewees' perceptions to investigate Chinese MNEs' internationalisation processes. It is an approach that is especially useful when researchers are confronted with hard to quantify and “difficult-to-estimate” variables (Buckley, 1988: 188). It is an approach adopted in this study, where factors such as home and host government regulatory environments and levels of firms' intangible goodwill capital were examined based on managerial perceptions as revealed in detailed interviews (see the detailed discussion in Chapter 4, Section 4.3 ‘Data Collection and Analysis’).

Arora and Fosfuri (2000) analysed the determinants of the choice between a WOS and technology licensing as strategies for expansion abroad in developed countries' chemical industries. They found

that cultural distance, previous experience in foreign countries and the number of technology suppliers played a critical role in foreign entry strategies. They concluded that when there were many sources of technological competencies, an entrant might favour the use of licensing as entry mode vis-à-vis wholly owning a project, which was less demanding in terms of resources and commitments (Arora & Fosfuri, 2000: 570). They also argued that their one-sector-oriented study allowed them to control “many sources of heterogeneity in the data”, having found that studies ignoring sectoral characteristics may be less “robust... in the test of determinants of the entry mode choices” (Arora & Fosfuri, 2000: 556, 569). They argued that by focusing on one industry, they could better control for differences in technology characteristics, “such as codifiability and complexity”, which was much more difficult in cross-industry studies (Arora & Fosfuri, 2000: 569). They pointed out that firms from different industries, even in the same country, may display different preferences towards modes of foreign entry, because they face, for example, different levels of government scrutiny, domestic or overseas market competition, and transaction costs associated with production. Their findings suggest that, for this thesis, there is no reason why one should expect the choice of entry mode by Chinese firms in the Australian market to be similar, apart from those characterised by similar technologies, which face similar institutional characteristics and operate in a similar manner.

Gaba, Pan and Ungson (2002) examined US firms’ market entry issues regarding investments into China with a particular focus on timing of entry. The authors found that those who entered the Chinese market in the first few years after the Open Door policy were largely JVs, and they concluded that firms adopting JV modes were likely to enter the Chinese market earlier than those choosing WOS as their entry modes. Two reasons explained this situation: first, the Chinese government required most, if not all foreign firms to use the JV mode for entry to Chinese markets at the country’s early stage of market liberalisation (Pyo, 2010: 77); second, as recognised in Gaba *et al.* (2002) and Isobe, Makino and Montgomery (2000), joint venturing required a smaller resource commitment as compared to the full-control WOS mode, and therefore is faster to plan and implement, which could shorten firms’ time taken to enter new markets. Though the focus of Gaba *et al.* (2002) was on entry time, in the general market entry literature, it was among the first to find a linkage between the

resource-based perspective, reflected in firms' level of internationalisation, and firms' market entry decisions.

Florin and Ogbuehi (2004: 83) adopted a "contingency framework" for their study of entry mode decisions, drawing upon the resource-based and institutional perspective, in addition to transaction cost theory. Their central finding was that firms' entry mode decisions were not made independently or in isolation from other decisions such as entry location, entry time or international operation strategy. Rather, these decisions were made largely simultaneously, based on a range of factors including market conditions, institutional factors and firm characteristics. This is in contrast to Pan and Tse (2000: 538), who proposed a hierarchical model of entry mode decisions, and assumed that managers tend to decompose complex entry mode decisions into a hierarchical process and adopt a small set of critical variables to assess the appropriateness of each node hierarchically. Florin and Ogbuehi (2004) marked one of the earliest studies that have adopted a multi-framework approach to investigate market entry choices made by MNEs in developed countries.

This subsection has reviewed the literature pertinent to the entry mode choices of firms from developed nations. Earlier studies such as Kogut (1988), Anderson and Gatignon (1986), Gomes-Casseres (1989), and Hennart (1988) to name only a few, all found that transaction cost theory was suitable for explaining the market entry decisions of corporations from industrialised nations. In the 1990's, after Dunning (1980 & 1988) developed the eclectic paradigm to explain MNEs' internationalisation decisions, more researchers started to resort to this paradigm in relevant studies (for example, Agarwal & Ramaswami, 1992; Aulakh & Kotabe, 1997; and Phatak, *et al.*, 1996). The eclectic paradigm has become the most widely applied traditional FDI theory (Buckley, *et al.*, 2007). More recently, scholars have come to realise the limitations of the classical FDI theory, as noted above. In particular, the institutional environment that MNEs operate in was recognised as having a considerable influence on their entry mode decisions (for example, see Meyer, 2001; and Brouthers, 2002). Also, studies such as Isobe, *et al.* (2000), Gaba *et al.* (2002), and Florin and Ogbuehi (2004) incorporated the resource-based perspective to the study of entry mode choices of developed nations.

How MNEs deploy their resources in their early-stage of FDI activities was the main concern of those studies.

The following subsection reviews the entry mode literature regarding OFDI from emerging countries, who are “latecomers” to the global market (Mathews, 2006: 18).

3.2.2.2 The emerging country literature

Researchers began to focus, for the most part, on the market entry decisions of emerging country MNEs in the 1990s. This subsection reviews the major works in this field to identify their strengths and weaknesses. It is necessary to note that there is a general lack of definition in the literature regarding which countries can be classified as emerging countries. It sometimes refers to countries as low in per capita GDP as India, and, in contrast, as highly developed as Hong Kong, Singapore and South Korea. While the exact meaning of the term varies, in this subsection and thesis as a whole, the term refers to countries or markets that are experiencing relatively rapid growth and industrialisation, but are not often classified as industrialised. Major criticisms and highlights of this subsection include: one, although studies concerning the internationalisation activities of emerging countries date back to the early 90’s, the examination of entry mode choices of emerging country MNEs commenced only in the early 2000s; two, the earlier entry mode studies concerning emerging country MNEs tended to rely largely on transaction cost theory, which, as had been the case with earlier studies of firms from developed countries, tended to focus exclusively on factors internal to the firm, neglecting external factors; three, later studies started to incorporate the institutional and resource-based perspectives, helping to remedy the deficiencies of the earlier studies.

The studies examined in this section were selected for two reasons: one, they are among the most frequently cited studies as noted on Google Scholar; and two, they were seen to be of value to this thesis either in their theory building concerns or the findings they generate. The countries and regions examined include Taiwan, South Korea, Singapore, Thailand, Hong Kong, Turkey, India, and Central

Europe. Aggarwal and Agmon (1990), Dunning, Hoesel and Narula (1996), Nakos and Brouthers (2002), Rhee (2008), Theingi and Tang (2006), Pyo (2010), Singal and Jain (2012), Wang, Hong and Kafouros (2012), Cheng (2006), Makino, Lau and Yeh (2002), Luo and Tung (2007), and Ang and Michailova (2008) were analysed with reference to their theoretical underpinnings. As will be illustrated below, there is clearly a trend to rely on more than one theoretical perspective to explain the entry mode choices of firms from emerging countries. Studies such as those of Rhee (2008), Theingi and Tang (2006), Cheng (2006), and Pyo (2010) indicated factors such as previous international experience and host market regulatory restrictions were influential in determining emerging country MNEs' entry mode decision making process; the review of these factors guided the development of this thesis' research propositions.

Aggarwal and Agmon (1990) is among the earlier studies that examined the international experience of emerging country firms. They used the concept of comparative advantage to model the internationalisation process of firms in manufacturing and service industries. They found that the success of firms from the emerging countries of India, Singapore and South Korea could not be fully explainable by the traditional theory of comparative advantages. Rather, their comparative advantages and success were shaped to a great extent by the roles of government or the institutional environment in which they operated (Aggarwal & Agmon, 1990: 175). Although this emerging-market-focused study did not examine entry mode choices of firms in these markets, the study was among the earliest to identify the relevance of the institutional perspective in the internationalisation literature.

Other earlier studies of internationalisation by firms from emerging countries include Dunning *et al.* (1996) and Young, Huang and McDermott (1996). Dunning *et al.* (1996) investigated whether emerging countries such as Taiwan and South Korea follow the same stages of internationalisation as they had proposed was the case with firms from developed countries, based on the eclectic paradigm. It was found that the locational and ownership advantages of emerging country firms did not exhibit the same characteristics as that of the developed country firms, because the extent and nature of their created and natural assets, their strategy of economic development and the role of governments in

these areas are all distinctively different to those of developed countries (Dunning *et al.*, 1996: 18). However, overall, they felt that the OLI model of the eclectic paradigm could explain their internationalisation processes (Dunning *et al.*, 1996: 20). Similarly, in Young *et al.* (1996), the authors also found some evidence to support the view that internationalisation process models could explain both the inward and outward internationalisation activities of Chinese MNEs (Young *et al.*, 1996: 295). Again, although these two studies do not specifically analyse the entry mode choices of firms from emerging markets, they provide the earliest evidence regarding the applicability of the eclectic paradigm in the general internationalisation activities initiated by emerging market MNEs.

The specific issue of entry mode choices of emerging country MNEs was a relatively new topic compared to the broad topic concerning emerging country MNEs' general OFDI activities. Nakos and Brouthers (2002) was one of the earliest studies investigating the entry mode choices of firms from emerging countries. Their focus was on small to medium sized enterprises (SME) in Central and Eastern Europe. It found that transaction cost theory could provide a good explanation for SMEs' entry mode choices (Nakos & Brouthers, 2002: 47). In contrast, following Nakos and Brouthers' application of transaction cost theory in emerging economies, Theingi and Tang (2006) also used transaction cost theory to investigate the entry mode decisions of Thai MNEs. While they found that greater international experience was associated with a higher probability of the choice of WOS among Thai MNEs (Theingi & Tang, 2006: 36), the authors argued that the transaction cost approach alone did not provide the richest explanation and prediction for entry mode choices of those companies. This required taking into account the influence of the institutional environment in Thailand, which was radically different to that of most developed countries (Theingi & Tang, 2006: 46). One limitation of Theingi and Tang (2006) is that their study focused exclusively on Thailand's electrical and electronics industry, which limits the generalisability of the study since there may be an industry-specific bias related to the findings (see, for example, Arora & Fosfuri, 2000: 560). Also, the time period selected for the study (1995-1998) overlapped that of the Asian financial crisis, during which time the country experienced a significant economic downturn, so it is reasonable to suspect that the home country institutional environment (reflected in, for example, government's attitude towards

OFDI, etc) for outward investing Thai MNEs might be different to when the economic condition was stable. This point might further limit the generalisability of the findings given the special economic environment during that period of time.

Rhee (2008) investigated the entry mode choices of Korean MNEs. He found that the greater the degree to which firms' competitive advantages were based on technology and the larger the start-up team members' social networks, the greater the propensity of MNEs to set up WOSs based on transaction cost theory. This is because the hazards related to technological leakage are most prominent when new ventures choose JV modes and their technology-based advantages are exposed to the partners (Rhee, 2008: 99). Also, an extensive social network can provide venturing firms with sufficient knowledge about foreign markets for their independent start-up as a WOS (Rhee, 2008: 102). While his study relied primarily on transaction cost theory, Rhee also indicated in his conclusion, though without any further explanation, that including additional theoretical perspectives such as "social network... can significantly help us predict a new venture's choice of entry mode" because transaction cost theory alone is not sufficient to understand entry strategies of firms from emerging countries (Rhee, 2008: 110). The significance of the "social network perspective" recognised here reflects not only the networking resources – and therefore the resource-based perspective – a firm possesses, but it also reflects the significance of the institutional environment that a firm operates in.

Pyo (2010) also examined the market entry choices of Korean firms. The study found that many large MNEs continue to export goods produced in Korea to foreign countries where they also operated local production facilities. This is in contrast to the assumption adopted by earlier studies, where FDI and export were deemed substitutes and firms chose either the FDI or export modes (Buckley & Pearce, 1979, 1981; and Root, Spielmann & Kaden, 1987, for example). Using the transaction cost approach, the paper explained that this situation of one firm adopting two types of entry modes was usually associated with large manufacturers such as automobile companies (Pyo, 2010: 68). Such firms, despite having established some production lines in their foreign affiliates through FDI,

sometimes found that implementing additional, new production lines would generate too high a transaction cost and would not achieve the necessary economies of scale, so exporting for these lines was a more cost efficient option. A significant contribution of this paper is that it acknowledged the significant influence of the government in MNEs' entry mode decisions for purposes such as to protect relevant domestic industry, or protect domestic resources (Pyo, 2010: 90), a factor of likely significance for Chinese firms entering the Australian resources sector.

Entry mode studies that have explicitly adopted an institutional perspective regarding emerging economies are now well documented. For example, Singal and Jain (2012) have analysed OFDI trends for Indian automotive, pharmaceuticals and information services industries. They found that existing theories did not fully explain the internationalisation process of emerging MNEs from India, because Indian firms in these industries tend to build their strategic capability before going overseas; therefore, they prefer to have local connections through the establishment of strategic alliances, JVs, and technology acquisitions (Singal & Jain, 2012: 443). Their preference for JVs may be strongly related to the local business or political environment, although this concept is yet to be empirically tested (Singal & Jain, 2012: 443). In addition, Wang *et al.* (2012) explored the role of government involvement in OFDI from emerging economies. They found that firms did not possess an equal ability to respond to institutional pressures exerted by government, such as legislation to facilitate or restrain OFDI. Not only did Wang *et al.* (2012) demonstrate that governments could influence MNEs' level of overseas investment, its location and its investment aim, the authors also showed that the effect of government involvement regarding MNEs' international expansion depended on firms' own resources and capabilities, suggesting that not all firms possess an equal ability to internalise government-related advantages and respond to institutional pressures. Consequently, Wang *et al.* (2012: 655) concluded that the resource-based and institutional perspectives were highly related to each other, particularly in the context of emerging markets.

Cheng (2006), through his investigation of Taiwanese manufacturing firms investing in China, ASEAN, Japan, NAFTA and the EU, found that the higher the level of industrial concentration in the

host market, the lower the level of regulatory restrictions, the less firm-specific the assets to be transferred to the foreign market, and the smaller the cultural distance involved were all factors more likely to persuade investors to enter foreign markets through Brownfield over Greenfield sites. Cheng (2006: 214) also noted that transaction cost theory, the institutional perspective and the resource-based perspective combined provided useful and complementary explanations for Taiwanese MNEs' entry mode choice strategy, because "collectively they have greater explanatory power than any single theoretical perspective in describing the principal determinants of FDI mode choice in foreign markets". Other studies concerning internationalisation activities of Taiwanese OFDI, including Makino *et al.* (2002: 403), and Yiu, Lau and Bruton (2007: 519), also highlighted the fact that firms in emerging economies were constrained by an institutional environment and the resources they have on hand when making their foreign market entry decisions. Luo and Tung (2007: 490) found that emerging economy firms are motivated to internationalise in order to alleviate domestic institutional constraints, overcome latecomer disadvantages, and exploit their own competitive advantages in host countries. The explanatory power of the institutional perspective was again confirmed by Ang and Michailova (2008: 551), who investigated the adoption of an equity alliance mode (JV) by 628 firms from 64 emerging countries, and found that institutional environment, as reflected in host country regulatory institutions, cultural distance, and prior practices of other firms in the same industry and host country shaped their final choice of entry mode. Again, as indicated in the above studies, there clearly has been a rising trend that recognises the limitations of transaction cost theory in explaining entry mode choices of firms from emerging countries and, in contrast, the value of the institutional perspective.

The increasing and wide application of the institutional perspective regarding emerging country MNEs springs from the fact that while developed markets usually have relatively sound formal, regulatory institutions, emerging markets on the whole have relatively weak formal regulatory institutions (Peng, 2002). This means constraints springing from informal institutions tend to play a larger role in regulating business operations in these markets (Peng & Heath, 1996: 504; and Peng, 2002). The most important aspect of informal institutions, arguably, is the role interpersonal

relationships play. Interpersonal relationships can be divided into two types: manager-to-manager relationships and manager-to-government relationships. In developed countries formal institutions provide, for example, greater information availability and stronger market regulation, so that market transparency is relatively high, which, in turn, enables managers to evaluate and explore business opportunities in a more efficient manner. Managers in many Asian countries, in contrast, have to devote greater time and energy to the cultivation of personal relationships, compared to their western rivals in order to gain similar information. As described by Peng (2002), managers in diversified conglomerates from emerging countries often share similar family, clan, and educational backgrounds, reducing uncertainty in the decision making process. Not surprisingly, when a problem emerges, such managers will rely at least partly and maybe entirely, on their family and interpersonal networks to help resolve problems, complementing, and even substituting for the formal channels of information exchange and regulation typical of more developed economies (Child, 1994).

The importance of manager-to-government relationships was highlighted by Peng and Luo (2000) and Peng (2002). Only those managers who maintain “disproportionately greater contact” with government officials can lead their organisations’ fight against possible environmental uncertainty (Child, 1994: 154). Such relationships are not only prominent in the case of SOEs, but for most public and private enterprises (Peng, Au & Wang, 2001). If a strong link between the firm and the government can be developed and preserved, there is perceived to be an increased possibility that firms can get inside information on new developments so as to avoid uncertainty or promote growth, at least in the early stage of the firms’ marketisation and internationalisation process (Peng *et al.*, 2001: 171). Country specific empirical evidence supporting this point is well documented. For instance, Peng and Luo (2000: 496) found that ties with government officials seem to be more influential upon firm performance than inter-management connections in China. In Thailand, it is a common practice that a substantial number of board directors are “active-duty or retired military officers”, valued for their connections to key government agencies and individuals (Peng *et al.*, 2001: 167). Ren, Au and Birtch (2009: 219) investigated the board structure and business networks of Chinese listed firms and found, unsurprisingly, that government ownership and interlocking

directorates were common characteristics. In short, government officials are the providers of important political resources, often vital for the operation of Asian companies (Boddewyn & Brewer, 1994; and Oliver, 1997).

Because the institutional perspective indicates the need to take into account the different institutional environments of emerging countries, it has become widely applied as an extension to Dunning's eclectic paradigm. Indeed, one major criticism of Dunning's original approach was its limited applicability in the context of emerging economies (Mathews, 2006). The major explanation for this is that most of, if not all, earlier FDI theories were generated based on the studies of relatively developed countries which started to engage in FDI long before their emerging country counterparts. As Bonaglia and Goldstein (2007: 94) noted, the original eclectic paradigm was formed "squarely based on the experiences of large, predominantly Anglo-American, successful international firms" who could relatively easily find the resources and capabilities to cultivate the advantages necessary for their international expansion. Mathews (2006: 17, 18) also summarised the eclectic paradigm as a "predominantly Anglo-American approach" to theorise internationalisation decisions of MNEs, and yet the newcomers to the global market "appear to lack all the trappings traditionally associated with the MNE". In addition, in western countries, the traditional focus of FDI theories, their usually market-based institutions were mature enough to support stable business activities (Kang & Jiang, 2012). This is in contrast to the situation faced by emerging countries where the institutional environment is not as well developed as that of the developed nations, and they are latecomers to the global market, often with relatively limited resources and capabilities. These limitations of the eclectic paradigm, as argued by Amighini, Sanfilippo and Rabellotti (2010: 5), for example, indicate that the paradigm was "static", in that the original framework did not incorporate possible changes in market conditions (including the evolving government stance on OFDI regulations from tight control to direct funding support, as in the case of Chinese government), and it is therefore of limited value in the context of emerging countries.

This subsection has reviewed the literature pertinent to entry strategies of corporations from emerging countries. It found that there has been an increasing range of studies examining the market entry strategies of corporations from South Korea, Hong Kong, Taiwan, India, Thailand, Turkey, and Central Europe. In particular, it found that the older, more traditional FDI theories (including the transaction cost theory and eclectic paradigm) had distinct limitations when applied in the context of emerging countries. For example, the traditional FDI theories ignore the impact institutions could exert upon firms' entry mode choices, neither do they address the peculiar characteristics of the less-experienced, often government-backed emerging country MNEs. Hence, scholars began to either extend the traditional frameworks (for example, Dunning, 1995; Rugman and Verbeke, 2004; Dunning, 2006; Narula, 2006; and Dunning and Lundan, 2008), or adopt multiple perspectives such as the resource-based perspective and the institutional perspective, notably the latter, in order to better explain FDI from emerging countries, particularly regarding entry mode strategies (see, for example, Makino *et al.*, 2002; Cheng, 2006; Amighini, *et al.*, 2010; and Wang *et al.*, 2012). The following subsection provides a literature review pertinent to entry mode strategies of Chinese MNEs.

3.2.2.3 The literature on Chinese MNEs.

It is only in the past decade that the entry mode decision processes of Chinese MNEs have attracted much attention in the international business literature. Hence, this subsection reviews the major works in this field. It is expected that both theoretical and empirical findings of those studies provide the most relevant information for the development of this thesis, which examines the entry mode choices of Chinese MNEs when making investments in Australia.

The studies reviewed were selected for two reasons: one, they have attracted the highest number of references among studies concerning Chinese OFDI entry mode choices on Google Scholar and Proquest; and two, they provide theoretical and empirical insights regarding firms' choices, and are particularly valuable for this thesis given the scarce research on Chinese investments in Australia. These studies cover Chinese investments into both developed and emerging countries since the

beginning of its Go Global era. The following studies were reviewed with a focus on their empirical findings as regards entry mode decisions: Bell (1996), Gao (2009), Cui *et al.* (2011), Cui and Jiang (2009, 2010, 2012), Ning (2009), Kang and Jiang (2012), Fan *et al.* (2012), Quer *et al.* (2012), Alon (2010), and Buckley *et al.* (2007). In addition, the following studies have elaborated on theoretical underpinnings: Cui and Jiang (2009, 2010, 2012), Cui *et al.* (2011), Ning (2009), Quer *et al.* (2012), Alon (2010), and Buckley *et al.* (2007). An increasingly common feature of these studies was their identification of the limitations of traditional FDI theories in explaining Chinese MNEs' entry mode strategies, leading to their supplementation with other theoretical perspectives, notably the institutional and resource based perspectives.

Child and Rodrigues (2005) is among the earliest studies to examine the internationalisation process of Chinese MNEs. The authors conducted case studies of prominent market-seeking Chinese firms, and their aim was to assess whether there was a need to extend the mainstream FDI theory to fit the context of emerging countries such as China. They found that rather than exploiting their existing ownership advantages as the experience of developed country MNEs suggested, Chinese MNEs internationalised to react to pressures such as government direction and encouragement, their latecomer position, global competition, and domestic institutional constraints (Child & Rodrigues, 2005: 402). They also found that emerging market MNEs faced different institutional environments that could not be explained by the traditional theoretical models, a finding that was also supported by Luo and Tung (2007: 495), Fillis (2001: 780), Johanson and Vahlne (2003: 83), Meyer and Gelbuda (2006: 160), Sandberg (2008: 12), and Liu, Wen & Huang (2008: 488). One drawback regarding Child and Rodrigues (2005) and Luo and Tung (2007), however, was that they examined only MNEs with a market-seeking or strategic asset-seeking motivation, with no reference to natural resource-seeking companies, perhaps the most dominant investment motivation among outbound Chinese MNEs (Larum, 2011: 7). Also, the fact that Child and Rodrigues (2005) focused on the four "most dynamic" large Chinese firms limits the generalisability of their findings, especially as regards the behaviour of increasingly active, Chinese SMEs.

Given the rise of studies concerning the internationalisation of Chinese MNEs in general, entry mode choice as one aspect of their FDI activities has gradually attracted more attention in the literature. Early research in international business suggested that investors (mainly from developed nations) in general do not have a clear preference towards their entry mode choices in light of their investment motivation (Kogut & Singh, 1988; Hennart, 1991; Kim & Hwang, 1992; Larimo, 1993). More recent studies concerning China, such as Bell (1996), Gao (2009), and Cui *et al.* (2011) have, on the other hand, found that where a Chinese firm aimed to gain market shares and seek assets in a new market, they displayed a strong tendency to adopt the full control, WOS mode rather than the shared control JV mode, when there was no restriction imposed by the host government regarding entry mode.

Cui and Jiang (2009: 442) investigated the determinants of FDI entry mode choice as between a WOS and a JV by Chinese firms. They found that four variables were related to such choices: when Chinese MNEs adopt a global strategy, face severe competition in host country markets, and aim to seek assets through their FDI, they tend to prefer the WOS rather than JV mode of entry, because fully controlled business units constitute a more integrated global business network, whereas jointly controlled business units involve one or more business partners, either of which may not comply with the strategic intent of each other (Cui & Jiang, 2009: 437). In contrast, a JV mode is preferred when the firm is investing in a high growth host market because JVs take less time to start up and the cooperation with an incumbent partner may help investors to gain a better competitive position in a fast moving market (Cui & Jiang, 2009: 439). As with other studies involving emerging countries such as Yiu and Makino (2002), Luo and Tung (2007), and Rhee (2008), the authors used a variety of theoretical perspectives, including transaction cost theory and the strategic behaviour approach to underpin their research. They found that such a combined approach is “of particular relevance to firms in an emerging economy”, since firms from these countries go abroad in pursuit of various strategic purposes that cannot be adequately explained by transaction cost theory. One limitation of Cui and Jiang (2009) is its relatively small sample size with 138 valid surveys from firms investing in various countries in the world for quantitative analysis. As there have been at least 400 Chinese direct

investments in Australia alone (as at July 2011), the reliability of findings from a world-wide survey based on 138 responses is likely to be limited.

In their follow-up studies, Cui and Jiang (2010 & 2012), Cui *et al.* (2011) also relied on a multi-framework perspective to investigate Chinese MNEs' entry mode choices. Cui and Jiang (2010) was based on ten case studies, and they found that a conceptual framework that integrates the institutional- and resource-based views could provide a more comprehensive explanation of Chinese MNEs' entry mode choices. Specifically, the authors recognised that while firms may prefer a wholly owned, and therefore fully controlled, foreign venture, the realisation of this preference depends on their ability to commit resources, which may refer to the size of their FDI projects and their motivation to seek brand assets and global strategic assets (Cui & Jiang, 2010: 757). The authors also found that both home and host country institutions can have positive and negative impacts on Chinese firms' ability and willingness to choose the high resource commitment (WOS) entry mode, reflected in host government restrictions, cultural barriers, financial support from home institutions, and approval restrictiveness (Cui & Jiang, 2010: 769).

Cui *et al.* (2011) investigated Chinese MNEs' entry mode decisions on the basis of what they described as a strategic behaviour approach, drawing on both the institutional perspective and the resource-based perspective. A strategic behaviour construct posits that a firm's FDI entry mode serves its foreign market entry motives and strategies (Cui & Jiang, 2010: 755), either to maximise profitability (Kogut, 1988), to retain flexibility (Harrigan, 1988), to achieve a superior market position (Aulakh & Kotabe, 1997), or to pursue global synergy effects and other global strategic motivations (Kim & Hwang, 1992). They used the same data they collected for Cui and Jiang (2009) – being the 138 surveys. They found that a low-cost advantage (such as level of economies of scale realised) and learning opportunities in the host industry (such as the opportunity to acquire know-how) may induce Chinese MNEs to opt for a WOS rather than the JV entry mode (Cui & Jiang, 2011: 490), though the WOS mode was expected to be more costly, at least in the short run, than a JV. This is because the exclusive ownership position granted the firm full control over the acquired foreign assets, which

would enable the firm to reconfigure the technological and managerial resources within its global business network. However, they found that the market attractiveness of the host country (reflected in host country market potential and market growth rate), perceived host country restrictions toward foreign investors, cultural barriers, and cognitive pressure (such as perceived home country government influence on business decision making) may induce Chinese MNEs to opt for a JV rather than WOS (Cui & Jiang, 2011: 490). The findings of this study confirmed that firm resource and institutional variables collectively influence the entry mode choices of Chinese MNEs.

As state-owned or controlled firms remain the dominant force in Chinese OFDI, Cui and Jiang (2012) investigated the effect of state ownership on Chinese MNEs' OFDI ownership decisions. The authors believed MNEs from advanced economies were structurally largely separate from government institutions, while SOEs from emerging economies, because of their government influence and ownership, were in a sense part of the external institutional environment in which they operated. In this regard, a combined framework of institutional and resource-based perspectives was found useful for understanding firm behaviour. They found that firms under high levels of foreign institutional pressures, such as strict regulation and scrutiny, were likely to opt for a joint ownership structure (JV) to attain institutional legitimacy, exchanging control for legitimacy in order to gain access to and operate in foreign markets. This view coincides with that of Deng (2009), Voss, Buckley and Cross (2010), Lin (2010), and Morck *et al.*, (2008), who found that as the host country regulatory institutional barriers were higher for SOEs than for non-SOEs, so that Chinese SOEs tended to opt for the shared control JV mode, exchanging ownership for legitimacy and market access.

Ning (2009) analysed how successful the Go Global strategy has been in promoting the internationalisation of the Chinese information and communication technology (ICT) industry. It recognised the significant role government has been playing in stimulating Chinese firms' foreign market entry decisions, and concluded that because the traditional FDI theories did not consider the role of government policy and government ownership, it could not sufficiently explain Chinese OFDI

(Ning, 2009: 88). This finding is consistent with several prior studies such as Yiu and Makino (2002) and Cui and Jiang (2012).

Kang and Jiang (2012) investigated the factors determining locational choices of Chinese MNEs. As with Cui *et al.* (2011) and Cui and Jiang (2009), they used the institutional perspective to supplement traditional FDI theory. Though they did not directly review Chinese MNEs' entry mode decisions, their findings further support the view that institutional factors (including economic freedom, political influence, FDI restriction and cultural distance) have a high level of significance in determining FDI strategic choice in comparison with economic factors (such as GDP per capita, unit labour cost and economic openness). One limitation of their study was that it failed to address the impact of industry-specific influences on Chinese MNEs' market entry decisions. Corporations in different industries develop different competitive strategies that reflect the characteristics of their respective industrial environments (Porter, 1980). For example, Arora and Fosfuri (2000) found that firms in fast-paced high-technology industry might favour the use of licensing as an entry mode, which required less resource commitment and is more time efficient to set up compared to WOS. This neglect of industrial characteristics when investigating Chinese MNEs' market entry choices is a common limitation shared by many studies including Cui and Jiang (2012), Kang and Jiang (2012), and Fan *et al.* (2012). Kang and Jiang (2012: 46) in contrast, aimed to give more "robustness... in seeking to understand the FDI behaviour of Chinese MNEs" by incorporating an institution-based view in their study.

Quer *et al.* (2012), building on transaction cost theory, institutional and resource-based views, analysed the determining factors of FDI entry mode decisions by Chinese firms. The authors picked all 35 Chinese firms listed on the Fortune 500 in 2008, and searched news items published on the website of China Daily for any discussion relating to their foreign investments from 2002 to 2009. Using secondary sources, the authors obtained 139 FDI entry mode decisions relating to the 35 companies. Quantitative analysis was performed regarding factors affecting their entry mode choices. Their results showed that the host country's political risk and cultural distance did not affect Chinese

MNEs' entry mode choices, while firm size was negatively related to the choice of WOS. This is in contrast to Fan *et al.* (2012), Yiu and Makino (2002) and Kang and Jiang (2012), who found that a large cultural distance would encourage firms to choose a full control mode of entry because joint venturing with companies from those countries would generate more problems during daily operations than if a sole ownership subsidiary was selected. However, the reliability of news items as a source of data for analysis of factors such as "cultural distance" and "political risks" is questionable, since there was no standard measure and news reports were composed by different journalists.

Alon (2010) pointed out that depending on whether Chinese firms were state- or private-owned, the institutional constraints they face would affect their internationalisation decisions. Specifically, firms in the private sector were particularly drawn to large and open economies, where through fair competition they could offset domestic institutional constraints such as a lack of government support or the government grants offered only to large SOEs in the same industry (Alon, 2010: 20). In contrast, state-owned firms had more institution-specific advantages (such as economies of scale derived from a monopoly position, easy access to state finance and direct relations with government officials), and appeared to pursue complex and costly projects. Alon (2010) also found that an institutional-based perspective (complemented by resource-based theories) of FDI is necessary to understand China's globalisation and that of the emerging world more generally. Alon's findings suggest that this thesis may be able to find significant differences between the entry mode decisions of state- and privately-owned Chinese firms regarding Australia.

In terms of the aim of Chinese OFDI activities, Buckley *et al.* (2007: 509) found that prior to 2001, Chinese MNEs entering industrialised countries were largely resource-seeking rather than asset-seeking. Since the data for Buckley *et al.* (2007) covered only the period to 2001, it might not hold true for the period since that date, as China's Go Global strategy, which encourages the seeking of both natural and strategic assets overseas, was gradually introduced after 2000; this is a possibility examined in this thesis (see Section 3.3 Proposition Development). Buckley *et al.* (2007: 503) also found that the government plays a significant role in guiding Chinese MNEs' internationalisation

strategies, as it “at various levels, seeks to influence the amount, direction and scope of outward capital flows”.

All of the above mentioned studies, including Cui and Jiang (2010 & 2012), Cui *et al.* (2011), Ning (2009), Kang and Jiang (2012), Quer *et al.* (2012), Alon (2010), and Buckley *et al.* (2007) argued that in order to explain the market entry decisions of Chinese MNEs, it was necessary to incorporate institutional and/or resource-based perspectives in addition to the conventional eclectic paradigm. As Deng (2009), Yang (2009), and Alon *et al.* (2011) noted, a single theoretical perspective was not sufficient to account for all the factors that may have influenced Chinese MNEs’ entry mode choices. Even the founder of the eclectic paradigm, John Dunning, later stressed the importance to incorporate other factors into his eclectic paradigm. Specifically, Dunning (2006: 174) recognised that it was necessary to incorporate institutional factors in an extension of the original OLI model. Also, Dunning and Lundan (2008: 575) recognised that the resource-based arguments focused on the uniqueness of a particular firm’s capabilities was relevant for understanding its competitive position vis-à-vis other firms. The authors further asserted that institutions affect all three components of the OLI paradigm, and for firms from emerging countries who tended to be constrained by institutional context more heavily, incorporating an institution-based view into the existing eclectic paradigm was even more important (Dunning and Lundan, 2008: 583).

This subsection has reviewed the literature on entry mode choices of Chinese MNEs. Researchers have identified a range of factors that can be relevant to the choice of entry modes of Chinese MNEs, including corporate size, previous internationalisation experience, culture, and institutional environments in both the home and host country. The significance of these factors (and others) will be addressed in this study. Also, as with studies of MNEs from other emerging countries, the studies found in explaining the entry mode choices of Chinese MNEs, it was necessary to draw upon a number of theoretical frameworks and perspectives in order to provide a comprehensive understanding. In addition to transaction cost theory and the eclectic paradigm, the two theoretical

frameworks that have been most frequently referred to in studies examining Chinese MNEs' entry mode choices are the institutional perspective and the resource-based perspective.

3.2.2.4 The literature on Chinese investment in Australia

As noted in Chapter 2, Australia has been a major recipient of Chinese offshore investments since the beginning of the Open Door era. However, there have been few empirical or conceptual studies of this investment. This subsection reviews those studies, with an emphasis on entry mode decisions.

Three reports studying the Australia-China investment relationship, specifically China's outbound direct investment in Australia, have attracted the researcher's attention. These reports were prepared by KPMG, the China Studies Centre of the University of Sydney, the Australia China Business Council, and the Lowy Institute for international policy in Australia. These three reports were largely of a statistical nature, aimed at examining the distribution of Chinese investments in Australia, their characteristics, the challenges they face, and their implications for both Chinese MNEs and the Australian Government. For example, the report *Demystifying Chinese Investment* (KPMG, 2012) prepared by KPMG and the University of Sydney jointly detailed the nature and geographical distribution of China's investment flows to Australia, their industrial distribution, the types of investors involved and their entry strategies. Through analysis of recent SOE reforms, this report concluded that Chinese SOEs abroad are behaving "more like international corporations" who have shown strong commercial motivations for their investments rather than what was commonly perceived as "political goals" through international expansion (KPMG, 2012: 13).

This result is in contrast to others, which found that Chinese SOEs "may not be profit maximisers or may be maximising subject to government-guided influences" (Deng, 2012: 416; also see Kim, 2006; Lieberthal & Herberg, 2006; Wu, 2005; and Deng, 2009). The changing perception suggests that at their early stage of internationalisation, Chinese MNEs and particularly SOEs were oriented to more political objectives, and, as their level of internationalisation deepens, they transformed to become

more oriented to commercial objectives. This point is supported, to a limited degree, by a governmental decision released by MOFCOM in 2004. The “Decision on Reforming the Investment System” (MOFCOM, 2004: 6-7) stated that “government investment is only used in fields concerning national security items that can be constructed through social investment shall be constructed through utilising social capital with total independence when possible”, and that even for decision-making mechanism for government investment projects, “scientific decision-making rules and procedures shall be... adhered to... so that they are made scientifically and democratically”. However, the meaning of “democratically” was not made clear and suggests that political factors will continue to be of at least some importance in regard to MNEs’ OFDI, especially SOEs. The OECD’s view is that the Chinese government plans to transform its role from one of approving and controlling to one of monitoring and facilitating investment projects (OECD, 2008: 85). In summary, it is likely that Chinese MNEs’ investment strategies developed and modified over time, and that they have adopted diversified investment strategies at different stages of development and perhaps regarding different countries, both with and without government influence and direction.

Although the KPMG study arguably provides “the most detailed and up-to-date information on Chinese ODI [OFDI] in Australia” (KPMG, 2012: 13), it offered extremely limited discussion in terms of entry modes adopted by Chinese SOEs in particular, or MNEs in general. Only one paragraph was provided in that regard (KPMG, 2012: 13), and it concluded that Chinese SOEs have utilised a variety of entry strategies including WOS, JV, and forming strategic alliances. This thesis aims to remedy this shortfall and provide a fuller understanding of what factors have influenced Chinese MNEs when making their entry mode decisions for their Australian investments.

The second report, which investigated the Australia-China investment relationship, was conducted by Larum and Qian (2012). Much of the report graphically presents how Chinese OFDI to Australia has evolved over time in terms of its investment weight, the sectors, and its relative investment pattern compared to those of other developed nations including Japan, US and UK. The report also examines a number of more dramatic cases, notably the Rio and Chinalco cases, as discussed in Section 2.3

‘The Australian Market’ in Chapter 2 of this thesis. The report speculated that due to “Australia’s mistrust and discrimination” (Larum & Qian, 2012: 8), recently fewer mega-deals were initiated by Chinese investors, and there were more JVs and more indirect investments compared to 2006-2008. It also noted that Chinese investors had now increased their effort to improve their operations and promote better public communication systems (Larum & Qian, 2012: 10). The KPMG and University of Sydney report also found that Chinese SOEs wanted to persuade the Australian public that they have shifted their operational focus from reaching political goals to more commercial goals (KPMG, 2012: 13).

Two largely qualitative studies were found that had investigated Chinese OFDI activities in Australia. First, Zha (2013) focused on Chinese direct investment in the resource sector in Australia. He investigated the Chinese perceptions of Australia as an investment destination through interviews with Chinese investors in Australia, Australian managers in companies that have received significant Chinese investment, and Australian government officials. He noted the sensitivities surrounding Chinese investments in the resource sector, particularly those made by SOEs. He also found that SOEs, after the failure of Chinalco to acquire Rio, have pursued a less aggressive path where an earlier preference for a majority shareholding in Australian projects is declining. There have been numerous cases of Chinese investors acquiring non-majority share holdings in Australian companies or projects (Zha, 2013: 6). Zha argued that there was still a considerable need for Chinese investors to familiarise themselves with local laws and rules in order to conduct business successfully, and correspondingly, a need for Australian authorities to prepare comprehensive examinations and wide publicity of the performance record of established Chinese investments so as to lower unnecessary public concern regarding incoming Chinese investments (Zha, 2013: 22). However, Zha (2013) focused only on the mining sector, so the results thus generated may have little generalisability regarding other Chinese investments in Australia, particularly those by non-SOEs.

Second, Fan *et al.* (2012) undertook a qualitative, interview-based study regarding Chinese MNEs’ investment in Australia. The authors analysed the factors that have influenced Chinese MNEs’ global

integration processes, and how Chinese MNEs have utilised the global integration process as a source of competitive advantage to operate in foreign markets (Fan *et al.*, 2012: 2). Although this study did not focus on the entry mode strategies of Chinese MNEs in Australia, it does provide some useful information regarding the general internationalisation process of Chinese MNEs in Australia; for example, it found that previous experience and manufacturing scales are relevant to Chinese MNEs' operating strategies, while advertising intensity was not deemed as important for their operation (Fan *et al.*, 2012: 15). As with Agarwal and Ramaswami (1992), Fan *et al.* (2012) relied on survey-based, managerial perceptions as their main source of data. The results showed that industrial differences played a significant role in managers' perception on internationalisation (Fan *et al.*, 2012: 16).

In summary, the limited amount and limited findings of the previous research on Chinese MNEs' market entry strategies as regards Australia merits more detailed work given the importance of the Australian market to China. This is particularly so with regard to their entry mode choices where almost no research findings have been identified. This thesis aims to fill this research gap in an exploratory fashion.

3.2.3 A Multi-Framework Perspective

In light of the above review of the literature, it was decided that no one theoretical perspective was sufficient to provide a comprehensive understanding of issues related to Chinese MNEs' internationalisation and entry mode choices. Therefore, a multi-framework perspective was adopted. It includes the eclectic paradigm, the institutional perspective, and the resource-based perspective. The following section develops propositions based on this multi-framework perspective.

3.3 Research Questions and Proposition Development

Based on the multi-framework perspective indicated above, this section leads to the generation of research questions and corresponding propositions. Two research questions are developed first. Then a number of specific propositions are developed to help answer those research questions. A total of ten propositions are developed covering relevant factors related to Chinese MNEs' decisions to invest in Australia and their related, entry mode decisions. Subsection 3.3.1 examines Research Question One and puts forward two related propositions; subsection 3.3.2 reviews Research Question Two and suggests eight corresponding propositions.

As discussed earlier, it was only recently that the focus of entry mode research shifted to emerging countries because of their rapid economic growth and hence increasing OFDI. However, although now there are a small but growing number of studies looking at the OFDI motivations and entry mode choices of Chinese investors, there has been no detailed study of Chinese OFDI and entry mode choice in regard to the Australian market. This is despite the fact that Australia is a major recipient of Chinese FDI and has been so for the past thirty years (see detailed discussion in Chapter 2). Hence, a major aim of this study is to help remedy this deficiency and, in addition, to throw further light on the determinants of entry mode choice by firms from emerging economies in general.

In order to investigate Chinese MNEs' FDI and entry mode choices in regard to the Australian market, it is first necessary to know why they are interested in investing in Australia in order to provide the context within which their entry mode decisions were made. In other words, what makes the Australian market appealing to the Chinese investors; hence the first research question is:

1. Why have Chinese MNEs chosen to invest in Australia?

The second research question addresses the main focus of this study, the entry mode choices of Chinese firms entering Australia,

2. What factors have influenced their choice of entry modes for Australia?

The following subsections will elaborate on these two research questions respectively.

3.3.1 Research Question 1

The aim of this subsection is to identify and assess the existing literature in relation to the selection of Australia for investment by Chinese firms and, based on that assessment, develop appropriate, related propositions designed to help answer Research Question One. It first examines the investment motives of Chinese MNEs regarding developed and emerging countries, excluding Australia. This is followed by a comparison of the findings from this more general literature with the far more limited literature regarding the motives of Chinese MNEs investing in Australia, in order to determine whether or not the motivations regarding Australia are different from those regarding other countries. In turn, this will suggest appropriate research propositions to be examined in relation to Research Question One, particularly where there seem to be significant differences.

The Investment Motivation of Chinese Firms for Countries Other than Australia.

In the following paragraphs, the author will examine the type of motives of Chinese MNEs engaging in FDI respectively, as identified in the literature. Overall, the range of motives includes market-seeking, efficiency-seeking, resource-seeking, and strategic asset-seeking (the latter two are sometimes referred to as asset-seeking, see for example, Buckley *et al.*, 2007). A number of push and pull factors that have driven Chinese MNEs' internationalisation will also be reviewed.

First of all, Chinese firms may choose to go abroad to seek more market potentials due to the saturation of its home market. Empirical evidence suggests that the most common motivation for Chinese MNEs is market-seeking. According to a survey conducted by the China Council for the Promotion of International Trade (CCPIT) in 2009, of the 1104 Chinese MNEs who engaged in OFDI internationally, market expansion, in other words, market-seeking was the most widely recognised

driving force for 39 per cent of the respondents. The second most common reason for engaging in OFDI was to gain advanced know-how and experience, which accounted for 30 per cent of the sample population. This aim, together with 19 per cent of the population who wished to exploit natural resources and 19 per cent who wished to acquire reputable brand names, can be construed as asset-seeking motivation in the broadest sense. A follow-up survey conducted in 2011 also confirmed that seeking overseas markets was the most significant driving force for Chinese MNEs (CCPIT, 2012).

In addition to the survey conducted by Chinese institutions, Fung, Garcia-Herrero and Siu (2009) examined Chinese MNEs from 1991 to 2006 and concluded that market-seeking was a significant driving force for Chinese MNEs. Cheung and Qian (2007) and a more recent qualitative study, Voss *et al.* (2010), have both found that the internationalisation of Chinese MNEs was dominated by market-seeking factors.

Single country studies have tended to support the survey results of the CCPIT (2009, 2010 & 2012). Zhang and Van Den Bulcke (1996), for example, conducted a survey of the internationalisation motives of Chinese firms in the UK. They found that market-seeking in regard to the broader, European market was the main aim of SOEs, although, interestingly, Zhang and Van Den Bulcke suggest that most of them were constrained by a lack of strategic vision (p.142). Their survey instrument was later utilised by Liu and Tian (2008) again in the context of the UK, who confirmed this market-seeking focus as one of the main motivating factors for Chinese companies. Liu and Tian (2008) also found that UK-oriented Chinese MNEs considered cultural and language proximity as the third most influential factor driving their FDI, due to the relatively high number of Chinese expatriates in the UK compared to Europe as a whole. In addition, Fontagne and Py (2010) in a report for the French Research Centre for International Economies (CEPII) once again confirmed that Chinese MNEs' OFDI in the EU was mostly attracted by its market potential and other market-related factors, including "better access to public procurement markets" (Fontagne & Py, 2010: 24).

Resource-seeking is another common investment motivation among outbound Chinese investors. With limited domestic resources and their increasing trading prices, Chinese firms, especially those

SOEs and large group companies which have strong financial capital and bargaining power, are turning to countries with good natural resource endowments, including oil, gas, and timber. Also noted in the survey by CCPIT, while market-seeking construed the most significant driving force for Chinese MNEs, resource acquisition was the second most important reason for Chinese OFDI (CCPIT, 2012: 13). However, overall, the relative significance of the resource-seeking motivation seemed to have increased in more recent years. Fung *et al.* (2009: 96) examined Chinese MNEs from 1991 to 2006 and found that the regression result for three variables used to proximate the resource-seeking motivation – being fuel, food, and metal exports in total exports from the host economy was not significant. Buckley *et al.* (2007: 509 & 511), on the other hand, while it did not find a significant relationship between Chinese OFDI and host country natural resource endowment in general, noticed that over time, natural resource endowment became a more significant determinant. This change may be explained by the change in the foreign investment behaviour of Chinese enterprises over time, and that this is at least partly due to changes in government policy. As recognised by Buckley *et al.* (2007), Chinese firms have moved away from undertaking mainly market-seeking strategies towards the securing of raw materials to support the country's ongoing domestic growth. Other scholars who support this view include Buckley *et al.* (2008), Haglund (2008), and Zha (2013).

Another motivation identified in the FDI literature is strategic asset-seeking (sometimes regarded as a subset of asset-seeking or resource-seeking motivation, see Buckley *et al.*, 2007: 501). In recent years, an expressed goal of state-directed Chinese OFDI has been to access advanced proprietary technology, intangible strategic assets (e.g., brands, local distribution networks) and other capabilities abroad (Taylor, 2002; Deng, 2003; and Zhang, 2003). However, overall, a strategic asset-seeking motivation does not seem to be one of the dominant driving forces for Chinese MNEs engaging in OFDI activities (Buckley *et al.*, 2007: 510).

From the above discussion of the existing literature, it can be concluded that Chinese firms invest in developed firms mainly for gaining access to a larger market and to some, but growing extent, seek

natural resources; and, neither the strategic asset-seeking nor the efficiency-seeking motivations was dominant.

While the above mentioned studies all focused on Chinese investments in industrialised countries (except for the two studies of CCPIT which did not distinguish between countries), there has been a very limited number of studies examining Chinese MNEs' motivations for investing in emerging countries. Ren (2006), for example, investigated the motivation for Chinese investments in Vietnam. It concluded that Chinese MNEs invest in Vietnam to: one, explore its emerging large domestic market; two, to reduce transaction costs such as high tariffs set for imported goods and transportation costs by the Vietnamese Government; three, to seek greater efficiency based on the lower building and labour costs in Vietnam compared to China. Moreover, Africa and Latin America are also becoming increasingly popular destinations for Chinese FDI. In 2011, about 5 per cent of Chinese FDI flowed into Africa and 16 per cent into Latin America, compared to 3 per cent into Oceania (mainly Australia) (MOFCOM, 2012: 23). Haglund (2008: 547) conducted a study regarding Chinese MNEs' investments in "weak African states" such as Zambia, Angola, Sudan, and Nigeria. He found that the first and possibly most immediate objective for their investments in African countries was to maintain resource security, which was essential for continued domestic economic growth (Haglund, 2008: 551). To conclude, Chinese firms invest in other emerging markets for mainly the following reasons: to seek natural resources from countries with abundant endowment; to seek new markets; and to seek greater efficiency especially for large labour-intensive manufacturing firms.

The survey conducted by CCPIT in 2009 revealed a range of push and pull factors that have, combined, influenced Chinese investors' internationalisation activities. According to the survey results, significant push factors for Chinese MNEs to invest in the developed markets included: the Chinese government's Go Global strategy and related incentives, a stagnant domestic market in some sectors, and the availability of investment capital from domestic sources. The Government's Go Global strategy and related incentives appeared to be decisive for most surveyed companies (CCPIT, 2010: 14). Clearly, the stagnation of the domestic market is related to the market-seeking motivation

as discussed above. However, the push factors in China which influence investments in developing countries are quite different. While government's incentives are still important, Chinese companies' investment in developing countries is also influenced by rising labour costs in the domestic market (CCPIT, 2010: 16), which is clearly a concern causing efficiency-seeking investments.

The pull factors from the host countries also vary according to destination regions. Regarding investments in the developed markets, market potential, access to natural resources, access to skilled labour resources and to advanced technology, and acquisition of established brands appear to be decisive or very important factors for most MNEs surveyed; access to low cost labour or avoid transportation costs did not seem relevant (CCPIT, 2010: 16). Regarding investments in developing countries, the picture is once again, quite different. Access to natural resources and to low costs labour appeared quite important (CCPIT, 2010: 17). The intention to gain access to natural resources can be construed as a resource-seeking motivation, and the interest in low cost labour can be construed as an efficiency-seeking motivation. Following these two factors, market potential is also a very important factor suggesting that it is also quite common for Chinese firms to engage in OFDI in developing markets to acquire market shares. However, the survey results showed that factors such as access to skilled labour resources, access to advanced technology or acquisition of established brands were not relevant in developing markets as compared to developed markets.

The Investment Motivation of Chinese Firms Regarding Australia.

The following paragraphs review the investment motivation of Chinese MNEs investing in Australia as evidenced in the literature to date. With reference to the limited number of studies available, it seems that Chinese MNEs' engage in Australian direct investments predominantly for the country's natural resource endowment.

As reviewed earlier, studies concerning Chinese MNEs in developed countries in general tend to find that Chinese MNEs internationalise for primarily market-seeking purposes. Though also being a

developed country, Australia is distinguished from many other developed countries in terms of its rich natural resource endowment. Its significant resource endowment has enticed many Chinese enterprises to invest in the country, and not surprisingly the limited number of studies concerning Chinese investments in Australia focused almost exclusively on the country's resource sector. The following mentioned studies are examples. As Larum's report (2011: 9) for the Australia China Business Council pointed out, after analysing statistics from FIRB, Global Investment Tracker, and the Heritage Foundation database, for Chinese OFDI, "Australia's major attraction is resources". In his later, 2012 study, Larum confirmed that as reflected both in the number of investments and the monetary value involved, Australia's resources sector has been the primary target for Chinese investments (Larum, 2012: 13). A 2012 KPMG report also emphasised the importance of Australia's resource-seeking sectors to Chinese investors (KPMG, 2012). Zha (2013) also found, more generally, that the aim of a secure and stable supply of resources was of the greatest concern for Chinese investors, followed by making profits given the volatile resource prices worldwide. In other words the available scholarly research evidence suggests that Chinese MNEs do not invest in Australia for primarily market-seeking or efficiency-seeking reasons, but are largely resource oriented (see also, for example, Ren, 2006; and Haglund, 2008). There has been very little description or discussion of whether or not market-seeking or strategic asset-seeking motives play a role in stimulating Chinese MNE investment in Australia, but based on the prior discussion concerning Chinese FDI motivations in other developed regions, it is proposed that these two motives also have an influence on Chinese MNEs' Australian FDI, an influence not so far detected in the limited literature available.

Hence, given the limited nature of the available findings regarding other than the resource-seeking motivations for Chinese firms investing in Australia, Proposition 1 is aimed at determining whether or not market-seeking and asset-seeking motivations are of importance,

Proposition 1: Chinese firms invest in Australia for primarily market-seeking and asset-seeking motivations;

In addition, given what the literature suggests is the largely market-seeking motivation of Chinese investment in other developed countries, a second, related proposition is proposed,

Proposition 2: The motives driving Chinese firms to invest in Australia are different from those which drive Chinese investment in other countries.

3.3.2 Research Question 2

The aim of this section is to identify and assess the existing literature in relation to the entry mode choice of Chinese firms in regard to Australia and, based on that assessment, develop appropriate, related propositions designed to help answer Research Question Two. The literature suggests that a range of factors help determine entry mode choice, notably the type of investment motivation, firm size, previous international experience, goodwill capital, government policy and regulations, including both the source country (China) and the host country (Australia) and cultural factors. Hence, the section is divided into a number of subsections, each examining the relevant literature in relation to a specific factor.

Eclectic Paradigm and Entry Mode Choice

Recent work shows that investment motivations have an influence on MNEs' entry mode choices (for example, Bell, 1996, and Cui *et al.*, 2011). Specifically, it is proposed that market-seeking and asset-seeking (both natural and intangible) motives influence Chinese MNEs' entry mode choices, as discussed below. Though gaining access to cheaper resources and advanced technologies may help reduce the production costs of the investing firms and hence, help increase its production efficiency, this study adopts the view point of Buckley *et al.* (2007: 501) that efficiency-seeking FDI occurs in the search for lower cost labour in particular. Given China's comparatively low labour cost levels this motivation is unlikely, and is not explicitly considered here. This assumption corresponds with the

findings in the literature that efficiency-seeking motivation is not commonly seen in Chinese OFDI into developed countries, as discussed earlier in 3.3.1 Research Question One.

Market-seeking motivation. Research evidence on other countries suggests that a market-seeking motivation is often associated with the establishment of a JV. For example, Bell (1996) used market growth rate to proximate market potential and found that firms aiming to attain market shares preferred a joint ownership mode. This is because, the study suggested, a JV enabled the foreign firm to utilise the advantages of its local partners to compensate for its own liabilities of foreignness. Similarly, Zhang, Zhang and Liu (2007: 769) also found that the JV mode can “neutralising environmental deterrence” and is preferred for MNEs with market-seeking objectives, particularly when investing in emerging markets. Therefore, a JV is more desirable in a competitive industrial environment where incumbent firms are likely to strategically retaliate against new entrants.

However, in contrast to the above finding, the JV is normally not the first choice of Chinese MNEs because in general, the investment strategies adopted by Chinese MNEs and that of the developed country local firms are different (Cui & Jiang, 2009; Cui, *et al.*, 2011). “Chinese MNEs generally adopt cost leadership and niche-market focused competitive strategies, whilst developed country local firms usually focus on the development of value-adding technology and product differentiation” (Cui *et al.*, 2011: 5). The study was based on survey results for 138 Chinese MNEs, which is to date one of the few studies that have systematically investigated possible factors that may have influenced Chinese MNEs entry mode choices. The difference in strategic foci and operational strategies of Chinese MNEs and MNEs from developed countries in general makes it hard for Chinese MNEs to operate flawlessly with a local partner through joint venturing, suggesting a preference for the WOS mode.

A number of other studies also support the proposition that the JV is often not the best mode of entry for Chinese MNEs when engaging in market-seeking OFDI. For example, Nicolas (2010), in a case

study of Chinese TV producer TCL's JV with the French Thomson TV, found that the JV had been a failure, with TCL exiting the French market. There were several reasons for the failure, but cultural barriers and conflicts in managerial styles between TCL and Thomson were particularly important (Nicolas 2010: 39). Similarly, a 2012 CCPIT study found that overseas JVs are more frequently confronted with such challenges than WOSs, largely due to their differing business structures, particularly when Chinese MNEs are faced with severe local competition or seeking local market shares, with WOS being more successful (CCPIT, 2010: 24; and 2012: 36). Thus, it is reasonable to suspect that the potential operational problems may deter Chinese MNEs from choosing a JV mode of entry.

Hence, regarding Chinese investments in Australia, the following proposition is offered:

Proposition 3: Chinese firms with a market-seeking motivation tend to choose the WOS mode of entry for the Australian market.

Asset-seeking motivation. It is proposed that an asset-seeking motivation is also influential upon Chinese MNEs' entry mode choices when investing in Australia. The term asset-seeking has two aspects: one, tangible physical assets such as natural resources, fresh produce, equipment and materials; two, strategic assets that are generally intangible but may bring firm-specific advantages such as know-how, business networks, and advanced technology. While there are studies confirming that asset-seeking is an important motive for emerging economies to engage in FDI (for example, see Campos & Kinoshita, 2003), few have looked at the relationship between this investment motivation and the possible entry mode choices of emerging economies' MNEs.

In Cui *et al.* (2011: 492), it was found that Chinese MNEs preferred full control when asset-seeking motivation was of a high strategic priority in their FDI process, because it gives investing firms access to the raw materials or intangible resources they are interested in without the possible complications of dealing with local partners. A WOS allows investing firms to rely on their current strategies and

business practices, if they prefer, and to modify them as they see fit. Often, this full control is achieved through Brownfield acquisition (Cui & Jiang, 2009), where an exclusive ownership position can be achieved through the full control over acquired foreign assets. It provides managers with not only the technological patents, licenses and the production lines, but also, where they exist, the entire R&D team, management personnel, and professional employees.

Hence the author proposes the following proposition:

Proposition 4a: Chinese firms with an asset-seeking motivation tend to choose the WOS mode of entry for the Australian market.

Resource-based Perspective and Entry Mode Choice

In addition to the above factors, from a resource-based perspective, it has been argued that FDI entry mode choice is constrained by the configuration of firm assets or the competitive advantages/disadvantages of a firm. In other words, it is believed that both the tangible and intangible resources firms possess affect their decisions to internationalise, including choices of entry mode (see, Matthew, 2006; Alon, 2010; Cui & Jiang, 2010; and Lu *et al.*, 2010). For example, Cui and Jiang (2010: 763) argued that Chinese MNEs' ability to set up WOSs "may be constrained by their tangible asset endowment, most notably their capital asset size", which simply means firms with more money are more likely to set up WOSs. The tangible resource constraint that might influence Chinese MNEs' Australian entry mode choices includes corporate size (different measurements may be used including number of employees, annual sales, and return on assets, etc.), and the intangible resource constraints include the level of previous international experience and goodwill capital a firm possesses. The following paragraphs elaborate on these factors respectively and hence generate four propositions.

Firm size. As will be shown, there have been several studies investigating the possible relationship between ownership type and firm size. In general, the majority of scholars in this field found that firm size is positively related to the likelihood for MNEs to establish WOS in a foreign market. However, some studies have only found limited or no evidence supporting this view. It is suggested that these contradictory findings maybe attributable to the relative sizes of the firms studied. In order to test the argument two propositions are warranted. The first is that Chinese MNEs with larger sizes (see classification of size in Chapter 4 Research Methodology) tend to select the WOS mode for entry to the Australian market. This is because larger firms usually have greater financial resources and a more clearly-defined firm-specific culture and managerial style that they would like to retain in their overseas subsidiaries, which could be most effectively achieved through the establishment of full-control WOSs, indicating a preference for the WOS mode (Tsai & Cheng, 2004). In contrast, the second, related proposition is that smaller firms with fewer resources are more likely to work collectively with others or rely upon network assets, regardless of any preference they may have for the WOS mode (Yiu *et al.*, 2007; Zhou, Wu & Luo, 2007; and Lau, Ngo & Yiu, 2010).

Empirical evidence suggests that the majority of scholars in international business acknowledge the significance of firm size for entry mode choice. For example, Zacharakis (1997), Kuo and Li (2003), Yiu *et al.* (2007), Zhou *et al.* (2007), Agyenim, Wang, and Yang (2008), Lau *et al.* (2010), Gao, Murray, Kotabe, and Lu (2009) found that firms of larger sizes were more likely to engage in international activities to enhance their value and competitiveness through WOS. In addition, a number of researchers have provided evidence supporting the view that firms larger in size tend to prefer a full control mode of entry, especially in manufacturing industries (Kogut & Singh, 1988; Gomes-Casseres, 1990; Agarwal & Ramaswami, 1992; Aulakh & Kotabe, 1997; and Tsai & Cheng, 2004).

However, other researchers have found little or no evidence on the relationship between firm size and entry mode choices. For example, Lau (1992), Erramilli and Rao (1993), Bell (1995), and Berra, Piatti and Vitali (1995) found that the effect of firm size was not significant for the choice of entry

mode for smaller firms. It is necessary to note that firms referred to in these studies are “small-to-medium-sized” companies (Berra, *et al.*, 1995: 67) mostly in service industries (Erramilli & Rao, 1993: 19). The difference in findings compared to the majority of the studies is very likely because smaller firms have limited resources that they can commit in their foreign investments, so instead of devoting their resources to set up a subsidiary with a pre-defined ownership mode, they would in reality choose any ownership type that emerges and seems suitable and appropriate in their particular case, given their capability. It is reasonable to suspect that those Chinese MNEs with smaller sizes would also demonstrate different preference towards entry mode choices compared to those with larger sizes. In order to test the validity of both of these arguments in relation to the Australian market the following two propositions are proposed:

Proposition 5a: Chinese firms with larger sizes tend to choose the WOS mode of entry for the Australian market.

Proposition 5b: Chinese firms with smaller sizes tend to be indifferent as to their entry mode choice for the Australian market.

International experience. The literature has found abundant evidence supporting the view that greater levels of international experience increase the likelihood of an MNE choosing a high control, WOS entry mode. This is because experienced MNEs will be more confident of their capacity to manage the challenges of establishing a new international operation, without having to rely upon a foreign partner. The learning involved in earlier OFDI activities, it is argued, develops the firm’s capability to detect opportunities, cope with foreign market risks, and reduce the level of uncertainty in later OFDI ventures. This was found to be the case, for example, in Chen and Mujtaba (2007: 330) examining MNEs in general and in Kessapidou and Varsakelis (2002: 273) concerning Greek companies. In order to test whether this common finding holds true for the Australian market,

Proposition 6, below, indicates that Chinese MNEs with more international experience will be more inclined to set up full control, WOS subsidiaries than those with limited or no experience.

Empirical evidence from Phatak, Muralidharan, and Chandran (1996: 39), Brouthers and Brouthers (2000: 90 & 93), Ekeledo and Sivakumar (2004: 76), as well as Hu and Fan (2011: 560) also suggests that firms with no or limited international experience tend to choose a low-control entry mode such as a JV to “limit their risk exposure” (Chen & Mujtaba, 2007: 330). In the case of Chinese FDI, a case study of Galanz, a successful Chinese manufacturer of white goods, also confirmed that the accumulation of international experience stimulated the company to select the full-control, WOS for cross-border investments (Ge & Ding, 2008).

It should be noted that there are, however, a limited number of earlier studies that provide different findings regarding the influence of international experience. Kogut and Singh (1988: 426), who studied foreign entries into the US and Erramilli (1991: 487) are two studies that did not find a significant relationship between previous international experience and the selection of the WOS mode. However, as Kogut and Singh’s work focused only on the US as the destination country, and their study was based on data from nearly thirty years ago, its relevance to the Chinese context is perhaps limited. Even Kogut and Singh (1988: 426) noted that it was still “premature... to speculate on the causes” of their finding that there was an insignificant relationship between experience and the selection of the full-control entry mode. Erramilli’s study, focused only on service firms so that, as with Kogut and Singh’s earlier study, its continuing validity and generalisability is questionable. Hence, the following proposition is raised:

Proposition 6: Chinese firms with previous international experience tend to select the WOS mode of entry for the Australian market.

Goodwill capital. Goodwill capital refers to the asset value of a company name or a brand name (Mueller & Supina, 2002: 233). It is residual, in that it is the market value of a company, minus the

value of its tangible assets, its R&D capital, and its advertising capital (Mueller & Supina, 2002:235). It cannot be bought or sold separately because of its residual and intangible character. Goodwill capital, as the study of Mueller and Supina (2002: 243) suggests, can be as high as 80 per cent of a corporation's market value, and fluctuates considerably. Hence, it comes as no surprise that MNEs, especially those successful ones with significant goodwill capital, are very cautious when choosing their entry mode for a new market, though the research findings are mixed, as noted below. The majority of the studies in the literature have found that the higher the level of goodwill capital of a firm, the greater the likelihood of it selecting the WOS over the JV mode. However, Cui *et al.* (2011) and Shieh and Wu (2012), both focused exclusively on developing country initiated OFDI, and found no significant evidence supporting that view. Based on these latter findings, it is proposed that the level of goodwill capital an MNE possesses affect its entry mode choice in such a way that a shared control mode is preferred by companies with higher level of goodwill capital.

Stopford and Wells (1972), Gatignon and Anderson (1986), and Arregle, Hebert and Beamish (2006), for example, all found a positive relationship between the investing firm's advertising intensity, which could be construed as positively related to the level of goodwill capital the firm possesses, and the propensity to establish WOSs. This is because MNEs that produce intensive advertising find WOSs offer them the most effective protection for their brand value (Arregle *et al.* 2006; and Shieh & Wu, 2012). Similarly, by using the marketing intensity of the subsidiary as a measure for the firm's reputation and hence its goodwill capital, Gomes-Casseres (1989) also found that it tended to induce MNEs to choose a full control mode for their foreign affiliate, because again, a full control mode offers better protection for their brand images. Caves (1982) also highlighted the danger of local partners, who had less to lose from degrading a brand than did the foreign entrants. Therefore, high-control entry modes such as WOSs were considered to be the most suitable governance structures where the potential for free-riding was high (Caves, 1982). Research regarding other firms in other developing countries provides similar findings, for example, Phatak, Muralidharan and Chandran (1996: 45) found that firm specific assets and tacit know-how was positively associated with the degree of control sought in the entry mode.

In the Chinese context, Deng (2003), in examining the choices of entry modes of foreign firms investing in China, also found that there was a positive relationship between the goodwill capital a firm held and its subsequent full or high control mode of entry. However, Cui *et al.* (2011: 7), found that as late participants in global markets, most Chinese MNEs were still in the process of building their global brands: “Their current business reputation is regional and not globally distinct, which does not generate extra value for their products and services, and therefore does not necessarily cause free-riding risk”. Cui *et al.* (2011) also argued that Chinese firms with relatively higher goodwill capital may be perceived by their foreign counterparts as more trustworthy potential partners. Moreover, once such a JV partnership is successfully established, with the help from local partners, it might guide these Chinese firms through uncertainties and risks in the new market and thereby preserve their goodwill capital. Similarly, Shieh and Wu (2012), who investigated Chinese MNEs’ entry mode choices into Vietnam, also purported a significant relationship between goodwill capital and firms’ full control WOS mode. The above discussion leads to the development of Proposition 7, that:

Proposition 7: Chinese firms who value their goodwill capital at a higher level tend to select the JV mode of entry for the Australian market.

Institutional Perspective and Entry Mode Choice

As noted in the previous section, given the extent of state control of the Chinese economy, institutional constraints, reflected in both formal rules and informal norms, are likely to have had far-reaching effects on the internationalisation activities of Chinese MNEs, and in this context, their foreign entry mode choices. It is suggested that the institutional factors relevant to such choices are derived from three sources; the domestic, ‘home’ country; the foreign, ‘host’ country; and the cultural distance between the two countries concerned. It is suggested that the less stringent is government regulation and control of market entry by foreign firms, in either the home or host country, the more

likely a full control WOS will be selected. Also, given the high cultural distance between China and Australia, Chinese MNEs investing in Australia are prone to use a high control mode to allow them more flexibility in their daily operations.

Chinese government policy and regulations. There have been relatively few scholarly studies investigating the influence of Chinese government policy on Chinese MNEs' entry mode choices. The available historical data indicates that there has been a shift in entry mode preference across time, accompanying the change in government OFDI regulations, as noted below.

The Chinese government has influenced the entry mode choices of Chinese firms, although the mode preferred has varied over time. In the 1990s, for example, Chinese firms investing abroad were encouraged to apply to establish foreign affiliates, provided they had sufficient capital, technical and operational know-how "and a suitable joint venture partner" (Buckley *et al.*, 2007: 504). The preference for JVs was aimed at encouraging the Chinese partner to transfer technology and managerial knowledge back to China and also to attenuate the business risk involved in overseas operations (Voss *et al.*, 2007: 7). As China's OFDI increased, government policy became more liberal resulting in a rapid increase in the selection of the WOS mode by Chinese firms. Sixty-one per cent, for example, of overseas affiliates in approved projects took the WOS mode in 2001 compared to 30 per cent in 1991 (MOFCOM, 2002). In 2004, the Government, in its "Decision on reforming the investment system" (hereafter "Decision"), officially encouraged domestic enterprises to engage in FDI with "various ownership types" given that investors think that "conditions are mature" (MOFCOM, 2004: 10). The change in policy reflected: one, a growing confidence among the regulating authorities that managers of Chinese MNEs had become sufficiently experienced and skilled to take effective control of the activities of geographically-dispersed affiliates; two, on a somewhat speculative basis, the greater use of WOS may reflect the increased availability of investment funds for international activities, particularly after the government liberalised the capital raising requirements imposed upon Chinese MNEs in 2003 (SAFE, 2003).

The government's effort to streamline and encourage FDI activities of Chinese MNEs was welcomed by most Chinese investors. Based on a series of interviews, Buckley *et al.* (2010: 33) showed that a range of incentives were designed to make investing in foreign countries attractive, including preferential long-term loans for large Chinese OFDI projects, and on a more modest scale, seminars organised to inform investors about potential foreign business opportunities, market conditions, and foreign legal environments. One of the interviewees in Buckley *et al.* (2010: 38) indicated that the whole OFDI application process was simplified by the government to such an extent that it became merely a registration process aimed at gathering information about "where and how many Chinese firms invest abroad". At present, only investments in some critical industries such as the resources sector, or those exceeding USD30 million need the approval of the central government, with the rest being approved at the regional level (MOFCOM, 2008).

A survey by CCPIT in 2011 showed that nearly 70 per cent of newly established overseas subsidiaries of Chinese MNEs took the form of WOS, in contrast to 30 per cent who chose to set up JVs (CCPIT, 2012: 19). Specifically, 73 per cent of surveyed firms thought the support provided by the Chinese government, including frequently updated reports regarding foreign investment conditions, a simplified administration process related to the investments, and gradually improving overseas legal protection for Chinese firms had all contributed to their decisions to establish WOSs by Chinese MNEs (CCPIT, 2012: 26). Proposition 8, below, is developed to investigate whether Chinese firms investing in Australia feel that Chinese government support lead to the selection of the WOS mode:

Proposition 8: Chinese firms who perceive the Chinese governmental support as being helpful tend to select the WOS mode of entry for the Australian market.

Host government policy and regulations. The literature regarding Chinese OFDI tends to suggest that sometimes investing firms may have to sacrifice full ownership in order to operate legitimately in a market with restrictive regulations towards incoming investments (for example, Cui *et al.* 2011;

Voss *et al.* 2010; Deng, 2011; and Li, 2013). With reference to regulatory practices in the US, Brazil and Australia, for example, it can also be seen that in some cases, investors have to face the uncertainty and higher possibility of rejected applications if a full control entry mode was proposed. Hence, as indicated below, it is proposed that a restrictive or seemingly restrictive host government regulatory environment will make Chinese MNEs prone to adopt a JV mode of entry to minimise public controversy and possible governmental scrutiny.

In a host country with a high level of regulatory restrictiveness, foreign investing firms are subject to discriminatory host government policies on foreign ownership in local business, access to local resources, mandates for exporting, and many other constraining policies. In such circumstances, as found by Cui *et al.* (2011), a JV mode of entry is often preferred, since in these markets the WOS entry mode generally requires more stringent government scrutiny and often involves more restrictions. A similar conclusion was reached by Voss *et al.* (2010) and Deng (2011), who found that in most cases where the host country institutional barriers are higher for SOEs than for non-SOEs, SOEs tend to opt for the JV entry mode “to exchange ownership for legitimacy” (Deng, 2011: 7). The findings of Yiu and Makino also support this view, that is, the more restrictive the regulatory domain of the host country, the more likely the multinational enterprise would choose a JV mode of entry (2002).

A number of countries provide examples of increased regulatory constraints as regards foreign investment. For example, the US Congress promulgated the Exon–Florio Amendment based on its Defense Production Act (1950) in 1988, aimed at scrutinising then increasing incoming foreign investment, particularly those acquisitions initiated by Japanese firms. The amendment noted that all foreign investments that might affect national security may be reviewed and if deemed to pose a threat to security, the President may block the investment when “there is credible evidence that leads the President to believe that the foreign interest exercising control might take action that threatens to impair the national security” (US Statutes at Large, 1988: 1107). In addition, the Foreign Investment and National Security Act (2007) includes energy supplies among critical US assets that require

special consideration when faced with potential foreign investment, and it further imposes restrictions on the right of foreign SOEs to conduct mergers and acquisitions. According to Li (2013: 9), federal intervention at least indirectly led to the failed investment attempts of Huawei regarding 3Corn, and the acquisition of Bear Sterns by CITIC securities. Similarly, Brazil has imposed restrictions upon FDI in its resources section, including the requirements that foreign natural persons or individual companies can only explore and exploit its resources if the company is incorporated in Brazil, has at least 51 per cent Brazilian capital, two thirds Brazilian employees and a Brazilian majority in management (Manucci Advogados, 2013).

In the case of Australia, FIRB oversees proposed direct international investment with a value greater than AUD\$248 million as at 1 January, 2013. FIRB takes a “case-by-case approach” to proposed investments (Australian Treasury, 2013: 1), with the aim of maximising investment flows but also protecting the national interest. FIRB prescribes a list of sensitive sectors which may receive more detailed assessment before the application is approved or rejected. However, according to FIRB, there are no hard or fast rules as to what clearly classifies as a sensitive investment (Australian Treasury, 2013: 1). Australia’s Foreign Investment Policy notes that for an investment proposal to be classified as non-threatening to Australia’s national interest, particularly if it involves foreign government investors, it would be better if it can assure “the existence of external partners or shareholders in the investment; the level of non-associated ownership interests; the governance arrangements for the investment; ongoing arrangements to protect Australian interests from non-commercial dealings...” (Australian Treasury, 2013: 8). Clearly, proposed investments that fall into this category will be more favourably assessed if they are JVs involving suitable “external partners or shareholders”. Li (2013: 15) argued that FIRB has a “de facto requirement for minority shareholding” for Chinese companies who pursue an M&A project in the mining sector. It is not a formal requirement, but rather a norm that has been “intermittently enforced” by FIRB at the federal level (Li, 2013: 8). At the state level, there also seems to be a preference for large resource companies to accept Chinese investors as a source of capital and stable demand, as opposed to a majority shareholder (Li,

2013: 9). Given these findings, Proposition 9 is included to test the impact of Australian government regulation on entry mode choice, as follows:

Proposition 9: The greater the perception by Chinese managers that Australian regulations constrain investment in Australia by Chinese firms, the more likely it is that they will select the JV entry mode.

Cultural factors. A number of scholars have found evidence supporting the view that firms are more likely to set up full control WOS in countries with a bigger cultural distance from the state of origin (for example, Hennart & Larimo, 1998; Makino & Neupert, 2000; Mayrhofer, 2004; and Chen & Mujtaba, 2007). Others, however, have found that emerging market MNEs faced with a significant cultural distance instead tended to establish JVs (Ang & Michailova, 2008). The available evidence is thus decidedly mixed. As China is an emerging economy and Chinese culture is very different from that of Australia, it is proposed that Chinese MNEs will tend to choose a shared control JV mode for Australia as it will assist them mitigate the unfamiliarity associated with the different business environment.

The notion of cultural distance was first developed by Hofstede in a series of studies (1991, 1994). Hofstede's model identifies four primary dimensions in differentiating cultures: Power Distance (PDI), Individualism (IDV), Masculinity (MAS), and Uncertainty Avoidance (UAI). In his follow up study with Chinese employees and managers, he added a fifth Dimension—that of Long Term Orientation (LTO) focused on the degree to which the society embraces, or does not embrace, long-term devotion to traditional, forward thinking values (Hofstede, 2007).

As Mayrhofer indicated in regard to Hofstede's work (2004), all six studies measuring the influence of power distance on the choice of market entry mode indicate that power distance has a positive and significant influence on the likelihood of choosing a full control mode. This is because MNEs perceive that venturing with companies from a country with a high power distance would pose more

problems when it comes to decisions regarding daily operations than it would if a sole ownership subsidiary was set up instead. Hennart and Larimo (1998), Makino and Neupert (2000), and Chen and Mujtaba (2007) also support this finding.

However, differing opinions do exist. For instance, Ang and Michailova (2008: 557) proposed that when cultural distance increases, firms from emerging economics were more likely to set up JVs so that they can “rely on their host partners to gain and sustain legitimacy”. Based on Hofstede’s scores of cultural dimensions, China exhibits a markedly different pattern as compared with that of Australia’s (Hofstede, 1993), indicating the large cultural difference between the two countries: PDI – China 80, Australia 36; IDV – China 20, Australia 90; MAS – China 51, Australia 58; UAI – China 60, Australia 48; and LTO – China 118, Australia 28. Hence, Proposition 10 is developed in order to test the impact of cultural distance on entry mode choice for Chinese firms in Australia:

Proposition 10: The significant cultural distance between China and Australia results in a tendency for Chinese firms to select the JV mode of entry for the Australian market.

3.4 Conclusion

This chapter defined the basic concepts used in the study, provided an overview of the dominant theoretical perspectives related to internationalisation and entry mode choice, critically reviewed the literature drawing on these perspectives and, based on the findings of that review, developed two research questions and ten related research propositions.

It argued that, given the limitations of the major theoretical perspectives or frameworks, the thesis should adopt a multi-framework approach that combines, in particular, the eclectic paradigm, the resource-based perspective and the institutional perspective, as has been increasingly the case in the more recent literature. It will draw upon each of them, as appropriate, to generate insights into the internationalisation of Chinese firms and their entry mode choices regarding Australia.

Chapter 4: Research Methodology

This study utilises primarily a case study based research methodology supplemented by secondary information from government, web resources, the specific companies being studied and the existing academic literature. The purpose of this chapter is to describe and justify the research methodology adopted in this thesis. It contains information regarding why such a method was chosen, what the strengths and weaknesses are regarding the application of this method, how the population was identified, how participants were selected and recruited, and how the data obtained is documented and compiled for detailed analysis in the next chapter.

The chapter is structured as follows: Section 4.1 introduces the case study research method and argues why it is appropriate for this thesis. Section 4.2 describes how the population of Chinese MNEs operating in Australia was defined and what procedures were undertaken to finalise the selection of the eight cases. Section 4.3 provides a description of the details of the on-site and telephone interviews with participants. By referring to previous literature, this section also discusses how the data collected from the field was analysed, linking to the next chapter, Chapter 5: Analysis and Findings. Section 4.4 provides a conclusion.

4.1 The Case Study Approach

As described by Yin (2003: 13), a case study is “an empirical enquiry that investigates a contemporary phenomenon within its real-life context”. It is the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003:1). Therefore, it is very useful for exploring new processes and behaviours, for example when there is a lack of previous understanding or knowledge regarding a certain issue, as the detail or the extent of the problems concerned is largely unknown to the researcher (Yin, 2003). Ghauri (2004: 109) also confirms this

viewpoint. He values the case study method when the area of research is “relatively less known, and the researcher is engaged in theory-building types of research”. Hence, given the very limited existing research regarding the reasons for Chinese investment in Australia, particularly the lack of studies of their entry mode choice, a case study approach was regarded as appropriate. In essence, the study is of an exploratory nature, a type well suited to the use of the case study method as argued by Yin (2003) and Ghauri (2004).

In addition, given the detailed focus of a case study, they have the potential for discovering and illustrating casual paths and mechanisms through the sheer richness of detail. Further, as Yin notes, they also have the potential for helping identify casual influences and interaction effects which may not be treated as operationalised variables in a statistical study (Yin, 2003). In particular, he notes that the case study’s “unique strength” is its ability to incorporate a full variety of differing types of evidence, including documents, artefacts, interviews and observations (Yin 2003: 8).

This thesis is not the first study to investigate the internationalisation process and particularly entry mode selection of Chinese MNEs by using the case study method. However, as summarised by Deng (2011), the previous case studies tended to focus on a small number of prominent, large Chinese firms. For example, Nicolas (2010) looked at TCL’s internationalisation strategies in France; Ge and Ding (2008) examined a successful Chinese white goods manufacturer Galanz; and Niosi and Tschang (2009) analysed the leaders of the Chinese software industry including Huawei and Lenovo. These prominent companies are largely highly profitable SOEs, often with an officially sanctioned monopoly. Thus, their limited focus provides only a limited understanding of the internationalisation and entry mode choices of the full range of Chinese firms, let alone those choices regarding Australia. This study, with its focus on a range of both small and large Chinese firms, aims to generate a more extensive understanding by examining a series of cases which differ in size, ownership type, industry, and firm duration. It will also generate findings which will be used to test the validity of aspects of existing FDI theories.

The case study approach adopted is qualitative in nature. As indicated by Easterby-Smith, Thorpe and Lowe (1991) and Gummesson (1991), there are several advantages to the qualitative case study method. With reference to this thesis, these advantages include:

- One, it enables the researcher to comprehend and clarify in detail the experiences of individual companies – in the case of this thesis, it enabled the author to examine in greater detail the decision making of Chinese firms' internationalisation processes, including their entry mode choices, in the Australian context;
- Two, it focuses on firm representatives' understanding and interpretations rather than seeking general laws for behaviour across the whole population, thus providing a more precise understanding of specific situations – the majority of data collected through this thesis was gathered directly from top level managers, the group of people that have the richest and most extensive knowledge of their firms' internationalisation decisions;
- Three, it allows the researcher to undergo the research process together with the interview participants and interpret research issues from their perspective – in this thesis, the bulk of the issues identified were drawn from those interviewed, although also compared with those in the existing literature, so that the analysis reflects the actual investment situation of Chinese firms in Australia;
- Four, it provides details on managerial and corporate governance issues that may be of interest to managers of potential outward investing Chinese MNEs;
- Five, it provides information collected from a variety of different interviewees, assisting in the application of a triangulation approach to help achieve greater validity;
- Six, it assists in the assessment of existing theory and empirical findings by comparing them with the findings from a detailed examination of relevant cases.

4.1.1 The Limitations of the Case Study Approach

While, as noted above, the case study approach provides a number of valuable benefits, it also has a number of established limitations. One limitation is the case study's dependency on a relatively few resources to generate conclusions, sometimes resulting in the relatively weak internal validity of its findings. This is particularly the case when conducting interviews, such as were undertaken for this study. As indicated by Neuman (2000), if one researcher conducts interviews of people's behaviour or choice, a single object (interviewee) means "the limitations of the one observer become the limitations of the study" (p.125), and therefore, adding multiple interviewees can add alternative perspectives, backgrounds, and social characteristics to minimise the influence of such limitations. This remedial process is called triangulation, in which data is collected from different times, space or persons (Denzin, 2006). The triangulation process can help to enhance the credibility of the data (Lincoln & Guba, 1985). As described by Herr and Anderson (2005: 56), "The notion of triangulation, or the inclusion of multiple perspectives, guards against viewing events in a simplistic or self-serving way." Therefore, when applying the case study method, it is necessary to "triangulate" data sources wherever possible, as has been the case in this study.

Another common limitation regarding the case study approach is that it provides relatively little basis for scientific generalisation (Yin, 1994). In case study research, only one or a few cases are examined, so it cannot, without further study, produce findings which are universally representative (Veal, 2005). Instead of developing rigorous hypotheses ready for scientific testing, propositions are developed to see to what extent they were confirmed in the case study context of this thesis. The findings related to the proposition can be used to inform and guide future qualitative and quantitative research to achieve a greater degree of generalisability.

As Yin (1994) notes, construct validity can be problematic in case study research and it has been a source of criticism because of potential investigator subjectivity. Hence, Yin (1994) proposes up to three remedies to counteract this issue. One, using multiple sources of evidence, as was the case in this study; two, establishing a chain of evidence; and three, having a draft case study report reviewed

by key informants. This study has attempted to ensure construct validity by using data triangulation, as noted, where the researcher took the transcribed data from a number of interviewees in each firm and compared it to the recorded interviews and notes across all interviewees. Also, the researcher was able to establish a reliable chain of evidence by connecting themes identified in the different interviews and, where available, comparing that evidence with that available in published sources. In addition, each transcript was emailed to each interviewee for their consideration upon request.

4.2 Case Selection

This section elaborates on how cases for this thesis were selected. It starts off by outlining the criteria used for sampling and screening different Chinese MNEs, and is then followed by a step by step description of the actual selection process. A list of the cases finally selected is attached at the end of this section which indicates the industries each company is in, how long they have operated in Australia, and how many interviewees were engaged.

The selection of cases is crucial for reliable and informative research. In this thesis, to enable discussion regarding propositions developed in Chapter 3 Section 3.3 ‘Proposition Development’, a list of criteria was defined to guide the researcher through the sample selection process, as outlined below:

- One, the list of cases should comprise companies in a variety of industries to avoid final results bearing an industry-specific bias;
- Two, the cases to be examined should cover companies of a range of different sizes (large and small in terms of number of employees);
- Three, the cases to be examined should include all major types of ownership, including government-owned (SOEs), public and private enterprises; and

- Four, the cases to be examined should comprise MNEs with differing extents of overseas investment and differing levels of experience, particularly regarding their investments in Australia.

China's MOFCOM administers the applications of Chinese MNEs for OFDI. The website of MOFCOM contains a database which provides general information regarding most, if not all Chinese firms who have gained approval to undertake overseas direct investments since 1980 (MOFCOM, 2013a). A list comprising of 445 enterprises was retrieved as at 31st July 2011 from the database containing information about all companies that have made direct investments in Australia since 1980. It should be noted that some private or small-scale enterprises may not have been included in the database, as noted by Davies (2013: 43) and that failed companies have not been excluded from the list. However, despite these limitations, there is no other source that provides fuller or more accurate information of which the author is aware.

The distribution of the 445 enterprises by industry is provided in Table 2-9 in Chapter 2 Section 2.3 'The Australian Market'. The author then searched online for the official websites of the 445 enterprises (where available) and recorded their contact details including email addresses and telephone numbers. The contact details of the staff responsible for overseas investments of the companies were also identified and recorded where available. For those companies without websites (roughly 10 per cent of the population), their contact details were gathered from a variety of other sources such as job-seeking websites. In China, most small companies recruit through those professional platforms (such as 51job.com, yingjiesheng.com), and those companies often leave contact numbers or email addresses of recruitment staff for individual job-seekers to contact them directly. This gave the researcher contact details for small companies. The researcher then grouped companies by industry, and started contacting firms in different industries in order to gain a reasonably diversified industrial distribution. As only senior managers were likely to have had experience with internationalisation and entry mode decisions, they were the main target for interviews.

In order to triangulate, it is understandable that perhaps “the more the better” regarding the number of interviewees. However, the actual number of interviewees is an unavoidable limitation for this study. This is because only senior managers or above may be familiar with their company’s internationalisation processes, and the number of those available as potential interviewees was very limited in each company, let alone the difficulties in getting their consent to participate in this study. Hence, each case conducted involved only two to three interviewees. To at least partially remedy this limitation, the interview data was supplemented by a range of web-based and textual material, including corporate reports, information in the media and a limited number of interviews with government officials from China and Australia. These sources of information helped the researcher to get a better understanding regarding the enterprises’ financial situation and operational strategy before and during their Australia operations.

Potential participants were contacted by telephone or email. In almost all cases the phone numbers of managers in responsible departments were not publicly available. Some companies, however, chose to release the email addresses of those departmental managers. Therefore, when neither the phone numbers nor the email addresses of relevant managers were available, phone calls were made to the receptionist or overseas investment department to gain contact information of relevant personnel. In the phone call, the author introduced the project briefly, and asked if the company would participate in the study. After the phone call a formal invitation letter was sent by email to those agreeing to participate, containing more detailed information about the study and formally requested the participation of senior managers. After two weeks, if no feedback was received, a follow up call was made to encourage their participation. After several rounds of communication it was decided that eight companies would be used as distinctive cases in this research.

As expected, it proved difficult and time-consuming to contact potential interviewees. Of the eight cases, only one was contacted through emailing, the others were all connected directly through three to five rounds of telephone communication. This number is small, and is one of the limitations of this thesis. Nevertheless, from the point of view of the researcher, eight cases are sufficient for the

following reasons. First, as argued by Yin (1994), there is no ideal formula for selecting the number of cases to utilise – it is mainly up to the judgment of the researcher. Second, the eight enterprises covered several industries and were of different sizes, ownership types, and duration of Australian operation, in line with the pre-defined selection criteria. As a result, although the total number of companies that agreed to participate in this research was limited, the author believes that it provides valuable insights regarding Chinese firms in Australia.

The following table, Table 4-11, provides a summary of the cases that this thesis has examined.

Table 4-11: Cases and codes of interviewees

Case No.	Industry	Size	Ownership Type	FDI in Australia since	Interviewee Codes
CS1	Biochemistry	Large	SOE	2008	T1
					T2
					T3
CS2	Mining	Large	SOE	2009	V1
					V2
CS3	Mining	Large	Public	2009	C1
					C2
					C3
CS4	Manufacturing	Large	Public	2006	H1
					H2
					H3
CS5	Livestock	Small	Private	2008	S1
					S2
					S3
CS6	Pharmaceutical	Small	Private	2006	Z1
					Z2
CS7	Fur & Leather	Small	Private	2006	X1
					X2
CS8	Dairy	Large	Public	2010	B1
					B2
Australia Government Official					G1
Chinese Government Official					G2

4.3 Data Collection and Analysis

This section first discusses the procedures involved in the data collection stage, where and how interviews were conducted and what questions were asked. Second, it introduces the methods applied to analyse the data so as to address the research questions.

As described earlier, the interview was the major method for data collection used in this thesis. Table 4-11 indicates that 22 interviews were conducted in total, one of which was with a government official from China, one with a current government official from Australia. Five of the twenty two interviews were conducted by telephone, the remainder on a face to face basis. In all cases the structure of the interviews was the same, as follows.

1. I introduced myself, as the interviewer, to the interviewee and thanked them for their participation.
2. I briefly reminded them of the objectives of the PhD and the objectives of the interview (these had already been provided in written or electronically to the interviewees).
3. The interviewee was reminded that the interview was voluntary and that they could withdraw at any time.
4. At this stage, with the agreement of the interviewee, digital-recording commenced.
5. The questions then commenced, based on a standard list (see below)
6. Upon completion of the list of questions I indicated that the interview was now at an end and again thanked the interviewee for their participation.
7. I reminded the interviewee that interview transcripts would be made available upon request.

All interviewees were asked a set list of standard questions as below. The interviews with all corporate managers were conducted in Chinese, with requests for clarification of questions being dealt with by the researcher. Then, in each case, a range of follow-up questions were raised depending on the answers the researcher got from the standard questions being asked:

Q1. Why did your company invest in Australia?

Q2. What entry mode did your company chose?

Q3. Who was involved in the choice of entry mode and when was the final decision made?

Q4. What factors determined the choice of entry mode?

The collection and analysis of the interview data followed that recommended by Huberman and Miles (1994). In summary, they suggest that qualitative data analysis should embrace three linked sub-processes: data reduction, data display, and conclusion verification. The data reduction stage involves filtering various information gathered during data collection, such as diary, interview notes, interview transcripts, and contextual and background information. The aim of this process is to *reduce* the amount of information available for further investigation and save time and effort in the next display stage by identifying key themes and patterns in the material collected. The next stage, data display, involves visually displaying the reduced data, primarily through the formulation of detailed matrices encompassing the key themes and patterns identified. The final stage is that of conclusion verification, involving the interpretation of the reduced data emanating from the data reduction and display stages.

Based on the above, first, every interview was digitally recorded and subsequently transcribed and translated by the bilingual researcher. This produced 227 pages of transcribed material. Transcribing the interviews enabled the researcher to more easily identify key issues and patterns and get a better ‘feel’ for the data.

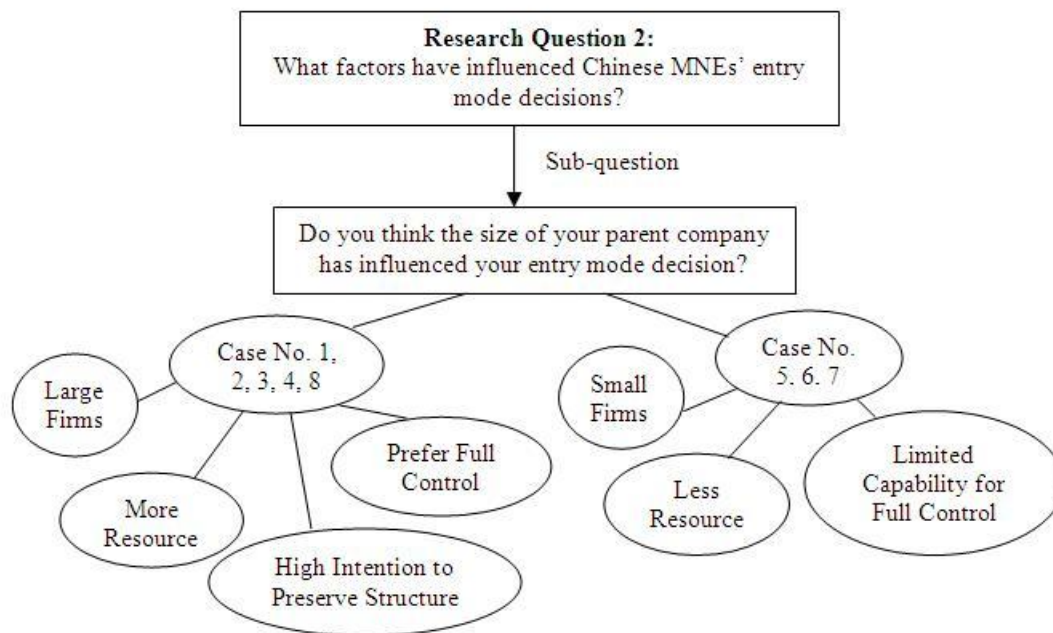
Key words and phrases were identified, highlighted and recorded both on the relevant sections of each printed transcript and in a separate log book. The author also identified key ideas expressed or implied in the transcripts, and recorded them as sets of ‘self-developed’ labels. For example, words such as “experience definitely mattered” and “prefer full control mode” were extracted and recorded directly from the transcripts; while “to secure iron ore supply” can be construed as “natural resource-seeking” and was therefore recorded in the relevant section as well. These formed the codes of the data pool. As the coding developed, the log book also enabled the researcher to record reflections and observations on the data. The reflections and observations included understandings of the codes – how they interrelated and how they explained the research questions; as well as any contradictions and anomalies identified in each case. This strategy helped the researcher to recognise any trend or

pattern out of the data pool. The process of reading and coding was repeated several times to make sure that all relevant information was filtered.

Following the first stage of data reduction, the codes were grouped according to the research questions they concerned. Specifically, codes relevant to answer Research Question One, “Why have Chinese MNEs chosen to invest in Australia through OFDI?” and Research Question Two, “What factors have influenced their choices of entry modes for Australia?” were grouped separately. Through analysis of the interview data, it was apparent that eight factors emerged regarding the discussion around Research Question Two, including: market-seeking motivation, asset-seeking motivation, size, experience, goodwill, Chinese governmental support, Australian governmental scrutiny, and cultural distance. Therefore, relevant codes were further grouped according to the specific factor they related to. During the grouping stage, it was noted that several codes were related to more than one factor. For example, “prefer WOS in ideal situation” was a common response of many managers when asked about their entry mode decision process, and it was mentioned constantly in discussions regarding many factors, including size, prior international experience, and institutional environment. Therefore, a repetition and cross-referencing in grouping was necessary regarding some codes.

Then in the next stage, data display, the grouped codes were presented on a ‘mind map’ showing all the connections. This process visualised all codes relevant to answering each question, and showed intuitively how they were related to each other, which facilitated further analysis by the researcher. A simple example of what and how codes were linked to a research question is illustrated in Figure 4-7. It is an excerpt from the larger mind map and shows codes relevant to the discussion of factor “size”, one of the factors identified regarding Research Question Two “What factors have influenced their choices of entry modes for Australia?”

Figure 4-7: Data display – excerpt of mind map



In the third stage of conclusion verification, two types of interpretation regarding the sorted data sets were involved. Firstly, a long, primarily descriptive representation of each case was prepared. This comprised what normally appears in the case study literature as background knowledge or demographic information. The second type of interpretation was the analysis directly addressing the research questions proposed in this thesis, following the descriptive stories for each case. These analyses were stimulated by and built primarily upon the mind maps set out in the data display stage as illustrated above. Based on the case-by-case analysis, an overall discussion regarding all eight cases was then prepared to compare and contrast the findings.

4.4 Conclusion

This chapter presented the methodology adopted in this study. The first section articulates what a case study is, the strengths and weaknesses associated with it, and briefly justifies why such an approach is the most suitable method for this study. The second section details how the population of

Chinese MNEs in Australia was identified. It first sets out a list of selection criteria which guided the participant recruitment process for this thesis. Then it goes on to discuss how participants were contacted. At the end of this section, a list comprising general information of the eight cases selected is also attached. The third section discusses how interviews were conducted. In addition, how data collected was organised, analysed, and presented were outlined and reported.

Chapter 5: Analysis and Findings

This chapter provides a detailed discussion of the cases studied in this thesis. The chapter is divided into ten major sections, with the first eight each focusing on a separate case. Each of the individual case section is comprised of five parts that follow the same basic pattern, with the first introducing the industry in question, the second outlining the development of the MNE, the third providing a largely chronological discussion of the MNE's internationalisation activities, if any, before its Australian investment and the fourth examines the major features of the Australian investment, and the fifth part relates the interview data to the review of research questions. In the ninth section the findings regarding the eight cases are reviewed and compared drawing on references to the existing literature. The tenth and final section concludes this chapter.

5.1 Case One (CS1)

5.1.1 Background: the Chinese Pesticide Industry

In the last thirty years the Chinese pesticide industry has expanded rapidly (Bai & Run, 2011). This includes all of the five main types of products: herbicides, fungicides, insecticides, rodenticides and plant growth regulating agents (Meng, 2011). In 2005, for example, the aggregate domestic production of these five categories of pesticides exceeded one million tons, making China the largest pesticide producer in the world for the first time. The figure rose rapidly, and by 2012, China's annual pesticide production reached 2 million tons (Nuomei Consulting, 2013). Table 5-12 details the yearly total production of the Chinese pesticide industry on a five-year interval from 1990; it also shows the corresponding value of output in that particular year.

Table 5-12: Yearly production and value of output of Chinese pesticide industry

Year	1990	1995	2000	2005	2010
Total Production (thousand tons)	227	349	636	1039	2687
% increase	N/A	53.7	82.2	63.4	158.6
Revenue (billion Yuan)	15.7	19.4	26.0	64.2	138.6
% increase	N/A	23.6	34.0	146.9	115.9

(Source: NBSC, 1990, 1995, 2000, 2005 & 2010)

Along with the increase in production volume has been a rapid increase in revenue. By 2012, the total revenue of the whole industry amounted to RMB236 billion, a 71 per cent increase from the 2010 figure of RMB138 billion as shown in Table 5-12 (Nuomei Consulting, 2013). This has been sufficient to meet rapidly rising domestic demand and, in addition, to sustain a rapid increase in exports, making China the second largest exporter of pesticides after the US. By the end of 2012, for example, a wide range of products were exported to over 100 countries, resulting in export revenue of RMB29 billion, approximately 12 per cent of total domestic production (Nuomei Consulting, 2013). The importance of foreign markets to domestic pesticide producers is likely to increase over the years to come as production capacity exceeds that needed to satisfy domestic demand (Nuomei Consulting, 2013; NDRC, 2012; and China Industry Information, 2013).

It should be noted that, as indicated by an NDRC report the average export prices of Chinese pesticides are significantly lower than that of imported pesticide products (NDRC, 2012: 4). In 2012, for example, the average export price of Chinese pesticides was approximately USD3,188 per ton, only a third of the average import price (NCRC, 2012: 4). In other words the majority of Chinese exported pesticides are low-end products with little value added, in contrast to imported pesticides. This suggests that there may be considerable potential for Chinese pesticide producers to develop more advanced products for both the domestic and export markets, particularly if they can gain access to the necessary technology.

5.1.2 The Company (CS1)

CS1 is a group corporation that operates in the pesticide and fine chemicals industry. The group also manufactures building materials and textiles, specialises in biochemical water treatment and provides on-site vocational education. It is an unlisted SOE in an industry that consists of many small, “workshop” sized enterprises, but is dominated by relatively few much larger producers (CS1, 2013).

CS1 has 11 production lines and an estimated annual production capacity of 100,000 tons by 2012 (CS1, 2013). Other than glyphosate, acetochlor, butachlor, pretilachlor, trifluralin, and thifensulfuron, which are deemed to be basic products, the company also produces what they perceive as high-end products, including phenthoate, dimethoate, and imidacloprid (T3). The high-end products, as well as a patented new bactericide, KEJUN, are recommended by China’s Ministry of Agricultural as good replacements for traditionally used, highly toxic pesticides. These, especially KEJUN, are regarded as “market winners”. CS1 also exports agricultural additives to 27 countries and regions around the world (T3), ranging from 96 to 98 per cent dimethoate raw powder, 95 per cent phenthoate raw oil, 95 per cent acetochlor raw oil, butachlor raw oil, pretilachlor raw oil, and 95 per cent thifensulfuron-methyl raw oil (CS1, 2013).

CS1 has gained an AAA credit rating from Chinese government financing agencies for ten consecutive years (CS1, 2013). It has also gained a series of provincial and national awards (CS1, 2013). In 2006, CS1 ranked 59 out of 100, by level of net profit, in the national list of pesticide manufacturers (Chinese Chemical Industry Association, 2006). Its ranking was 60th in 2010 (Chinese Chemical Industry Association, 2010). Regionally, CS1 is the second largest pesticide producers in Jiangsu Province, one of the most affluent coastal provinces in China (CS1, 2013).

CS1 internal corporate reports detail its financial performance and strategic milestones (CS1, 2008). The income the enterprise has accumulated through the introduction of phenthoate and other high-end pesticides as described above provided a significant portion of the capital needed to establish the following Australian investment, with the remaining financed through Chinese banks. In 2004, for example, CS1 realised annual pesticide sales of RMB681 million, which increased to RMB800

million in 2007 and RMB950 million in 2008 before the setup of their Australian subsidiary in the same year. The steady increase in sales provided strong financial support for CS1 to go abroad.

5.1.3 CS1's Pre-Australian International Activities

The company had no overseas investment before establishing its Australian subsidiary in 2008. However, it had gained experience of working with an international partner from 2004, in the form of a JV with a Singaporean company, United Envirotech, based at their Chinese production site in Jiangsu Province. The JV focused on water and wastewater treatment using an advanced membrane bioreactor and continuous membrane filtration process in microfiltration, ultrafiltration and reverse osmosis (T1). With this advanced film treating technology, the bio-chemical water treatment project increased the company's daily wastewater treatment capacity from 50,000 tons in 2004 when it was first established to 200,000 tons in 2010. The income of the JV from waste water treatment increased from SGD1.33 million in 2005 to SGD3.94 million in 2011 (United Envirotech, 2005; 2011). The successful project helped CS1 to accumulate experience in dealing with foreign stakeholders, and most importantly, experience in gaining access to the financial capital needed for their subsequent overseas expansion (T2). In the meantime, the advanced technology and experience gained from this JV provided valuable knowledge necessary for their future operation in Australia, where the environmental protection requirements in their particular industry are much more stringent than that of China (T2, T3).

5.1.4 CS1's Australian Direct Investment

CS1 commenced its preliminary market research in Australia in 2000. It established a representative office in Sydney to help collect market information, conduct market demand research, and provide customer services for the products sold through export trading. This preliminary stage was in large part a response to the Chinese government's "Go Global" strategy in late 1999, so it had "the

advantage of experiencing good policy-level support from every dimension of government” (T1, further discussion of this point follows in subsection 5.1.5). The preliminary investigation was made to evaluate the potential for possible direct investment opportunities in Australia. The final decision to invest in Australia was made after nearly six years of market information collection and analysis.

As indicated by interviewees T1, T2, and T3, the decision to carry out direct investment in Australia and its relevant entry mode choice were the result of many group meetings involving top managers and the board over a two-year period. Three years after the representative office started to operate in Australia, much knowledge was accumulated about almost every aspect of the local market. With the help of the Australian office, the marketing and sales department prepared a formal report detailing the market prospects of Australia. The report was then reviewed and discussed by top level managers and the board. After several rounds of discussion, the finance department was delegated to come up with an indicative budget of how much the company should, and could invest in this project. This indicative report was then further reviewed and discussed in the top level meetings. When the majority of senior managers and the board were convinced that the benefit for the company to carry out this investment in Australia exceeded the costs associated with the investment, a strategic decision to proceed with the project was made. A group of staff was then selected from a variety of departments, including manufacturing, sales, finance, and research, to prepare a detailed feasibility report. This report contained information about the intended full control entry mode, and it was, not surprisingly, subjected to close examination and analysis before finalisation. Once every department was prepared to make their contribution for this movement forward, and every resource was in place (including a plan to recruit additional staff and deploy monetary capital), applications to operate in Australia were handed in to both the Chinese and Australian governments for approvals.

Finally in 2008, the company established its own WOS in Australia, with 33 employees, rising to 52 in 2011. The company aimed to produce some pesticides and herbicides offshore and directly penetrate the Australian market with such products. Ingredients to make pesticides were sourced from both China and Australia domestically. The production generally involves blending and mixing up

pesticide preparations rather than making them “from scratch”, onsite. The Australian subsidiary also facilitated the import of products that were not directly produced in this subsidiary. As indicated by their international operations manager, the company has valued this Australian investment highly and plans to invest more resources to further develop the subsidiary (T1).

An indication of the value CS1 placed in the Australian investment was the fact that it did so at a time when its revenue was adversely impacted by a number of factors. It was expected in late 2007 that CS1 would be able to achieve sales of approximately RMB1.2 billion in 2008, and yet the actual figure was RMB950 million (CS1 Internal Report, 2007: 35; 2008: 1). Although it still represented an 18 per cent increase from 2007, the increase was smaller than expected, for three main reasons, as indicated in company reports and the T1 interview. First, a major earthquake in Sichuan Province on May 12, 2008 severely damaged crop growing areas, accompanied by a huge loss in lives, especially in the rural regions where agriculture forms the basis of local economy. The result was that many fields were left unattended and output was low, in turn directly resulting in a sharp drop in demand for pesticides and herbicides. Second, Yunnan Province, an important agricultural area growing wheat, rice, tea, herbs and tobacco, faced a serious drought that lasted into 2012, again adversely impacting demand for CS1 products. Third, the global financial crisis resulted in a sharp drop in demand for pesticides. In addition, CS1’s cash flow was further strained by the fact that the company started a major relocation to a local economic zone at the end of 2007, which required major capital injections for plant construction and new technologies (T3).

As a result CS1’s sales of pesticides fell to RMB600 million in 2009 and RMB570 million in 2010, respectively (CS1 Internal Report, 2008: 1). At the time of the interview in 2012, interviewee T1 indicated that revenue had increased in the first half of year 2011 compared to 2010. It turned out to have reached RMB850 million in 2011, confirmed T1’s evaluation.

The group’s overseas trading activities did not experience as drastic a decrease in revenue or net profit as their overall business did. In 2008, for example, after the establishment of their Australian subsidiary, CS1 achieved an aggregate net profit for overseas sales of RMB10.36 million, more than

30 per cent (RMB3.21 million) being attributable to their Australian investment (CS1 Internal Report, 2008: 30). This was a considerable achievement as the company had only been in production for 10 months (T3). However, as the effect of the global economic downturn deepened in 2009, overall net profit from overseas direct investments almost halved, to RMB5.85 million RMB (CS1 Internal Report, 2009: 1). Despite that, the Australian affiliate still realised more than 50 per cent of this net profit amount (RMB3.22 million), suggesting that the performance of the subsidiary was at least not deteriorating. In 2010, net profit for overseas trading bounced back significantly to RMB22.42 million. Not surprisingly, the Australian company was the largest contributor to the increase, with RMB15.18 million worth of net profit (CS1 Internal Report, 2010: 1). This progress in performance was accompanied by the increase in the number of employees in their Australian affiliate from 33 to 52. The rapid recovery in CS1's international trading – especially regarding its Australian investment – further convinced the top level managers that they had made the right decision to invest in Australia, and they intended to expand their investments in the years to come (T3).

5.1.5 CS1 and Research Questions

5.1.5.1 Research Question 1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

The three CS1 interviewees indicated that the decision to invest in Australia was driven by two key factors: first, the potential for growth in the Australian market; and second, the fact that Australia would provide a valuable learning experience in a demanding and highly developed market.

Regarding the first driving factor, as T1 noted, while Australia's population was relatively small, it had a large and advanced agriculture industry. The company wanted to explore the market. In addition to that, T1, T2 and T3 all equally stressed the importance of the second driving factor, the accumulation of international experience. According to T2, the experience gained in the Australian investment would assist it in further developing the quality of its products and, as a result, would help

it to enter other, larger, but more remote developed markets. In particular, interviewees felt that valuable experience had been gained in at least two ways: one, in managing in a multi-cultural environment with a different language; and two, in providing easier access to new technologies related to pesticides.

To sum up, CS1's motivation was twofold: to explore market opportunities in Australia, to accumulate experience for future internationalisation purposes.

5.1.5.2 Research Question 2: What factors have influenced Chinese MNE's choice of entry mode for Australia?

CS1 set up a WOS in Australia in 2008. In summary, the following factors influenced its entry mode decision: the motivation to seek an overseas market and assets, the size of their parent company, their previous joint venture investment experience, and supportive home government policies. In contrast, they felt that their goodwill capital would have negative effects on the setting up of a WOS.

As regards investment motivation, T1 noted that setting up a WOS was more useful as it was felt that "... the cycle involved in setting up a WOS would be shorter than that of JVs," which would be more advantageous for them since "we want to attract more market shares in a given period of time"; so the shorter the time cycle for establishing a foreign affiliate, the quicker they would be able to plunge into production and expand the domestic production and distribution net. T2 also stated that a WOS was chosen as CS1 did not need to share their core expertise and technologies with any potential partner or competitor. While this would restrict access to the expertise and technologies of potential JV partners, it was felt that an affiliate directly operating in a foreign market would still find it relatively easy to get access to advanced marketing strategies and managerial skills as applied in Australia.

In summary, those interviewed saw the advantages of a WOS over a JV as threefold. The first was that it enabled more effective control. In a WOS, with CS1 as the sole owner, it could ensure its dominant power in overseeing day-to-day operations and in making strategic decisions. There would

be no need for excessive documentation or prolonged discussions with people other than those from the same company, which saves time and effort. The second was that they felt a WOS could commence operations and therefore generate income sooner as there would be no need for coordinating matters with other partners. The third was that they felt that the core expertise and related technologies of the company would not have to be shared with a partner.

The literature suggests that the larger the size, the higher the probability that a WOS mode will be chosen rather than a JV. As noted above, CS1 is a relatively large company compared to both Chinese and international norms for the industry. In 2005, for example, it had imported a new raw chemical production line, which significantly increased its already large production capacity. Hence, as T1 said, "... we are a large group company with over 10000 employees, so we have the capability to transform and utilise the knowledge accumulated elsewhere... so we prefer a WOS rather than interest sharing JVs", which allowed them to "start operations immediately" with "almost no third party except the Australian government and local distributors involved".

However, it was noted that entering via a WOS could be difficult. T1, for example, indicated that if a JV mode had been selected, "the Australian reviewing process might have been shortened" because one, it would have reduced the size of the CS1 investment and two, the Australian government might have been more comfortable in letting an experienced local company guide the new enterprise (T1). As it happened, CS1 was large enough, with sufficient capacity to "be able to bear and digest those possible uncertainties" (T1).

As described earlier, CS1 had no prior experience in foreign direct investment. However, the JV with their Singaporean partner provided CS1 with valuable knowledge regarding how to communicate and operate with foreign partners. Interviewees from CS1 also indicated that the JV wastewater project had influenced their final entry mode choice of WOS. "We have... definitely drawn on the investment experience in the Singaporean project before deciding to establish our own Australian branch without the help of local partners" (T1). The JV plant, for example, provided valuable experience for their Australian investment regarding, but not limited to: environment protection,

dealing with foreign partners, managing overseas supplier/ distributor/ trade relationships, and operating under an unfamiliar institutional environment.

The goodwill capital of a company can include the company's reputation, its human resources and its brand image. Both T1 and T2 recognised that goodwill was important for a company and also saw greater risks to goodwill in a joint venture, assuming that it experienced difficulties. "We think considering our business scale and reputation, it must be more effective and efficient to establish a WOS... because that's [goodwill capital] what we want to preserve, and that could only be best kept if no external influence was to exerted upon our daily operation, and that's what is unavoidable in a JV... therefore by setting up a WOS we can avoid possible alterations to our brand value in a foreign market" (T1); "It was because we have a strong and sound goodwill capital, and that we had the necessary resources on hand to ensure the practicability of a full control mode, that we managed to get into the Australian market on our own" (T2).

The Australian government was viewed as having a rather supportive and positive attitude towards CS1's investment proposal, but it did not express a preference as to entry mode, or try to influence CS1 in any particular direction. T1 indicated that if the Australian Government had preferred that foreign firms such as CS1 set up a JV with an Australian firm, or if taxes were higher on foreign-owned WOS, then CS1 might have made a different entry mode decision. In other words the choice depended, in part, upon the particular circumstances, rather than solely upon a preference for using a WOS.

Both T1 and T3 indicated that the Chinese government's policy of encouraging local companies to go abroad had a degree of influence over the company's decision to invest abroad. T2 was uncertain as regards this factor, although he did state that as CS1 had not encountered any significant difficulty when dealing with the government in the approvals process, it must have been supportive of CS1's internationalisation efforts. In terms of the selection of entry mode, T1 indicated that the Chinese government had no explicit rules limiting the type of entry mode specific companies should choose. As long as the application for an overseas investment was supported with appropriate materials and

reports, companies could get approvals in a relatively short period of time, at least as compared to the Australian approvals process, regardless of the choice of entry mode. T2 acknowledged that they easily got the funding from local banks to develop this Australian affiliate as they were a large SOE in one of the most advanced Chinese provinces, a fact which also made the selection of the WOS mode more feasible.

Interviewees from CS1 were aware of the effect of culture regarding their entry mode choices: “Australian employees tend not to have cognition about class differences, so they wouldn’t feel uncomfortable by joking with the boss, or speaking out their different opinions, which are rare in our country, especially in larger SOEs...” (T1). They indicated that setting up a WOS could “minimise” those cultural problems by minimising the opportunity for any confrontation, so that no extra effort would be needed to “accommodate your partner” within a JV (T1). However, the interviewees also stated that cultural distance was not a key or determining factor in their overseas investment decision. “Since you have already made this investment decision, you must have prepared for any uncertainties including cultural shock...” (T1).

5.2 Case Two (CS2)

5.2.1 Background: the Chinese Iron and Steel Industry

The development of the Chinese iron and steel industry since 1949 falls into three broad stages: the highly centralised planned economy period (1949 to 1978); the market transition period from a planned economy to a market economy after market liberalisation (1978 to 2000); and the rapid growth stage where the reform has been deepened and local manufacturers were encouraged to compete in the global market (from 2000 onwards; CASS, 2009). This section provides a brief description of the second and third stages in the development of the industry.

Table 5-13 indicates the output of crude steel since market opening in 1978, at five-year intervals until 2010.

Table 5-13 Chinese output of crude steel from 1978 to 2010

Year	1978	1980	1985	1990	1995	2000	2005	2010
Crude Steel Production (million tons)	31.8	35.6	46.2	65.4	95.4	128.5	355.8	626.7
% increase	N/A	11.9	29.8	41.6	45.8	34.7	176.9	76.1

(Source: NBSC, various years; China Steel Industry Association, 2012).

In the second development stage (1978 to 2000) the annual production of crude steel saw a fast, but relatively steady increase in output, averaging an annual increase of approximately 5.5 per cent from 1980 to 1990, then 7 per cent from 1990 to 2000. The output was sufficient to meet 73 per cent of domestic demand in 1978, rising to 94 per cent by the end of 2000 (NBSC, 2000a). The second stage saw many small-scaled manufacturers with limited productivity and product differentiation eliminated or nationalised through mergers and acquisitions (China Steel Industry Association, 2012). Production also became more efficient, with the per ton energy consumption of steel production dropping from 2.54 tons of standard coal in 1978 to 1.18 tons in 2000, closer to international norms, a target for the industry (China Steel Industry Association, 2012).

In the third, post 2000 stage of development, the industry has experienced even faster growth and more changeable domestic and international markets. From 2000 till 2010, the annualised percentage increase in crude steel production went up to 17.2 per cent. In 2003, the yearly production of crude steel was over 200 million tons for the first time; in 2005, it exceeded 300 million tons; only a year later, the figure was over 400 million tons; in 2008, 500 million tons; and in 2010, the country's crude steel output exceeded 600 million tons (NBSC, 2000, 2003, 2005, 2008 & 2010a; and CASS, 2009). By the end of 2010, more than 44 per cent of crude steel produced in the world was made in China (MOFCOM, 2012; and World Steel Association, 2012). Also in 2010, the per ton energy consumption of steel production further dropped to 0.62 tons of standard coal, which made the production process more environmentally sustainable (China Steel Industry Association, 2012).

The rapid increase in domestic steel production led to China's demand for iron ore outstripping domestic supply and an increasing reliance on imported iron ore. In 2010, more than 62 per cent of the iron ore used for steel production was imported (China Steel Industry Association, 2012). Until its recent fall, there was a sharp rise in international iron ore prices, squeezing the profits of Chinese steel manufacturers (China Steel Industry Association, 2012). In 2003, for example, the average price of imported iron ore was less than USD30 per ton; it increased more than five times to USD164 per ton in 2011 (International Monetary Fund, 2013). In large part the price rises led to Chinese steel producers' profit margins dropping to 3.08 per cent compare to a 6 per cent margin of the manufacturing industry overall (China Steel Industry Association, 2012), and this figure further dropped to a low 0.13 per cent in the third quarter in 2013 (China Steel Industry Association, 2012).

Largely as a result of the increasing demand for imported iron ore and its rapidly rising price, an increasing number of larger Chinese steel companies chose to invest overseas in order to secure supplies at the best prices available.

5.2.2 The Company (CS2)

CS2 is a conglomerate formed jointly by three steel companies in 1997. The establishment of this group was part of a state-initiated integration to reform the whole steel industry. The group is overseen by the State-owned Assets Supervision and Administration Commission (SASAC), and is a wholly state-owned conglomerate enterprise.

The group employs 45,000 workers, and was listed on the Shenzhen Stock Exchange in 1999. By the end of 2011, the group's steel production capacity had reached 22 million tons, with total assets of RMB113.9 billion. However, in 2010, the group suffered an extraordinary loss of RMB2.6 billion, which made it the least profitable listed company in China in that year (CS2, 2010). The reason for the loss was threefold. According to the local Securities Regulatory Commission (SRC), the first was losses incurred through a failed major project undertaken with Mittal (Xie, 2011). CS2's board

secretary also revealed in a domestic interview that the sourcing of iron ore was an increasing problem as the company was one of the few Chinese steel manufacturers which did not have domestic supplies at all and had to rely wholly on imports (CS2, 2009a: 3). At the core of the problem was the fact that the group had made a poor strategic decision to stockpile imported iron ore at their highest historical price in the second season in 2010. In part, the decision reflected inadequate communication and cooperation among the group affiliates. This made the integrated sourcing of iron ore hard to achieve, with each affiliate undertaking their own sourcing of iron ore, despite their limited bargaining power and limited experience in the global market (Xie, 2011). What made it even more complicated was that some procurement staff had a vested interest in the materials they sourced for the production of their companies, the problem of corruption (Wan, 2011). Also, the three affiliates had duplicated production lines which hindered the output efficiency of the group as a whole (Xie, 2011).

In 2011, the group achieved a net profit of RMB70.1 million. This rise was a combined effect of the increase in profit margins of steel domestically, the selling of non-core assets, and receiving government subsidies totalling RMB1.2 billion (CS2, 2011). However, by the end of 2012, with no further financial support from the government, the group again suffered a very large net loss of RMB3.3 billion (CS2, 2012).

5.2.3 CS2's Pre-Australian International Activities

The group's international investment activities up to the FMG case examined below, have been relatively limited and mixed, focused on a JV partnership with an Indian steel giant, Mittal, with discussions commencing in 2005 and operations commencing in 2011. This investment decision was made by CS2 with an aim to integrate into Mittal's global procurement program and import technology regarding the production of automobile steel. The CS2 group held 37.67 per cent of the share capital of the new company and continued to be the largest shareholder, while the Indian group held 36.67 per cent and became the second largest shareholder.

However, the partnership was largely unsuccessful, resulting in major losses for CS2, with accusations that the Indian partner did not honour the technology transfer commitments it made to CS2 and that CS2 was not successfully admitted to its partner's global procurement plan for iron ore, which increased the sourcing cost for iron ore by RMB7.8 billion in 2010 (Xie, 2011). In addition, cooperation was severely hindered by the lack of coordination of CS2 affiliates in sourcing (Wan, 2011). As a result, in a new agreement with CS2, the foreign investor sold two-thirds of its shares back to CS2 in four instalments, though cooperation between the two groups in the production of automotive steel was to continue (CS2, 2012).

CS2's second international experience, also its first attempt at outbound direct investment was in 2008 in Australia. CS2 purchased 11.39 per cent of the shares of one Australian resource company, Golden West Resource (GWR). It was agreed that GWR would supply 4.5 million tons of iron ore every year for the following 15 years, a significant proportion of the company's 20 million tons of average yearly demand (CS2, 2008: 20). This investment cost the company AUD26 million, which was relatively small compared to their later AUD1.27 billion investment in Australia with FMG. The issuance price of the Australian company upon CS2's purchase was AUD1.85 per share, and by the end of April 2013, the price had dropped to AUD0.17 per share. As noted by China's Foreign Economic Cooperation Office, CS2's investment in the Australian company was more like a trial before their major investment with FMG, so the group was not greatly worried about the loss it had made to date on its first Australian investment (Department of Commerce of Hunan Province, 2011). Arguably, the nonchalant attitude of management level towards their FDI with GWR may be the one of the reasons for CS2's overall poor performance.

On the whole, the group's international investment activities before its investment in FMG have been far from successful and, at best, a painful learning experience.

5.2.4 CS2's Australian Direct Investment

In 24th February 2009, CS2 signed a cooperative agreement with another Australian company, FMG. FMG is Australia's third largest mining company and the world's fourth largest iron ore producer, which has an iron ore reserve of approximately 4.5 billion tons, and a production capacity of 55 million tons per year (Fortescue Metals Group, 2009). According to the agreement, CS2 group subscribed to FMG's new issue of 225 million shares at AUD2.48 for a total price of AUD558 million. Upon completion of the transactions, CS2 held 16.48 per cent of FMG's diluted shares, and became FMG's second largest shareholder (CS2, 2009a). After approvals obtained from both the Australian and Chinese governments, the whole purchase process was completed at the end of April 2009.

In addition, the two parties reached further agreement regarding the long run supply of iron ore with CS2 to receive 10 million tons of iron ore from FMG every year from 2009. It was hoped that the problem of high and fluctuating iron ore trading prices that had so adversely impacted on CS2 for years would be alleviated to a large extent through this agreement (CS2, 2009b).

However, the proposed annual supply of 10 million tons of iron ore has not been achieved as originally planned. In 2010, only 4 million tons were supplied by FMG (Xia & Peng, 2011). This fact, together with the issues discussed above, contributed to the huge losses of the group. It has been estimated that the shortfall in supply accounted for approximately 20 per cent of the total 2010 loss (Wan, 2011). In contrast, from a shareholding point of view, CS2's investment in FMG has been more satisfactory, as FMG's share price rose from AUD2.48 per share in 2009 to AUD3.3 per share as at June 2013, a more than 30 per cent capital increase.

5.2.5 CS2 and Research Questions

5.2.5.1 *Research Question 1: Why have Chinese MNEs chosen to invest in Australia through OFDI?*

Both the interview results and company annual reports showed that CS2 chose to invest in Australia primarily because it wanted to have more control regarding the import price of iron ore. In addition, the global financial crisis provided the group with an opportunity for rapid overseas expansion at much reduced prices, notably the investment with FMG.

Interviewee V1 indicated that “our group has this need for expansion”. V2 indicated that “...our company decided to go to Australia because we were attracted by their (natural) deposits”, a not surprising motive, given CS2’s total dependence on imported iron ore and the steep rises in prices. In order to secure a constant supply of iron ore at an acceptable price, the group needed to seek long-term contracts with foreign suppliers. “If we do not have the resources, then that will certainly hinder our business development. So we need FMG as it gives our business a platform for integrated and more efficient production. This is how we can excel in the market” (V1). What is more, FMG’s target market was mainly Chinese steel producers since its establishment in 2003, “they have the material, they have relatively sound finance, they were experienced in mining, and were experienced in working with Chinese partners – they were just running low on cash during the economic turmoil, it’s a god-sent opportunity, so we cannot just let it slip away” (V1).

Also, despite its current difficulties, the group has ambitious long term goals, aiming to “integrate into the global steel industry and be one of the leading and largest steel manufacturers in the world” (V1). Cooperation with FMG provides them with a platform to take the initiative and integrate into the global steel manufacturing chain. Regardless as to whether this hope was realistic or not, at least when CS2 was approaching FMG, the group had a clear objective to build their global network and engage in international business through various international investments – their cooperation with Mittal was the first step forward to realise that goal, though it turned out to be unsuccessful.

In summary, CS2 chose to invest in Australia for two reasons: one, primarily to secure their supply of iron ore at an acceptable price in the long run – seeking natural resources; and, two, in addition to the resource-seeking motivation, they wished to develop the network and connections necessary to integrate themselves into the global steel production system in the far future – seeking strategic assets.

5.2.5.2 Research Question 2: Research Question 2: What factors have influenced Chinese MNE's choice of entry mode for Australia?

CS2 formed an equity JV with FMG in 2009. It should be noted that the Australian government is extremely cautious about agreeing to the selling of control in major, domestic mining companies to foreign investors, especially when that investor is an SOE. These mining companies hold critical resources the nation needs and is of national interest, hence a number of major investment attempts such as Minmetal's acquisition of Rio Tinto at AUD1.95 billion never made it through FIRB's examination process. FMG is the third largest mining firm in Australia, so it is therefore reasonable to assume the Australian government had considerable concerns regarding CS2's proposed investment. As the Chinese Consulate in Melbourne noted, "After all, Australia is a democratic society... even if the government would like to sell the mining right to a foreign company, the concerns that this activity could violate the nation's national interest would very likely result in an anti-government attitude of the local citizens, which could lose the government's next election, and which is the last thing the government wants to see" (G1, 2012).

Hence, CS2, in order to avoid excessive scrutiny and a prolonged review process (as discussed earlier in Chapter 2 regarding Rio's case), felt that sharing control with an Australian company was the most, if not the only appropriate entry mode for them to adopt. However, the interviews did suggest that, the following factors also directly influenced their entry mode decision: the motivation to acquire abundant resources in Australia in the form of iron ore; the attitudes of the Australian government; and Chinese government policies.

CS2 did not invest in Australia to gain a share in the Australian steel market. As interviewee V1 indicated, "How large is the Australian market for steel? It is already a developed country with relatively advanced infrastructure construction, how large can its demand for steel be? Not much really" (V1). The factor that attracted CS2 to invest in FMG was simply its iron ore resources. "This resource in Australia is what we value the most in this investment. If considering no other facts, we would definitely prefer to be the largest shareholder and make it our own WOS, but we are certainly

constrained by many factors. It would be more practicable and realistic if we choose to cooperate with local companies who have the right to mine, relevant mining experience, and some influence in the pricing of the metal on the global market... these could all be our valuable assets once the investment was established” (V1).

In short, CS2 invested in Australia because they were interested in the resources (iron ore) the country could provide; and, while it would have preferred the WOS option, it felt that this would be difficult to achieve given the level of scrutiny exercised by FIRB regarding such investment proposals in the resource industry by SOEs (V1, G1).

As the group consists of three large-scale companies, V1 indicated that “if we were able to possess the mining right of some iron ore deposits and transportation channels, then setting up a WOS is definitely a best choice, since we could carry out our daily business more efficiently and effectively without accommodating any needs of a local partner”. Also, as a big group, it has, according to V1, its own “well-defined and distinct culture”, which “influences all those activities that could possibly have effect on the daily production of the enterprise”. This is summarised by G1 to be “the Chinese ways of doing business”. It is not necessarily the most efficient business practice, but employees and managers from those environments may find it difficult if they were to be exposed to a western business environment and work with people from different cultural backgrounds on a daily basis – this confrontation is particularly common with large SOEs which are often associated with bureaucratic and low efficiency (G1). To protect the company and the employees from an excessive level of cultural shocks, “for sure we would like to establish a WOS, since that was the only possible way to totally transform our current practice to a new environment, of course given the conditions of the environment” (V1), though of course, from the previous discussion, their current practice may be subject to total reform to ensure its efficiency and effectiveness.

Hence, size was not the determining factor for CS2’s entry mode decision, though interviewees noted that the WOS mode would have been preferred. As V2 commented, “I think only if an enterprise is large enough could it have the right to really choose to establish a WOS in Australia or other countries,

but... this also depends on different situations. For a steel company like us, the Australian government will never let you withhold the whole ownership of their local mining firm and let a foreign company take control of their resources of national interest, so it's a waste of time and effort thinking about establishing a WOS in Australia, let alone the money required to do so in this industry. There is no need for our company to put in that amount of effort".

Both interviewees indicated that their relative lack of experience in international investment at least partly stimulated their JV choice of entry mode. Apart from their 'trial' equity investment in a small Australian mining company, CS2 had no further experience in operating in a different country. As V2 noted, although CS2 is a large SOE, "it is very easy to understand that we have been quite conservative before making the attempt... We wanted to find a way, which could minimise the uncertainties and still realise our operation goals" (V2). In this situation, the group thought that an equity JV was more appropriate, despite the unpleasant experience with Mittal. V1 further commented that "we think we pretty well lack the real experience in doing business on the global level, and our group also thinks that cooperating with FMG would be more beneficial for us, since they have the resources, the networks, good potential, and everything it needs to continue high-speed development in Australia except maybe a strong enough cash flow; and cash was not a problem for us during that time of crisis, the cooperation is thus a win-win strategy for both parties." While this was a surprising comment in the light of CS2's very large losses in 2010 and 2012, interviewee V1 was aware that the Australian government was unlikely to allow a foreign, state owned enterprise to select an entry mode freely without extra scrutiny or requirement (V1).

None of the interviewees thought goodwill capital was a significant factor in determining the choice of entry mode. As V1 summarised: 'three points, 1. Whether Australia offers the resources useful for our future development; 2. the regulatory requirements of the Australian government; and 3. The level of sophistication of our group in exploring overseas markets; these three points combined have already determined that JV is the most practicable entry mode.'

Other than the understanding that the Australian government would not allow foreign, state-owned enterprises to fully control major, domestic mining companies (V2), CS2's investment proposal was processed rather smoothly and swiftly compared to the investment attempt made by Minmetal in acquiring the shares of Rio Tinto. The contract of cooperation between CS2 and FMG was signed on 24th February 2009, and the investment application successfully passed the scrutiny of the FIRB on 31st March 2009, which was only roughly a month. "We proposed a transaction worth less than AUD1 billion, which was only a fraction of Minmetal's Rio investment of AUD19.5 billion, so our investment was much less controversial and perhaps it was because of that reason it got processed really quickly" (V1).

The Chinese government was quite supportive in terms of CS2's FMG investment: only 20 days after CS2 gained the approval from the Australian government (CS2 corporate document, 2009), the Chinese government also approved the investment. "We are a very large SOE, and the country was very keen to support our internationalisation process as reflected in perhaps easy access to finance and positive media coverage; but there was no specific limitation in terms of the entry mode choice to be made" (V1). V2 also agreed to that point, "they [Chinese government] wouldn't limit the size or entry mode to be adopted by any outgoing firms, which is good". In addition, as an SOE, CS2 got finance from the government very easily for their investment proposal as well (V2).

None of the interviewees saw cultural distance as an important factor influencing their entry mode choice in FMG.

5.3 Case Three (CS3)

5.3.1 Background: Chinese Lithium Ore Production

Lithium can be used to produce high-efficiency lithium batteries, and it can also be applied in controlled thermonuclear reactions, which makes it an important material with a range of civilian and

military uses. China has experienced rising domestic demand for lithium and significantly expanded its production capacity in the past decade.

By the end of 2002, the world had an identified lithium reserve of 4.1 million tons, of which Chile accounts for the largest reserves at 3 million tons, China second with 0.54 million tons and Australia third with 0.16 million tons (China Mining, 2012; Geoscience Australia, 2012). Australia ranked second in world lithium production from 2009 to 2011, producing 30 per cent of the total (Geoscience Australia, 2012; US Geological Survey, 2013).

In contrast, despite its greater reserves, China's lithium production was only 40 per cent of Australia's (US Geological Survey, 2013). This is because most of the lithium deposits in China exist as compounds in salt lakes (Zhang, 2011; China Securities Network, 2011). The extraction of lithium ore from lithium mines is relatively easy, whereas the extraction from salt lakes involves more complicated purification processes and therefore is more expensive (China Mining, 2012). Also, the fact that most of the country's salt lakes that have lithium deposits are located in high altitude areas with very limited infrastructure makes extraction in these areas even less practicable. For this reason, although China's yearly demand for lithium carbonate has reached 20,000 tons, only 3,000 to 4,000 tons of lithium carbonate was produced domestically; the majority of Chinese enterprises rely on imported lithium ore for related production (Zhang, 2011).

5.3.2 The Company (CS3)

Founded in 1992, CS3 has become firmly established as one of China's earliest and most highly-regarded, private equity investment groups (CS3, 2013). Over two decades, the group has developed a comprehensive investment portfolio across a range of sectors including manufacturing, agriculture, financial services, mineral resources, real estate, and healthcare and pharmaceuticals.

CS3's record of consistent growth has seen total assets increased from RMB50,000 at inception to approximately RMB6 billion by the end of 2009, with a respectable internal rate of return (IRR) which is comparable to many good investment firms in the marketplace (CS3, 2013).

CS3 has developed significant investments in several publicly listed companies in a range of sectors: Pinggao Electronics, listed on the Shanghai Stock Exchange, is China's largest manufacturer of high-voltage switchgear; Andre Juice, listed on the Hong Kong Stock Exchange, is one of the world's biggest producers of concentrated apple juice exporting more than 90 per cent of its products to Europe and America; Shanghai Laishi, listed on the Shenzhen Stock Exchange, is Asia's leading supplier of blood products; and the group has also acquired an Australia-based company which is listed on London Stock Exchange, with major operations in lead zinc ore extraction.

Since 2005, CS3 has been investigating market demand for a variety of minerals in China, South Asia, East Africa and Oceania, as well as associated distribution networks (CS3, 2013; C1). Based on its research the group has commenced investments in the mining sector. In China the group has commenced investments in the extraction of lead zinc ore, tungsten molybdenum ore, and gold ore. CS3's international investments in the mining sector concentrate on lead zinc ore and triphane (lithium ore), both in Australia.

5.3.3 CS3's Pre-Australian International Activities

Except for some small equity investments CS3 had one significant international investment activity prior to their investment in Galaxy Resources Australia (hereinafter abbreviated as Galaxy), the subject of this case study. This investment happened in 2007, and involved CS3 acquiring more than 70 per cent of a London Stock Exchange listed company, Zeehan Zinc, also an Australian company (CS3, 2013).

Since the onset of the global economic downturn, the trading prices of most metals have decreased significantly, consequently putting some mineral extractors and manufacturers into financial

difficulties, leading to a range of investment opportunities at reduced prices. In this context, CS3 paid RMB30 million to acquire 70 per cent of Zeehan Zinc's shares, and became Zeehan's largest shareholder. CS3 has since then led the further development of Zeehan, making it the integration platform for its overseas mining production. In recognition of its changed status in 2009, Zeehan Zinc was renamed as Creat Resources Holdings (Creat Resources, 2010).

In terms of its operations, although the annual report of Creat Resources claims the company is now "extremely well placed financially and strategically to capitalise on the current global financial climate" (Creat Resources, 2012), its financial position is not impressive. It has failed to generate a net cash inflow since 2007, with losses of AUD8 million (2007), AUD22 million (2008), AUD8 million (2009), AUD4 million (2010), AUD20 million (2011), and AUD13 million (2012) (Creat Resources, 2010; 2011; 2012). However, its senior management has indicated that it was not overly concerned with its suboptimal financial performance as Creat Resources' major role is to provide an overseas platform for further "mineral exploration" and "operation of mineral properties" in both Australia and overseas (Creat Resources, 2011: 3; C1). An example of this role and Creat's most significant strategic development to date was its acquisition of the shares of Galaxy, the case study for this section. It is expected that Creat Resources will experience better shareholder returns once the production of Galaxy commences (Creat Resources, 2012: 3). In this sense, the group's investment in Creat Resources Holding is a strategic and fundamental step in the group's internationalisation process.

5.3.4 CS3's Australian Direct Investments

Galaxy is an Australia-based company with its main business in integrated lithium mining. It is listed on the Australian Securities Exchange, and is an S&P/ASX 300 Index Company.

On 3 September 2009, Creat Resources Holdings Ltd spent AUD26 million to acquire 19.9 per cent of Galaxy's ordinary shares, which made the group Galaxy's largest shareholder. As at 28 May 2012,

following a further share issue, Creat Resources Holdings became the third largest shareholder in Galaxy.

In addition to the share purchase, Galaxy and Creat have agreed to set up a JV lithium carbonate plant in Zhangjiagang, China, to process the lithium ore imported from the Mt Cattlin mining sites wholly-owned by Galaxy, located in South Australia. As proposed by the company, the plant will allow Galaxy to maintain complete control over the production and quality of the company's products so as to secure lower production costs (Galaxy Resources, 2013a). Also, Galaxy has secured off-take agreements for 100 per cent of its capacity with cathode makers in China and Japan (Galaxy Resources, 2013a). With low production costs, its own supplies of the raw mineral, relatively cheap labour in China, and growing demands for battery-grade lithium in China, the plant has the potential to generate significant profits, not only for its direct shareholders, but for its indirect shareholders such as CS3 as well. The plant commenced operation in late 2012. By the end of June 2013, its monthly production was at around 600 tons per month or 7200 tons per year, and sales are growing steadily (Galaxy Resources, 2013b). It is expected that at full capacity, the Zhangjiagang plant will be able to produce 17,000 tons of battery grade lithium carbonate per annum, making it the largest producer in the Asia-Pacific region and the fourth largest in the world (Galaxy Resources, 2013a).

5.3.5 CS3 and Research Issues

5.3.5.1 Research Question1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

The answer to this question from interviewee CS3 was directly to the point "our group has an interest in mining, hence we are interested in the mines in Australia and the resources in Australia". He indicated that China's very rapid industrialisation and urbanisation processes have required increasing supplies of raw materials and metals, several of which are in short supply in China. Consequently, sourcing good quality raw materials from overseas suppliers which can provide a consistent supply is essential. As C1 stated: "our business was established with an aim to become China's own great

group company... As China's current development requires more resources than the country could generate domestically, we feel obliged to seek ways to facilitate the further development of the country's future industrialisation processes." Australia "happens to have the resource [lithium mine] the country has been longing for, and we had the chance to purchase it with an under-the-average price during the global financial crisis, we wouldn't let go the opportunity".

Interviewee C3 also noted that the company had seen an opportunity to step into the Australian mining industry when the shortage of natural resources for construction in China occurred domestically several years ago. Therefore when the opportunity for them to purchase the shares of Zeehan Zinc developed during 2007, they did not hesitate to take it over at what was felt to be a bargain price.

The acquisition of Zeehan Zinc also provided an experienced base from which to help coordinate and advise the parent group's market research activities. This was especially the case for the investment in Galaxy. As interviewee C3 said, "Fully controlling Galaxy was not our target, our target was making a reasonable investment in exchange for power and influence on the bargaining table, and to establish our production chain."

5.3.5.2 Research Question 2: What factors have influenced Chinese MNE's choice of entry mode for Australia?

In short, CS3's aim of seeking natural resources in Australia, their large corporate size and their previous international operation experiences have to various extents, influenced their entry mode choices for Australia.

As discussed above, CS3 invested in Australia largely because the country had the resource that the group needed: "our company needs it, Australia holds it, demand and supply, very naturally it led us to this deal... JV was the most cost efficient method, and it can largely get us what we want except for perhaps full control" (C1). According to C1, the group's asset-seeking motivation has driven CS3 to

take partial, rather than full control of Galaxy. The ownership question is complicated by the fact that the investment vehicle for Galaxy was Creat Resources Holdings, which is an Australian company fully owned and controlled by CS3 through share purchases in 2007. Therefore, there are two sequential investments involved here, with CS3 acquired full control of Creat Resources Holdings in 2007 and, in turn, Creat Resources Holdings taking over partial control of Galaxy in 2009. The series of investments were felt to have made an appropriate balance between cost and control, and most importantly, granted them the resources they are interested in. As C1 noted “market conquering was never our priority... at that stage, we were only interested in securing the domestic [China] supply [of lithium ore]”.

C1 suggested that “surely there is some influence of size on entry mode choices”. More specifically, the larger the size, the more corporations would be inclined to establish WOSs. It was CS3’s relatively large size and record of successful growth that provided it with access to the capital and management skills necessary for the purchase of Zeehan Zinc as a WOS. Nevertheless, as C3 noted, although large size may encourage firms such as CS3 to contemplate establishing a WOS, the actual entry mode choice is a rather complicated one, requiring a thorough evaluation of financial cost and benefit, the results of which might indicate that a JV is preferable in a particular case, as proved to be the situation with the investment in Galaxy.

CS3 had accumulated much experience in various businesses including food processing, manufacturing, finance, and the medical industry before their investment in Australia (CS3, 2012). After what they felt was a reasonable period of learning from those experiences, the investors were more confident in their ability to carry out direct investments in some new areas, through the setting up of JVs and WOSs overseas. Interviewees explicitly recognised the importance of experience on the entry mode choice of their Australian investment: “When you are unfamiliar with the foreign legal environment, social environment, consumer preferences and institutions, the day your own WOS company is established would be the day it collapses – not to mention if it could ever be established without that knowledge... it is only because we have accumulated significant international business

experience that we were able to make an informed and sound entry mode decision that is the most suitable for us” (C1). The interviewees admitted that if previous international experience was the only consideration, they would be inclined to set up a WOS. However, as with the influence of size, as noted above, interviewees felt that every investment opportunity was different and needed to be separately evaluated; resulting in the decision to purchase a WOS, Zeehan Zinc, but, in the different case of Galaxy, simply to take up only a proportion of the shares.

None of the interviewees thought that the level of goodwill capital of the group had an influence on their entry mode choice. What C1 did stress was that a corporation’s goodwill capital or all those intangible advantages “forms an important factor for entry mode choosing... but perhaps not to a determining extent” (C1). “In terms of the influence of goodwill capital on the entry mode decision, as far as I can see, if you’d prefer to set up a JV, corporations with sound goodwill capital will just have an advantage to have their investment proposal considered and adopted by the investee, no more influence than that” (C2).

The interviewees indicated that Australian governments had no influence on their entry mode decision. Overall, the Australian government was felt to be “quite supportive” towards CS3’s investment in both Zeehan Zinc and Galaxy (C1). Although CS3 has a relatively large size, one of the main reasons for its straight forward investment application process, as summarised by interviewee C1, could be that CS3 was a wholly privately owned group company with no government ownership that “many foreign partners might be fearful of” (C1). “The local government was not as sensitive towards their investment proposal as they were with some investments made by Chinese SOEs” (C3).

Similarly, interviewees believed that the attitude of the Chinese government regarding their OFDI had no influence on their final choice of entry mode, even though the investment in Galaxy was made by Creat’s subsidiary CRH in Australia (C3). They also indicated that their FDI applications were processed smoothly by the Australian government.

The interviewees indicated that cultural distance was not a major factor in their entry mode decision regarding their Australian investment. They felt that cultural issues were something that could be overcome by means such as keeping the original managerial staff and not interfering with its daily production operations unless they absolutely had to (C3).

5.4 Case Four (CS4)

5.4.1 Background: the Chinese Consumer Electronics Industry

Before the opening of the domestic market in 1978, perhaps the most common consumer electronics product in China was radio, and even that was owned by very few people. Televisions and refrigerators were not even manufactured commercially until the 1980's. However, after 1978, the Chinese consumer electronics industry began to develop more rapidly, in common with the general increase in the rate of economic development. The industry's development boomed after the new millennium.

In 2002, the total output of the industry was RMB269 billion; by the end of 2011, it reached RMB1.14 trillion. Similarly, in 2002, the industry's total exports amounted to RMB70 billion, dramatically expanding to RMB310 billion in 2011 (China Household Electrical Appliance Association, 2012). At present, more than 40 per cent of refrigerators and washing machines, and more than 70 per cent of air-conditioners and microwave ovens produced globally every year are made in China, making it the world's largest manufacturer of consumer electronic products (Liu, 2008).

China's first colour TV set was produced in 1970 and from a modest start its TV production has expanded dramatically, so that, for example, China has been the biggest producer of CRT TV in the world since a decade ago (NBSC, 2010a; 2010b). As the domestic market matured and new technologies developed, several of the major companies started to expand internationally. While Samsung, LG, Sony, Panasonic and Sharp have formed a Japanese-Korean manufacturing group

which has dominated global TV sales with nearly 60 per cent of the global market the Chinese TV group comprising CS4, TCL and Skyworth achieved a market share of 21.4 per cent by 2010 (Lu, 2010). Sales of CS4's TV sets accounted for more than 5 per cent of global sales in 2010, making it one of the five largest manufacturers (American Consumer Electronics Show, 2010).

The Chinese consumer electronics industry is still growing steadily. According to a recent report released by MarketLine Industry Profile, in 2011, the Chinese consumer electronics market generated total revenue of AUD31.5 billion, and a compound annual growth rate of 6.4 per cent between 2007 and 2011. While much smaller, the Australian market demonstrated a grow rate of 4.2 per cent in the same period, with total revenues of AUD4.5 billion (MarketLine Industry Profile, 2012). As, for example, the recent sales of large screen TVs indicates, there is still quite some market potential in markets for TV manufacturers to explore.

5.4.2 The Company (CS4)

CS4 was established in 1969, formerly known as Qingdao No.2 Radio Factory (CS4, 2013a). At the start, it employed 10 staff and engaged in the production of semiconductor radios. Its first television was designed and manufactured in the following year, 1970; in 1979, its name was changed to Qingdao TV General Factory and it was allocated the role of a TV manufacturer by the government in the period of the planned economy (CS4, 2013a). It adopted its present name in 1994 (CS4, 2013a). The group consists of two publicly listed companies, with its main products being TVs, refrigerators, air-conditioners, and a range of telecommunication products.

After several years of successful domestic growth and the receipt of several major awards, in 1996 the group indicated it would develop a strategy aimed at making it a major international brand (CS4, 2013a). The group has also demonstrated a consistently sound financial performance. In its 2012 annual report, for example, it was noted that the gross profit margin for the main business had increased by 3.85 per cent despite the economic slowdown, and it achieved an operating revenue of

RMB25.2 billion, representing a 7.35 per cent increase from the previous year. The report also noted that its international business growth had outperformed the domestic, achieving a 25.7 per cent increase in annual revenues (RMB5.3 billion), compared to only 2.1 per cent for the domestic market (RMB 17.9 billion). It expects that the global market will play an increasingly important role in CS4's revenue structure (CS4, 2012: 12).

5.4.3 CS4's Pre-Australian International Activities

CS4 had an established profile in international activities before entering the Australian market. The company's first FDI was in the US, establishing a WOS in 2001. The aim was to gradually introduce the full range of CS4 products into the North American market, from televisions to mobile phones (CS4, 2013a). A particular focus was on the development of distribution channels with major retailers, including Best Buy, Wal-Mart and Canadian Tire (CS4, 2013a).

CS4 entered the EU market in 2002 to establish a sales network and a number of WOS have been set up, for example, in Hungary in 2004 and Italy in 2006. Also, as part of its aim to establish globalised production channels, an Australian firm, CS4-subsiary, was set up in 2006. CS4 now has WOSs and overseas R&D centres in over 10 countries, including Africa, Europe, Asia, North America, and Oceania. In the last ten years the company's overseas sales have increased by 23 times (China Industry Online, 2012). As CS4's 2010 corporate annual report notes, the company managed to achieve USD1.5 billion in overseas sales, which marked a 40 per cent increase from the previous year, and, just as interviewee H2 predicted, the rate of increase was 25 per cent in 2011 (H2; CS4, 2011).

5.4.4 CS4's Australian Direct Investments

CS4 Australia was established in March 2006 in Melbourne. It is wholly owned by CS4 China. The company was established with an aim to penetrate the Australian market with their consumer

electronics and home appliance products, including TVs, air-conditioners and refrigerators as part of their globalisation plan (CS4, 2013b).

CS4 positioned their brand at the ‘B Brand’ level, which according to them, offers consumers the best value for money and un-matched customer service providing consumers with the best overall product experience. Its aggressive long-term goal is to further establish the CS4 brand into consumers’ purchasing decisions as a technologically advanced brand with high quality products, excellent customer service and “best value for money” products (CS4, 2013b).

CS4 has thus put a major effort into strengthening its brand image in Australia. For example, it has gained the major naming rights for one of the most famous sports arenas in Melbourne replacing Vodafone, with six-year naming rights to one of the main stadiums used for the annual Australian Tennis Open. This was the first time that a Chinese brand was able to gain such rights for an iconic building in a major city in a developed country (H1, G1). In 2010 CS4 Australia announced another major sponsorship with the Cronulla Sharks National Rugby League team. Again in 2010, CS4 Australia was awarded the Canstar Blue Award for “Most Satisfied LCD TV Customer Award”, a consumer 5 Star Award Rating, establishing the CS4 brand in Australia as a real alternative for consumers. The achievement, in large part, was a result of CS4 Australia’s high level of localisation; in fact, as depicted by one of the interviewees, CS4 Australia has the highest level of localisation in terms of their selling channels and customer service styles among all foreign TV brands in Australia (H2, 2012).

5.4.5 CS4 VS Research Issues

5.4.5.1 Research Question1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

Interviewee H1 concluded that the reason for their Australian investment was very simple, namely, they were interested in the potential of the Australian market. This not only referred to the development potential of the consumer electronics industry within Australia, but also the potential for

the company to gain valuable experience in operating in similar industrialised countries. “Australia provides us with a very good platform to test our products – it has a moderate-size market... we are also able to check if our service can survive fierce competition in the context of a developed market before we go into Europe, a much larger market, to confront with all those global brands” (H1). Also, the interviewee mentioned that Australia has almost no domestic white or black goods brand, so its market “was made to be shared by foreign brands with a good balance of quality and service” (H1). H3 also noted the importance of market-seeking as a motive for the firm’s investment in Australia, despite the limited size of the Australian market: “we need a headquarters to coordinate the R&D as well as manufacturing issues in the whole Oceania as part of our globalisation plan, Australia is a strategic location in that area, so for us to achieve our global strategy, penetrating this market is necessary” (H3).

H3 indicated that the decision to invest in Australia involved some ten years of market research, with its international marketing department developing a range of continuing connections with Australian local distributors, manufacturers, retailers, and even existing foreign investors to gain firsthand information so as to help them analyse likely development trends as regards future products. This resulted in a feasibility report to the head office regarding the establishment of the Australian company. Further assessments were then organised at head office level, including finance, manufacturing capacity, sales and retailing, followed by a series of departmental meetings to discuss their findings and possible entry modes, often drawing on their previous overseas investments. The likely impact of Chinese and Australian policies and regulations were also covered during the discussions.

It took the company only a month before getting approval from the Chinese government. In terms of the final entry mode decision, H1 indicated that their previous, largely successful use of WOS in other countries led to the general perception that it would also be the most suitable entry mode for Australia. Despite such preconceptions, H1 explained that every potential investment needed to be investigated on its own merits “there is no formula for entry mode choice to apply to every environment”.

Nevertheless, he noted that attention had been focused on operational issues rather than entry mode choice.

5.4.5.2 Research Question 2: What factors have influenced Chinese MNE's choice of entry mode for Australia?

H1 noted that as Australia had no significant, large scale local manufacturer of consumer electronics the use of the JV entry mode was impracticable. Hence, combined with its previous experience of WOS, the selection of a WOS in Australia was almost an inevitable choice.

H1 also indicated that “larger corporations from China would be inclined to set up WOSs”, and that “if a company has a very large scale, the corporate culture that guides its operations tends to be rooted deeply and difficult to alter; in a case where a JV was to be set up it would be harder for them to adapt to the new corporate culture, and the process taken from the start till everything works out smoothly would not be short”. H2 shared the same feeling: “A larger corporation is like a container truck, it is not as flexible as smaller cars”, and a JV needs “more time to coordinate, and the process would be prolonged if two large corporations each had their own culture, beliefs and rules...” H3 also noted the tendency for larger firms to choose to establish WOS did not only exist in television manufacturing businesses like theirs, it was quite common in both manufacturing industry and mining industry; after all, it symbolises exclusive controlling power. Also, with shared authority, there is always a problem of shared profit distribution, which “sometimes does not necessarily do much good to the company” (H3).

All of CS4 interviewees acknowledged that the company's former experience in other countries had strongly influenced their choice of the WOS mode of entry. They felt that their WOS experience in the US, Italy and Hungary was of considerable importance in leading to use of the WOS mode in setting up their regional R&D centre in Australia: “our investments in those areas has given us the courage and ability to land in Australia and compete with big global brands; we have certainly learned

from our experiences to decide to set up WOS in Australia” (H1). “Experiences have significantly enhanced our ability to foresee possible risks involved in foreign investments, and that has led us to the decision of establishing a WOS”, which has a higher requirement for efficient risk management and resource deployment (H3).

There was no consensus among the interviewees regarding the influence of goodwill capital on CS4’s entry mode choice. H1 felt that “when operating in a completely strange environment, we would prefer to find a local partner, who has a good brand image and reasonable familiarity towards the institutional relationships in this environment... But... there is no matched partner in Australia, so we just have to rely on our previous overseas FDI experience to set up a WOS” (H1). H2 and H3, on the other hand, felt that goodwill capital had no influence on the entry mode decision.

According to all three interviewees, the Australian government did not explicitly or implicitly influence the company’s choice of entry mode. In general, the government “showed strong support” for their investment by means of its free consultation service with local business specialists and a fast approval process (G1, G2, H1). Similarly, H2 and H3 felt that the Chinese government had exercised no influence on entry mode choice and it experienced good support at the government level.

According to the interviewees, cultural distance was not one of the factors that influenced the company’s choice of entry mode when they considered entering into the Australian market, as the company had had considerable experience in its overseas operations.

5.5 Case Five (CS5)

5.5.1 Background: the Chinese Livestock Farming (Pork) Industry

China has long been the world’s largest consumer of pork, and the yearly consumption has stabilised at an annual increase of 1.95 per cent from 2000 to 2011 (China Industry Research, 2011; Chinese Business Intelligence Network, 2012). It is also the largest producer of pork products, accounting for

around 50 per cent of aggregate global pork production since 2009 (United States Department of Agriculture, 2013). In contrast, Australia is the world's 25th largest pork producer (Spicer, 2012). According to the Australian Bureau of Agricultural and Resource Economics (ABARE), just less than 85 per cent of Australia's pork production is consumed domestically. While pork ranks behind the other animal livestock industries in Australia, its value to the economy is steadily growing with consumption at just over 18 kg per person per annum (Spicer, 2012). One advantage of the Australian pork industry is that the country is free from the major viral diseases that plague the industry overseas (Spicer, 2012). Hogs raised in other countries may require greater use of antibiotics to control infection, therefore causing the presence of antibiotic residues in the products sold to consumers. Pork, and other livestock produced in Australia are famous for their "clean green image" and are becoming very popular in niche markets such as Japan and Singapore (Spicer, 2012). This makes Australia an ideal environment to raise livestock, and it is attractive to foreign agricultural firms.

5.5.2 The Company (CS5)

CS5 was established in December 1992. It is a medium-scale private enterprise working on pig breeding, pig feed processing, pig slaughtering and relevant products and by-products sales. To facilitate the sales of the products, the company has established a WOS, which has nearly 100 outlets in Shanghai and the surrounding areas selling the company-branded pork products exclusively. Currently the company employs 230 staff, and it has an annual production of 100,000 hogs (CS5, 2012).

5.5.3 CS5's Pre-Australian International Activities

CS5 had no previous direct investment experience before they came to Australia. However, they did have some experience of cooperation with firms in other countries over the past 10 years. For example, according to the interviewee, some of their production lines were imported from Germany

and the US; CS5 also had some agencies in Hong Kong, Taiwan, and Japan selling a number of their pork products, but not on a large scale, “just as early stage trial selling only” (S1). Hence, the company’s investment in Australia was the first FDI the company engaged in.

5.5.4 CS5’s Australian Direct Investments

CS5 established a JV in Australia with a local pig farm in 2008. The new company has engaged in production and sales of pork products and feed. It is a small-scaled corporation with less than 50 employees in total. According to the interviewees, the annual production and revenue is growing steadily.

5.5.5 CS5 and Research Questions

5.5.5.1 Research Question1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

According to the interviewees, what they found attractive about Australia was that “it is a country with a strong agricultural background, and it has a very developed stockbreeding industry. The whole system... is very professional and systemic, only a few people were needed to run a large farm; these are all worth learning from for us” (S1); “Few people are involved in this meat production line so it is more automatic and involves more technology [compared to that of China]” (S3). Therefore, accumulating advanced operating experiences from the Australian market was a major incentive for the company to invest in the country.

A second motive was to explore the potential of the Australian pork market, both for local production and for import, as noted by S2. “For Australia, although the Australians eat lots of beef and lamb, pork is still a quite important component of their dietary pattern”; besides, pork raised and slaughtered locally “tastes differently to that of the Chinese breed”, the latter of which is preferred by “an

increased number of Chinese in Australia”, so the potential to “bring better tasting pork to Australia” was another reason for their investment (S2).

Another unusual, but probably decisive motive, based on the views of those interviewed, was that Australia gives overseas investors who have met the necessary criteria the possibility of permanent residency (PR) which allows them to stay in the country indefinitely. The owner admitted in the interview that the prospect of Australian PR had been very tempting, as the company had the necessary finance and he just wanted a better place for living. “Australia has cleaner air and water, and we rarely hear any food safety issue as we do in China... I am in the food industry as well, so I know how serious this problem is and how much damage it will cast upon national health... I feel this sense of safety is even more important than how much money you make, so the Australian investment or eventually Australian PR, guarantees that I don’t put all my eggs in one basket” (S1). Also, “Australia offers good quality higher education, which could benefit my child and I found really added value to the PR status” (S1). The owner of the company has sent his child to Australia to study with the hope that upon graduation he would be of help to the owner’s Australian company. In this regard, this PR-oriented investment motivation is “perhaps the key factor” that has determined CS5’s Australian investment (S3).

S2 indicated that the company started off as a small-scale family-based pig farm in 1992. Over the years, it gradually grew into a company with an integrated production and marketing chain that raises and sells pigs and pork products. Its growing production capacity and sales revenue helped them accumulate the financial capital they needed to not only expand their domestic production, but to set foot in overseas markets.

In addition to assisting with its expansion in the local Chinese market, S3 noted that the local Chinese Agricultural Commission had provided great support. It had helped coordinate a number of agriculture and commerce expos for the company to attend and source information, and a number of conferences regarding how to stimulate foreign investments among local corporations. What made foreign investment for CS5 even more practicable was the fact that the owner’s child was studying in

Australia for tertiary courses in marketing and management; which had given them a great deal of the inspiration to introduce their products to an overseas market and to learn from the sometimes more advanced technologies those developed countries offered. So “while the investment was put forward by our owner essentially, the local government has helped us to build the trading relationship and information platform for us to make this possible...” Therefore when it comes to the exact entry mode, “more instructions were given by our local government who advised that probably a JV would be a more favourable choice after weighing different factors... Of source, the final decision power was on our side, and as we do have our own perceptions towards which mode of entry would be better, the final decision is a result of thorough contemplation and factor weighing” (S3).

5.5.5.2 Research Question 2: What factors have influenced Chinese MNE’s choice of entry mode for Australia?

Both S1 and S2 indicated that because they wanted to learn from the advanced pig raising technology of local Australian companies, and since they had no previous experience in making business overseas, they would prefer to, and did actually set up a JV with a local farm which could guide them through the process.

Cs5’s company size had no influence on their choice of entry mode. However, S1 and S2 also noted that if the company had been large enough in size, they would have preferred to set up a WOS: “we had thought of establishing a WOS because it allows more convenience to introduce what we can produce to the Australia market. But as a local private enterprise with our current size... we didn’t really have the initial investment needed to bring such a choice into reality... in a case where money is not a concern, and if our company was large enough in size and we had experience in overseas investment before, we would definitely incline towards setting up a WOS” (S2). S3 was neutral about the effect of size upon their company’s entry mode preference.

S1, S2 and S3 admitted that their lack of experience in foreign markets was a major reason why they chose to set up a JV rather than a WOS. “We didn’t have the experience and technology needed to operate a business in Australia” (S3); “as a private company, we must be very cautious about every decision we make, we are not like SOEs, we can’t afford losing money for a strategically wrong decision” (S2); also, learning from the experiences of local Australian companies “is another reason why we have chosen to set up a JV” (S1). To sum up, had they had relevant FDI experiences, setting up a WOS would have been preferred, but the lack of experience and capital led to the selection of the JV mode.

The interviewees did not think their level of goodwill capital influenced their entry mode choice “we don’t put that much concentration in maintaining a brand image – largely because we are still at a relatively early stage of brand development, particularly when it comes to overseas investment, we are virtually newborn” (S1).

S2 was rather hostile towards the Australian government for two reasons: one, the new operational manager’s visa application to inspect the Australian operations had recently been rejected; and two, he thought the government had special restrictions placed on foreign investment in agriculture. “The application process has always been very slow, and we have supplied so much additional documents as they required to justify the monetary source, project feasibility, and even more confidential and sensitive information regarding future development plans... We were so frustrated after two months of hard work and the final result was like that... we [Chinese government] are two to three times faster and more efficient than them here, it’s true” (s2). S3 also found it a bit hard to comprehend why the new operational manager’s visa application was rejected after the company has been through all the tough scrutiny processes involved in both the investment itself and livestock or meat production for import /export. They did not realise that these issues are handled by different departments of the government (G1), and which, unlike China, they do not see it necessary to provide cross-disciplinary support in cases like these. With the current level of ‘restrictions’ they face, the interviewees felt it would be almost impossible to really set up a WOS in this industry in Australia,

which apparently would require higher level of resource commitment and interaction with local government: “no matter how badly we would like to set up a WOS, I think the Australia government will be the major stumbling stone to this mode of entry” (S2). However, the interviewees did not indicate that Australian government policy or regulation actually shaped their current entry mode decision.

S1 and S2 indicated that the Chinese government did not require the company to choose a particular type of entry mode, and S3 noted that while they were offered some advice regarding what an appropriate mode might be (as discussed in 5.5.5.1), the final decision was completely up to the company and its owners. “The country gave us no hard rules towards entry modes... I think the government also knows the most suitable mode for a corporation is different depending on the corporations, and the corporation itself knows it best” (S1).

The interviewees did not regard culture as a relevant factor in their Australian entry mode choice.

5.6 Case Six (CS6)

5.6.1 Background: the Chinese Pharmaceutical Industry

According to a report prepared by KPMG, by the end of 2008, China’s pharmaceutical industry ranked fifth in the world in terms of annual sales, behind the US, Japan, France and Germany (KPMG, 2011). It is also expected that by 2015, the country would overtake Japan and become the world’s second largest market (KPMG, 2011). However, as the report points out, China’s status as one of the world’s largest markets “rests mainly on the size of its population”, and the overall level of industrial development is still very much limited (KPMG, 2011:3). For example, in monetary terms, Chinese annual per capita spending on medicine was among the lowest in the world, at USD35.1 in 2010 (KPMG, 2011:3). Also, more than 98 per cent of Chinese pharmaceutical companies do not have

patents over any drug they produce, they survive by producing generics; this suggests that the majority of those companies are in the lower end of the market (KPMG, 2011:7).

Although China has enjoyed the benefits of an expanding market for pharmaceutical production, the industry suffers from minimal innovation and investment in new drug research. In contrast, the US's Food and Drug Administration (FDA) approves roughly 20 new drugs to go on to the market every year (Shen, 2011), which are the results of long-term research and huge capital investment. Chinese drug regulators, on the other hand, approve more than 10,000 'new drugs' every year, all being copycats of foreign patented drugs (Wei, 2008). A health reform plan issued in 2009 aimed to correct this, or at least, alleviate this problem with the government encouraging foreign companies to bring in capital, state of the art research and training of personnel. In the country's 12th Five-Year Plan, biotechnology has been singled out as one of the seven 'strategic emerging industries' (KPMG, 2011:2). It is hoped that the Plan will support the development of innovative biotech products, high-end medical devices and patented medicines.

5.6.2 The Company (CS6)

CS6 is a biopharmaceutical company focused on the development of what the company describes as 'innovative first in class' bio-therapeutic products for medical needs (Z1; CS6, 2012). It was established in 2000 in Shanghai by a Chinese scientist (Z1), who came back to the country following his job as a researcher in a prestigious Australian laboratory working to find treatments for heart diseases. CS6's major task since its establishment has been to develop a drug valuable in the treatment of heart failure, on the basis of theoretical work undertaken by Z1. CS6 is still in the pre-production stage, requiring significant capital investment to support the ongoing experiments and clinical trials. During the domestic clinical trial for the new drug in 2007, a multinational pharmaceutical company approached CS6 and offered to pay US\$37 million for the relevant technology and agreed to give CS6 9 per cent of its global sales when the drug was marketed (Z1, Z2). It seems the drug has considerable potential.

5.6.3 CS6's Pre-Australian International Activities

In 2006, CS6 set up a WOS in San Diego, the US, to manage FDA filing, clinical trials and the commercialisation process of NeucardinTM, the above mentioned novel treatment for heart failure. In 2009, CS6 (the US) was approved by the US FDA to conduct two phases of US-based trials of NeucardinTM to treat Class II and III Chronic Heart Failure. The most recent company update suggests that the Phase 2 blind clinical data shows an excellent consistency with the Chinese Phase II clinical results. It means the successful Chinese clinical results have been confirmed by US clinical trials, and it is a solid step forward in CS6's aim of bringing this innovative drug on to the global pharmaceutical market (CS6, 2012).

As the KPMG industry report points out, the US has dominated research into new drugs “for the past 40 years” (KPMG, 2011:45), where the process normally involves major research costs and a prolonged research period. As a result, the US has been the birth place (registration place) for the majority of blockbuster drugs released in the past few decades, while China remained insignificant in this area (KPMG, 2011: 40). For this reason, for an innovative drug to be successful, the US is a market that every drug manufacturer has to conquer before they go global.

5.6.4 CS6's Australian Direct Investments

CS6 (Australia) was a JV with a local laboratory established in mid 2006. As with their US company, it was also established to complete overseas clinical trials needed before a new medicine could be marketed. The corporation was on a small scale, focused on research rather than production. No financial data was available from their company and, as with the Chinese and American subsidiaries, it is in the early stages of pre-production research and development, operating on the basis of its investment capital.

5.6.5 CS6 and Research Questions

5.6.5.1 Research Question1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

According to the interviewee Z2, CS6's Australian investment was set up with a main aim of conducting laboratory experiments and clinical trials for NeucardinTM, based on the relationships the owner had established in Australia during his work with prestigious medical and pharmaceutical professors. In addition, like the US, Australia is a developed country with an advanced scientific research environment, hardware and software, all of which are beneficial for CS6's work in developing and promoting the new drug on a global scale. As Z1 said, "if we want to promote such a new product overseas, for sure we need to have some overseas related clinical trial experiences to convince local drug administrators, the US is one side, and Australia is another"; "the founder of our company, Mr. Zhou, worked as the chief researcher in the cell signal transduction lab in that Cardiac Research Institute in Australia from 1996 to 2000... Since he came back from Australia in 2000, he has been maintaining good relationships with the Australian side... Whenever we have needs for technological support, such as access to leading journals and conducting clinical trials, they [the Australian side] are always among the top choices" (Z2).

5.6.5.2 Research Question 2: What factors have influenced Chinese MNE's choice of entry mode for Australia?

The factors that have influenced CS6's entry mode decision for Australia include: the size of the parent company, their multinational experience, and home government support.

Both Z1 and Z2 explained that their motive for investment in Australia was to gain assistance in conducting the clinical trials with the help of their connections with Australian professionals. They need the technology and professional personnel that Australia has to offer, which are assets of strategic value to the company. Given the company's relative lack of experience such cooperation was essential and a JV was seen as the most suitable entry mode for this purpose, in contrast to the WOS choice for their US company. In the US case the company did not have that professional and, to

an extent, personal linkages with local experts that they had in Australia. Also, given the highly competitive nature of the US's position as the centre of global pharmaceutical industry, the company was reluctant to share its knowledge with a US partner.

Interviewees from CS6 revealed that they did not have that many options when it comes to entry mode choice given the current size of their company, "although we have the potential to generate millions and millions of dollars, at the current stage, we are just a small company... when it comes to entry mode choices, everything happened naturally and smoothly, we didn't take too much effort before came up with this choice" (Z1). However, the interviewees did mention that if the company had a stronger capital structure, they would have preferred to establish a WOS which, provided that the managerial team were all familiar with the western practices, would help them avoid all sorts of inconveniences that a Chinese WOS set up in a Western institutional environment would usually encounter.

CS6 had set up a WOS in the US before they officially started their joint cooperation with the Australian partner, but the two investment activities took place almost at the same time, both in 2006. Therefore, while the management team chose to set up a WOS in the US, for the Australian investment project, there was still little or no overseas operating experience to guide them through the process of setting up a new company in Australia. This, combined with the need for access to experienced staff and expertise led to the selection of the JV mode.

CS6's interviewee indicated that the company's goodwill capital was of no influence in the entry mode decision, given its short history, its focus on research and clinical trials, and the lack of marketed products.

CS6's interviewees felt that neither the Australian nor Chinese government policy had any influence on their entry mode decision (Z1). They indicated that the Chinese government was very supportive to CS6, especially when they were facing initial financial difficulties, a continuing issue given its stage of development. The Shanghai municipality and the Chinese industrial zone CS6 is located in,

as well as other local SOEs have injected capital into the company at almost every critical point in the research of Neucardin™. “They [the government] see us as potentially the first Chinese pharmaceutical company that may have a world-wide-patented, cutting-edge drug” (Z1). The supportive attitude of the government towards CS6 was a big reason why the company could conduct FDI and start their overseas clinical trials.

As noted by the interviewees, CS6’s management all had overseas working experience in Australia, so they felt the cultural distance between Australia and China did not pose any great problem for their operations and it did not influence their entry mode decision.

5.7 Case Seven (CS7)

5.7.1 Background: the Chinese Leather and Fur Products Industry

Since the reforms of 1978, China’s leather and fur products industry has grown rapidly. As the 2012-2016 Investment Analysis and Forecast Report of the Chinese Leather and Fur Industry shows, in 1978, the country had a total leather and fur output of only 26 million sheets, increasing tenfold to 260 million sheets in 2010 (Chao, 2011). In 2011, the country’s leather and fur industry has realised a total industrial output value of more than RMB770 million (China Leather Online, 2012).

Accompanying the development of the industry in China has been the growing significance of Australia in terms of the supply of wool and sheepskins for the Chinese market. Australia is the world’s largest producer and exporter of wool. According to Wooltrade Australia, an independent organisation in the trade of Australian wool, three fourths of the processed wool that Australia exported in recent years was sent to China, and more than 90 per cent of sheepskin produced in Australia was consumed by Chinese customers (Feng & Xiao, 2011). With Australia as the largest supplier of wool and China the largest supplier of wearing apparel in the world market, bilateral trade in wool forms an important aspect of the China-Australia trade relationship. There have been several

reasons for the high degree of dependence of Chinese leather and fur producers on Australian products. Australian sheepskin products are of high quality, although they might not be the cheapest when taking account of international freight costs (Feng & Xiao, 2011). In contrast, the quality of domestically produced Chinese wool and sheepskin is poorer, and the amount of impurities (such as wool grease, vegetable matter, sand, urine stains, faeces, etc) in “even the best merino-style wool is much greater than would be the norm in Australia” (Longworth, Brown and Waldron, 2005:18). With the demand for leather and wool products in China gradually increasing, and the recent output of Australian fur materials decreasing as a lingering effect of the global financial downturn in 2009, not surprisingly Chinese producers are competing to source those materials from Australia.

5.7.2 The Company (CS7)

CS7 was originally established in 1989 as a small tannery. The privately-owned company is a manufacturer for sheared sheep skin and related products. It used to rely solely on domestically produced wool and sheepskin products. As the company grew its need for high quality raw materials also increased. In 1999, the company established cooperative relationships with Australian suppliers, helping secure its sources of raw materials for production. Also in that year, the owner successfully upgraded CS7’s tannery techniques to make the company more efficient in the face of more intense domestic competition. As a result the company outperformed many regional tanneries and increased its reserves of capital. A private company, CS7 had a yearly turnover of more than RMB20 million in 2011 and employs a total of 150 employees (CS7, 2011: 2). The owner, a successful entrepreneur, migrated to Australia after the establishment of his firm’s Australian affiliate (X1, X2).

5.7.3 CS7's Pre-Australian International Activities

CS7 had no previous international investment before that in Australia. As the world's largest wool producer and exporter, with increased demand for supplies, it is not surprising that the company's first foreign investment took place in Australia.

5.7.4 CS7's Australian Direct Investment

Although CS7 started trading with Australia for raw materials and technical support in 1999, the company's Australian subsidiary was not established until 2006. According to MOFCOM records and the company's profile, CS7 fully acquired a local Australian plant to make it their WOS, and the Australian affiliate was set up to facilitate the export of sheep skin and chemicals necessary for product processing in China (MOFCOM, 2013; X1; and X2). Another reason for establishing a subsidiary in Australia rather than continuing with the cheaper option of directly importing the materials was that the owner wanted to gain PR in Australia, and the investment and jobs created in the Australian market helped the owner meet the required criteria for PR, the same motivation as for the owner of CS4 as discussed above (X1, X2).

5.7.5 CS7 and Research Questions

5.7.5.1 Research Question1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

As noted above, based on the interviews with the owner and the manager, the impetus for CS7's investment in Australia was twofold. First, the company wanted to secure supplies of wool and sheepskins from Australia. "Australia is very developed in fur and especially sheep skin processing areas, the country has lots of advanced technologies, and the sheep skins they produce are of top quality... we need their sheep skin to meet the increasing domestic demand for high quality sheep skin products... we also want to absorb such advanced technologies and apply them to our local plants in China..." (X2). "Australia is known as the leading country in wool products production..."

therefore I decided to invest in Australia to import good quality Australian wool for further production in China, a big brave attempt but definitely worthwhile” (X1).

A second reason is that the owner wanted to gain Australian PR status. “Our boss himself is a very successful entrepreneur... he was thinking of migrating to Australia through investments, so he had decided to set up a local company to purchase the raw materials and engage in manufacturing and exporting activities more easily and on a larger scale... it’s good for both the company and himself personally” (X2). This PR-seeking motivation coincides with that of CS5’s motivations, and will receive further elaboration in Section 5.9 ‘Summary of Findings’, below.

5.7.5.2 Research Question 2: What factors have influenced Chinese MNE’s choice of entry mode for Australia?

According to the interviewees, the factors that influenced their entry mode choice included their investment motivation and corporate size.

X2 indicated that, as a private enterprise “with the boss overseeing everything”, “the entry mode was only decided by the boss himself... he was somewhat conservative towards the foreign investment because he was already quite successful locally... so it was not surprising for him to choose a perhaps less risky method of acquiring a local firm and make it his own WOS. The local firm has the supply channels and technologies we wanted, and since we were purchasing the whole company, we didn’t need to worry about the compatibility and cooperation issues which might otherwise bother us had we established a JV” (X2). This was confirmed by the owner, “WOS is more efficient... It was not possible for us to start everything from scratch when we entered Australia, we needed the local connections, we focused on whether our suppliers were reliable, and whether the quality of raw materials they supply are constantly of high standards, so the focus of our Australian investment has resulted in the entry mode we chose, purchasing and wholly owning a local producer to secure our domestic production”.

The interviewees indicated that size was a significant factor influencing their entry mode choice. “Our company of course is not a big corporation when compared to large SOEs, but we are one of the most significant corporations regionally in terms of tax payment... Our sound financial structure ensured that I could go ahead with WOS, which usually acquire more initial monetary input than setting up JVs” (X1). “The logic is that we wanted to set up a WOS through acquisition which generates minimal uncertainty, and our size, or the financial capability directly correlated with our size, has contributed to the final decision of wholly-owning a local firm” (X2).

Because there was no previous international experience associated with CS7, both X1 and X2 thought it had no influence in the entry mode decision. However, they did indicate that previous experience in international operations would have made them “more confident to set up this WOS” (X1).

The interviewees indicated that goodwill capital was not a relevant factor for the entry mode choice. They also indicated that neither Australian nor Chinese government policy or had any significant influence on entry mode choice, with X1 noting that “... the reviewing process was not that long or complicated as many people might have imagined”. Similarly, they felt that cultural distance had had no influence.

5.8 Case Eight (CS8)

5.8.1 Background: the Chinese Dairy Industry

The Chinese dairy industry has experienced tremendous growth since the country adopted a market-oriented economy. Though drinking animal milk was not a dietary tradition for generations of Chinese, nowadays, the younger generation is picking up on this habit and planting it rather firmly in their lives. Specifically, the yearly production of cow’s milk in 1978 was merely 1 million tons, and the figure soared to more than 30 million tons in 2009 (Qiu, 2009). By the end of 2010, annual Chinese dairy industry production was 38 billion litres of milk, representing a per capita milk

consumption of 28 litres a year, making China the third largest producer of milk (Chinese Investment Consultancy, 2012). However, domestic confidence in local dairy products was severely and adversely impacted by a number of scandals involving adulterated dairy products. In 2008, for example, tainted local milk killed six babies and poisoned 300,000 (Chinese Investment Consultancy, 2012). As confidence in the products of the local dairy industry fell demand for imported powdered milk and dairy products grew rapidly. As a result, several dairy producers have urgently sought and developed foreign suppliers of milk and dairy products with the aim of convincing Chinese consumers as to the quality and purity of their products (Chinese Investment Consultancy, 2012).

Australia, with a good international reputation for the quality of its dairy products, was, as a result, an increasing target for Chinese dairy producers. As indicated by Dairy Australia, the Australian dairy industry produced 9.2 billion litres of milk in 2007/08, falling slightly to 9.1 billion litres in 2010/11, suggesting a saturated domestic market (Dairy Australia, 2012). Australian per capita milk consumption averages 450 kilograms, which is 16 times higher than in China.

Flat demand in the domestic Australian market has, in part, resulted in an intense price war. Since 2011, the duopolistic Australian retail giants Coles and Woolworths began to sell milk at a loss in order to increase demand and as a 'loss leader', to encourage sales of other products (Henshaw, 2012). Since the end of 2012 until now (end of 2013), a litre of milk has been cheaper than a litre of spring water. The low prices being received by dairy farmers stimulated greater efforts to find export markets, at much the same time as Chinese (and other Asian) producers were looking for foreign suppliers (Henshaw, 2012; and Neales, 2012).

5.8.2 The Company (CS8)

CS8 is a conglomerate formed jointly by four publicly listed companies in August 2006 in Shanghai. It is a state-owned enterprise. The largest one of the listed companies produces dairy products and beverages; another is involved in property management and also produces canned meat and bottled

water; another runs taxi services in Shanghai; and the fourth engages in food processing, particularly sugar processing. In addition, the group has 15 other unlisted local companies, with the group's activities covering agriculture, food manufacturing, logistics and asset management. In 2011, its sales exceeded RMB120 billion, ranked it 77th in the top 500 Chinese enterprises.

5.8.3 CS8's Pre-Australian International Activities

Ever since its establishment, CS8 has actively sought overseas investment opportunities to expand its production and trading capacity (CS8, 2013). In 2010, CS8 engaged in an AUD1.7 billion tender for acquiring shares of a sub-entity of CSR (Sucrogen), Australia's largest refined sugar producer (CSR Sugar, 2012). It also made a bid of GBP2 billion for United Biscuits in Britain, a bid of USD2.5 billion to acquire the world's largest vitamin retailer, GNC, a bid of EURO17 billion to acquire Yoplait the French yoghurt manufacturer, and a bid of NZD82 million to acquire Synlait, the New Zealand milk powder producer. However, these ambitious attempts at rapid globalisation were largely unsuccessful, with only the bid for Synlait succeeding (CS8, 2012). Thus, while CS8 has clearly gained substantial experience in planning international activities, focused on overseas share purchases, it is only recently that it has gained experience in owning and operating overseas enterprises.

5.8.4 CS8's Australian Direct Investment

CS8's unsuccessful attempt to invest in CSR's Sucrogen commenced in 2010, only four years after the establishment of the conglomerate. While ultimately unsuccessful, possibly, in part, as a result of FIRB's concerns for its SOE status, valuable experience was gained regarding the requirements for successful investment in the Australian market, experience that proved valuable in its later acquisition of Manassen, another Australian firm. (Smith & Kokin, 2010). Despite the failure, CS8 was still very

positive towards investment opportunities in Australia, and commenced moves to acquire shares in Manassen one year after the CSR failure.

Manassen Foods was a privately-owned Australian company established in 1953. Currently it employs 350 staff, and has a wide and diverse brand portfolio covering dry groceries, confectionery, biscuits and cakes, perishables and frozen foods. In Australia's fast-moving-consumer-goods (FMCG) industry, Manassen Foods is ranked in the top 40 suppliers and has been providing one-stop-shop solutions for brand owners across the globe, suggesting its wide product range. The distribution channel Manassen Foods has established between a wide range of suppliers and customers is as equally important a resource as their own various brands (B1). CS8 acquired 70 per cent of Manassen's ownership in 2011 and took over with dominant control.

5.8.5 CS8 and Research Questions

5.8.5.1 Research Question1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

As described below, there were two major reasons for CS8's investment in Australia: to acquire supplies of key resources; and to acquire overseas retailing networks.

Interviewee B1 explained that it was CS8's "strategic aim" to penetrate the international food industry since that is the industry the conglomerate majors in. "We intended to acquire an Australian sugar refining enterprise [CSR] a couple years ago, because our domestic supply of sugar cannot match our production needs, so as a food processing enterprise, we have to have a steady supply over some basic materials such as sugar to ensure smooth processing. That company is Australia's largest sugar producer, and for sure by forming a union we could secure our sugar supply to some extent. Not only for sugar, we are hoping to see us acquiring resources through some other Australian based companies since the country has an abundant collection of various resources, including dairy products, which is the main business of our group... hence our cooperation with Manassen" (B1).

In addition, the retailing and distributional networks of Manassen were attractive as “The most important objective of our Manassen’s acquisition was to make it as a platform for our product distribution within Australia and New Zealand. Manassen holds connections with over 50,000 retail outlets within and without Australia, which if we could utilise upon acquisition would significantly facilitate our overseas distributional channels and promote our international brand image very quickly. Also, Manassen could use our domestic distributional channels to gain access to the Chinese market, which offers great opportunities for the import of overseas food products, especially when there is a lack of confidence in China towards locally produced food” (B1).

5.8.5.2 Research Question 2: What factors have influenced Chinese MNE’s choice of entry mode for Australia?

According to the interviewees, factors that influenced CS8’s entry mode choice include: their investment motivation, size, and their previous investment experience (or attempts).

According to the interviewees, CS8’s investment aims definitely influenced the mode of entry they selected. As noted above, CS8 entered Australia with two aims: to acquire natural resources (sugar, dairy, and other commodities for their processing in China) and to acquire channels and networks to retail terminals for distribution of their products. “It is our aim [to acquire networks], we cannot possibly realise that if we are just starting off a new plant or company by us on our own, we have to have someone who already has that information on hand to be our partner, hence no Greenfield. In terms of the choice between WOS and JV, although we would surely prefer to acquire full control of the company given that their existing management team would stay, it was more of a negotiation outcome” (B1). “No wonder having full control over the foreign company would enable us to get access to their products, or what we might view as raw materials, as well as their networks with business partners in a more efficient manner... We also need to contemplate the management issue

and conflicts of thoughts between cultures. The success of the investment really depends upon the synergistic effects that follow on” (B2).

As indicated by B2 it is apparent that CS8 thought that in order to gain the raw material increasingly necessary for their domestic production and for access to distribution channels within Australia, it needed to become at least the dominant shareholder in an existing enterprise, which would be the best entry mode choice, though it recognised the challenges involved in integrating the different cultures if its acquisition was to be successful.

Both B1 and B2 indicated that the large size of their group influenced their preference for the WOS mode of entry. They thought that establishing a WOS would achieve a best solution. “Considering our size, we would prefer a full or at least dominant control over a foreign company, that way we can get the resource we want, and have a say in any major strategic decisions within the firm” (B2). “Our large corporate size ensures that we have sufficient funds to make all sorts of investments, Greenfield or Brownfield, wholly-owned or jointly-owned, we just need to choose the method which is more suitable for us and can help us to achieve our strategic goal more efficiently. Considering our investment impetus for the Australian and also New Zealand projects [to acquire resource and networks], we figure acquiring the majority of shares of these firms would be more appropriate, hence our decision” (B1).

Both interviewees greatly valued their past international investment experience, regardless of the often unsuccessful outcomes of their investment efforts. “Although we only succeeded in the Synlait proposal and purchased 51 per cent of its shares, all the money paid in the past few investment attempts were tuition fees for us to get through this Manassen investment more confidently... For example, in our Yoplait case, one of the factors that caused the failure was that the French side were concerned that the reviewing process in China would be too lengthy, especially considering the large amount of shares we proposed to acquire, which obviously was a misunderstanding and a result of lack of communication. So in our Australian investment, we have explained that bit with our potential partner beforehand to convince them that would not be a problem...” (B2). “When we approached

the previous companies, we not only needed to communicate with local shareholders and boards, but bureaus like overseas agencies and consultants from finance, law, commerce, taxation, environment were also involved. The way we think and value things therefore evolves with the experience we have accumulated”. The interviewees recognised that by the time CS8 got to their Manassen case, they have transformed from “I don’t know, we just want to have dominant share control” to a status of “Yes, we know what we are doing, having dominant share control is definitely more efficient for our company to achieve our corporate goals” (B1). This attitude, they felt, also contributed to the success of the investment attempt.

In short, both interviewees felt that the experience they had accumulated in negotiation in their previous investment attempts had strengthened their confidence in moving to gain a majority share owning in Manassen.

CS8’s interviewees felt that goodwill had little, if any, influence on entry mode choice. “Clearly some other factors that we have discussed [such as investment motivation, experience and size] are more influential towards our final choice. We are not seeking to opening up the Australian market with our products from China at this early stage, although down the track that is definitely what we want to do. So the preservation of our existing culture or goodwill was not our top priority, and we didn’t worry too much about the effect of that in our entry mode decision” (B1).

The Australian government may not have directly influenced their entry mode choice regarding Manassen, but attempting to invest in Australia has certainly taught CS8 some lessons in how to deal with local governments. “We have not encountered specific problems with the Australian government in this Manassen case, but in our previous case with CSR, FIRB held up our investment application so as to ‘further consider the offer’ according to them, and which we have no doubt created some negative speculation in the related field and hence resulted in our failure in that acquisition ... So in this Manassen case, we remained quite low profile before everything was settled, there was a limited amount of media coverage involved, and we showed the government that we were

not aiming to ‘steal Aussie brands’ as was the concern of the French government with our Yoplait proposal” (B1).

Based on their experience so far, both interviewees thought that the Chinese government had laid no obstacle on their path towards FDI, at least not intentionally. However, “some current [Chinese] legislative practices are pretty out dated and do not reflect how business is done in the developed world, particularly concerning SOEs. For example, the state requires that a parent SOE should have a proportionate financial guarantee or pledge towards the overseas subsidiary which the entity is intending to acquire, but in this investment, we financed through private equity funds, which the legislation did not state clearly enough about the exact procedures involved, so there was a hiccup” (B1). However, as regards Manassen, the government had no specific requirement limiting CS8’s entry mode choice for their Australian investment.

B1 and B2 recognised that culture could impose significant barriers towards the operation of the business once the company’s acquisition of Manassen had been completed. Nonetheless, the interviewees did not see this issue in itself as directly influencing the company’s entry mode choice. “We know that for the type of business we have and given our strategic aims, acquiring shares from a prestigious local enterprise would be a most valuable and time efficient option in order to penetrate the Australian market. So every other consideration is based on this assumption that a Brownfield acquisition would be carried forward. So really when we say we realise the difficulties large cultural distance between China and Australia can bring, we are thinking of ways to overcome these difficulties rather than compromising on our existing choices for the sake of that factor in particular...” (B1). B2 concluded that “we just need to be prepared for such cultural distance. This means our manager needs to be inclusive towards a different culture, and willing to accept what has been practiced over there for decades; how the management level deals with the cultural issue is crucial in the long-term success of the overseas investment, but perhaps it did not worry us too much in the start... Coordination and harmonisation is what we consider in the second stage after the transaction was completed” (B2).

5.9 Summary of Findings

This section discusses the findings generated from each case studied. Details of the interviewees are summarised in Table 4-11, which first appeared in Chapter 4 Methodology. The remaining subsections discuss the general findings regarding the two research questions.

Case No.	Industry	Size	Ownership Type	FDI in Australia since	Interviewee Codes
CS1	Biochemistry	Large	SOE	2008	T1
					T2
					T3
CS2	Mining	Large	SOE	2009	V1
					V2
CS3	Mining	Large	Public	2009	C1
					C2
					C3
CS4	Manufacturing	Large	Public	2006	H1
					H2
					H3
CS5	Livestock	Small	Private	2008	S1
					S2
					S3
CS6	Pharmaceutical	Small	Private	2006	Z1
					Z2
CS7	Fur & Leather	Small	Private	2006	X1
					X2
CS8	Dairy	Large	Public	2010	B1
					B2
Australia Government Official					G1
Chinese Government Official					G2

5.9.1 Research Question 1: Why have Chinese MNEs chosen to invest in Australia through OFDI?

Market-seeking

Out of the 20 interviewees from all eight Chinese corporations, ten (T1, T2, T3, H1, H2, H3, S1, S2, B1, and B2) indicated that their investment was at least partially driven by their desire to penetrate the Australian market and expand their business in this country.

T1 noted that “while Australia’s population is relatively small, it has a large and advanced agricultural sector”, which is beneficial for the growth of their business since “we want to attract more market shares [in the country]”. H1, representing the national consumer electronics manufacturer, also

acknowledged that acquiring Australian market share was the main purpose of their Australian investment. The interviewee noted that Australia had almost no national brand in the white/ black goods sector, so its market “was bound to be shared by those foreign brands which offer outstanding quality and service” (H1). S1 in the livestock and agricultural industry entered the Australian market for similar reasons, “Although Australians eat lots of beef and lamb, pork is still a quite important component of their dietary consumption”; besides, pork raised and slaughtered locally “tastes differently to that of the Chinese breed”, which is more welcomed by “an increased number of Chinese in Australia”, so to “bring tastier pork to Australia” formed one of their incentives to invest in Australia. B1 and B2, in addition, acknowledged that as well as their aim to source local ingredients to support their dairy production in China, they were also keen to use “the distributional channels the local firm possess” to introduce their products to the larger world. However, none of these ten interviewees felt that market-seeking was the only motive for their Australian investment, with a range of other motives also being influential, as discussed below.

The remaining ten interviewees (V1, V2, C1, C2, C3, S3, Z1, Z2, X1, and X2) representing firms from the mining, pharmaceutical, and fur and leather product industries indicated that market-seeking was not a significant factor. In regard to CS2, for example, the interviewee pointed out the limited size and maturity of the Australian market in noting: “How large is the Australian market? And it is already a developed country with relatively complete infrastructure construction, how large can its demand for steel be? Not much really, at least as compared to our domestic demand” (V1). Rather, CS2 was far more concerned with fulfilling the Chinese domestic market demand for steel, and then maybe “exporting the steel made from the raw materials in Australia to other parts of the world... and integrate into the global steel production cycle” (V2).

This view corresponds to that of the Chinese government interviewee, G2, who also felt that companies do not often come to Australia for the sole purpose of acquiring market shares. “I think the market in Australia is moderately small... Australia has a population of a mere 20 million, which is even smaller than one province in China, the market potential is frankly quite limited, especially for

some industries... like manufacturing and mining... In the case of Chinese investments, what happens more often... is that they prefer to use the Australian market as a platform for their expansion into larger markets eventually” (G2); “for some large firms, Australia serves more of a test field for their products and services before expanding into the US or Europe – it’s social and economic environment is as advanced, and yet it’s smaller in size which makes it ideal for the purpose of such activities” (G1). This idea of ‘using Australia as a test field’ is more common among large Chinese MNEs, for they have the resources and capabilities to internationalise on a global scale in a set time frame, as discussions regarding CS2 and CS4 has shown.

For Chinese mining companies and some manufacturing companies, acquiring resources and local ingredients composed their main investment purpose, as is examined below.

Resource-seeking

Among the 20 interviewees from Chinese corporations, eight indicated that the pursuit of tangible resources in Australia was their major investment motivation, and often, it was their major concern (V1, V2, C1, C2, C3, X1, X2, and B1). Not surprisingly, the two mining firms studied both ranked this as their primary motivation.

V2 indicated that “...our company decided to go to Australia because we were attracted by their (natural) deposits”. C1, C2 and C3 expressed similar points, “our group has an interest in mining, no doubt we are interested in the mines in Australia and the resources in Australia” (C1). X2 also considered Australia as a strategic source for supplying resources. “Australia... has... top quality sheep skins... our company needs the outstanding sheep skins” (X2). “Australia is known as the leading producer for wool products... therefore I decided to invest in Australia to import good quality Australian wool for further production in China” (X1). B1 from the dairy company also acknowledged that “due to increasing domestic concern about Chinese dairy products, we believe that

having some ingredients imported from Australia may help us to strengthen our brand image, because our domestic customers are anxious to get safe, natural, and fresh products” (B1).

The two government interviewees made similar points. “[the major reason for Chinese firms to choose to invest in Australia is] to secure resources, not only coal or iron ore... but agricultural upstream products, such as fresh milk and even chemical products... We’ve got enquiries about Chinese companies buying dairy farms so that they could secure fresh milk supply, etc” (G1). G2, a Chinese official, noted that “Chinese investments in the resource and extraction industry represent the largest stake of Chinese OFDI in Australia... Australia is rich in those natural resources that China is in desperate need of; the political environment is very stable, and the regulation system is relatively well developed... so it is very advantageous compared to other countries [such as resource-rich but politically-unstable African countries], which makes Australia irreplaceable for Chinese investors.”

Strategic asset-seeking

In contrast to tangible resources such as iron ore, lithium ore, sheep skin, and dairy products the cases examined also indicated that Chinese companies were interested in gaining access to intangible resources, with 15 out of 20 interviewees (T1, T2, T3, V1, V2, C1, H1, H2, S1, S2, Z1, X1, X2, B1 and B2) stating their companies invested in Australia, at least in part, to acquire intangible assets of strategic value, in other words, to seek strategic assets.

The intangible assets sought fell into three broad types. The first and foremost type of strategic asset sought was operating experience. T1, T2 and T3 thought that the experience gained by CS1 in operating in the Australian investment would assist it further develop the quality of its products and, as a result, help it’s long term plans to enter other, larger, but more remote developed markets. The experience gained, it was hoped, would be of two major types: one, management experience through managing in an unfamiliar and culturally remote business environment; and two, exposure to new production technologies, for example those related to pesticide production. Similarly, CS2 and CS3

from the mining industry recognised that investment in Australia could help them to build their global procurement and distribution network, and play a more significant role in global economic development as individual corporations. B1 and B2 also stressed the importance of networking and distributional channels in promoting their products to the greater world, which is what their Australian partner could offer. CS4 wanted to both add to its international experience and also felt “Australia provides us with a very good platform to test our products – it has a moderate size market; and shows whether our service can survive fierce competition in the context of a developed market before we go into Europe, a much larger market, to confront with all those global brands” (H1). Again, the Chinese Consular General in Melbourne made a similar point, “Australia is a developed country with a small but mature market... Many Chinese firms seek to get some training in this market before they move on to some larger and more challenging markets such as Europe and the US” (G2).

The second type of intangible strategic asset Chinese firms sought is represented by CS6, in the form of research assistance, especially as regards clinical trials. As a pharmaceutical company at the early stage of its corporate lifecycle, CS6’s investment in Australia was triggered by their desire to complete the clinical trials necessary for their new drug before it can be commercialised. As stressed by Z1, “if we want to promote such a new product overseas, for sure we need to have some overseas related clinical trial experiences to convince local drug administrators, US is one side, and Australia is another”; “the founder of our company... has been maintaining good relationships with the Australian side... So whenever we have demands for new technological development... Australia is always among the top choices” (Z2). While in one sense this was akin to using Australia for a testing function, as noted for CS4, CS6 stressed the value of support and assistance from the Australian research-related professions for the development of the new drug formed CS6’s specific strategic asset-seeking motivation.

The third type of intangible strategic asset sought was very different and not directly related to the firms that indicated its importance, CS5 and CS7. It was permanent residency for the owners and family members. PR, at least in these two cases was not sought as an intangible asset for the firms,

but as personal goals for the owners. It might be described as a welfare-seeking motivation aimed at improving the quality of life for the owners and their families. The firms might benefit, ultimately, from, for example, an increased quality and quantity of inputs from the owners as a result of the latters' satisfaction at gaining PR, but this was not the prime motivation. S1 explained that Australian PR was very tempting. As the owner of the business, S1 and the family had the necessary funds and just wanted a better place for living. CS7's case was similar. "Our boss himself is a very successful entrepreneur... he was thinking of migrating to Australia through investments, so he had decided to set up a local company to purchase the raw materials... Now he resides in Australia most of the time, his child goes to local schools, and he can sit at home and still have his business up and running well in China" (X1). While further research is needed to substantiate the point, arguably, this welfare-seeking, largely personal motivation might be quite common among small to medium scale Chinese private firms investing in Australia. Indeed, as a matter of speculation, it might be a factor motivating, in part, senior management in larger Chinese firms in investing in Australia, though they would find it more difficult to gain PR status as different immigration criteria would apply to them.

In summary, Chinese firms investing in Australia are driven by an array of motivations including market-seeking, natural asset (resources)-seeking, strategic asset-seeking, and welfare-seeking. Chinese mining firms are predominantly, if not solely, resource-oriented; small to medium scale private firms established by successful entrepreneurs tend to enter Australia as much for personal, welfare seeking reasons in addition to business concerns – that is to obtain Australian PR.

5.9.2 Research Question 2: What factors have influenced their choice of entry modes for Australia?

Investment Motivation

All four types of motivation (that is, including the welfare-seeking motivation identified in this study) can be seen at work in the cases, but not to the same extent. Companies, for example, with largely

asset-seeking motivations (both tangible and intangible) were more inclined towards the full control, WOS mode, with only H1 and S1 (out of 20 people) regarding asset-seeking as irrelevant. On the other hand, among companies with a primarily market-seeking motivation, only interviewees T1, T2, H1, and S1 (out of 10 people) stated that their market-seeking motivation had contributed to the choice of a WOS.

Regarding the asset-seeking motivation, the mining companies indicated a straightforward reason, “this resource in Australia is what we value the most in this investment. If considering no other facts, we would definitely prefer to establish our own WOS” (V1). X1 also admitted that “WOS is more flexible... we need the local connections, we focused on whether our suppliers were reliable, and whether the quality of raw materials they supply us would be reliable, so... wholly owning a local producer to secure our domestic production is the choice”. A greater level of control in a foreign subsidiary gives investors a greater level of control over the resources they are interested in, hence the inclination towards a WOS mode.

Regarding the market-seeking motivation, H1 recognised that since Australia has almost no local brands in consumer electronics, setting up a WOS was almost inevitable if the company wanted to penetrate the Australian market. S1 also revealed that because they wanted to introduce their pork products to the Australian market and therefore gain market shares, they would prefer to establish a WOS. Other interviewees did not see a causal relationship between their market-seeking motivation and the entry choice of full control mode.

In short, the influence of investment motivation upon firms’ entry mode choice varies. The majority of interviewees from firms who invest in Australia for asset-seeking purposes (both tangible and intangible) felt that this motivation has encouraged them to use the WOS mode of entry. Meanwhile, only some interviewees whose company invested in Australia for market-seeking purposes felt that they were more inclined to choose WOS given their particular investment motivation.

Size

Corporate size definitely influenced the entry mode choices for most of the cases examined. 15 out of the 20 interviewees from corporations, representing seven of the eight cases examined noted it as the important factor in the selection of the WOS mode (T1, T2, T3, H1, H2, H3, B1, and B2). Even those selecting the JV mode felt that if there had been no government influence, then WOS would have been their preference (V1, V2, C1, and C2). The interviewees from smaller firms also indicated that if their corporate size had been larger, they would prefer to set up WOSs (S1, S2, and Z1).

As T2 and T3 explained, "... we are a large group company, so we have the capability to transform and utilise the knowledge accumulated elsewhere and apply it in the Australia project... so we prefer WOS rather than interest sharing JVs", which allows them to "start operations immediately" with "almost no third party except the Australian government involved". It was also argued that the company has enough capacity to "be able to deal with the troubles" associated with running a company with full overseas ownership (T1). H1 from CS4 also suggested that their Melbourne-based WOS might not have been established if the company had been of a smaller size and indicated that the corporate culture rooted in a large corporation would be hard to adjust if a JV was to be set up, leading to a lengthy adjustment period for both parties to the venture.

The two mining cases both selected JVs, but largely as they felt constrained to do so by Australian Government policy. V1, representing CS2, a large conglomerate, stated that "if we were able to possess the mining rights of some iron ore deposits and transportation channels, then setting up a WOS is definitely a top choice".

CS3's decision to set up a JV with Galaxy Resources despite being a large company may be explained by their long-term strategic plan. As noted, the investment vehicle for the purchase of Galaxy shares was Creat Resources Holdings, an Australian company listed on the London Stock Exchange and fully owned and controlled by CS3 China, following its purchase of its shares in 2007. Therefore, there are two sequential investments involved here, with CS3 acquiring full control of Creat

Resources Holdings in 2007, and Creat Resources Holdings taking over partial control of Galaxy in 2009. The series of investments were deemed to have made an appropriate balance between cost and control, and most importantly, it enabled CS3 to secure the resources they are interested in. In essence, CS3's large size and perhaps its pure private ownership structure have contributed to the decision to fully acquire former Zeehan Zinc, and consequently owning a significant part of Galaxy's shares.

Most, if not all of smaller firms in this study revealed that they would choose to set up WOSs had they had sufficient capital. For example, S1 revealed that "as a local private enterprise with our current size... we didn't really have the initial investment needed to bring such a choice [WOS] into reality... in cases where money is not a concern, and if our company was large enough in size, we would definitely incline towards setting up a WOS". CS6's interviewee Z1 also mentioned that if the company had a larger capital base, it would prefer to establish a WOS which, provided that the managerial team was familiar with western practices, would help them avoid all sorts of inconveniences that a foreign WOS set up in a strange environment would encounter.

To conclude, larger firm size, notably capital resources, was felt to be an important factor in entry mode decisions, with a marked preference for the WOS.

Experience

Almost every interviewee recognised the importance of experience when it came to their entry mode decision making. Specifically, all eight cases examined disclosed that either their previous international direct investment experience had stimulated their WOS mode of entry, or that had they had previous international direct investment experience, they would have preferred to set up a WOS. This is because when they have practiced FDI through their prior experience, they would have accumulated knowledge necessary for conducting business activities in a totally unfamiliar

environment, then they would be more equipped to carry out another FDI with majority control, which allows them to exercise more power towards the operation of the new business.

For those firms who did set up WOSs such as CS1, CS3, CS4, and CS8, the influence of previous experience upon their entry mode decision seemed to be obvious. For example, while CS1 did not have any previous overseas direct investment experience, they did set up a JV with a Singaporean company in China. T1, T2 and T3 from CS1 admitted that although it did not directly count as their FDI experience, it has still exerted a positive influential power towards their final entry mode choice of WOS in Australia. “We have... drawn on the investment experience in the Singaporean project before establishing our own Australian branch without the help of local partners” (T1); “we learned, through our cooperation with the Singaporean company how to deal with foreign stakeholders, how different firm culture from advanced economies could be, and how to operate in an unfamiliar institutional environment” (T2). CS3 acknowledged they were stimulated to choose WOS considering the level of experience they have accumulated in previous overseas direct investment activities, despite the case examined in this thesis was about a JV they have set up subsequent to their initial WOS in Australia. H1 from CS4 also recognised that “our investments in those areas [America, Italy, and Hungary] have given us the courage and ability to land in Australia and compete with other big global brands here; we have certainly learned from our investment experience in other countries to set up this WOS in Australia”. In addition, B1 and B2 from CS8 greatly valued their past investment experience regarding the formation of their Australian WOS. Although some of their investment attempts failed eventually, they were still able to learn from their failures (B1, B2).

For those companies which selected JVs, all indicated that greater international experience would have led them to select the full-control WOS mode of entry, provided that local factors such as government regulations allowed this choice. For instance, CS2 had limited overseas operating experience despite its large corporate scale, and this led to its selection of the JV choice of entry mode (V1, V2). The smaller private enterprises cases experienced similar views. CS5 interviewees indicated that their lack of experience in foreign markets was a major reason why they chose to set up

a JV rather than a WOS. “We didn’t have the experience and knowledge needed to operate a business in Australia... If we had relevant FDI experiences, setting up a WOS would be much more practicable” (S1). Much the same view was expressed by Z1 and Z2 regarding CS6.

To sum up, interviewees in all eight cases studied found that either their previous overseas investment experience had stimulated their adoption of the WOS mode in Australia, or that had they had more experience in overseas direct investments, or had government policy allowed it, they would have established WOSs.

Goodwill

Only three interviewees from two companies suggested that the company’s goodwill capital had influenced their entry mode choices. However, the influence acted in quite opposite directions regarding the two companies, as perceived by the interviewees.

Specifically, T1 and T2 saw greater risks involved in a joint venture considering the relatively high level of goodwill capital the company possessed. “I think considering the scale and reputation of our business, it must be more effective and efficient to establish a WOS, because that’s [goodwill capital] what we want to preserve, and that could only be best kept if no external influence was exerted upon our daily operation, and that’s what is unavoidable in a JV” (T1); “It was because we have a strong and sound goodwill capital, that we have managed to get into the Australian market on our own” (T2). However, H1 felt the opposite, arguing that although CS4 had selected a WOS, the sound goodwill capital the company possessed would have stimulated the company to choose a JV mode of entry, “We have to strive to avoid anything that could negatively impact our brand image to happen... From this aspect, when operating in a completely strange environment, we would prefer to find a local partner, who has a good brand image and reasonable familiarity towards the institutional relationships in this environment... But... there is no match in Australia, so we just have to rely on our previous overseas FDI experience to set up a WOS” (H1).

The rest of the six companies did not think that goodwill had any marked influence on their entry mode decision making, with factors such as investment motivation, size, international experiences, and governmental support being more influential.

Australian Government

In general, most interviewees did not see the Australian government as being overly restrictive regarding their investment attempts in Australia. However, concerns were raised by the interviewee from the state-owned mining firm CS2, who thought that “considering the barriers that were set up by the Australian government as Chinalco [failed to acquire Rio Tinto] has experienced, we would incline to choose JV” (V1). In contrast, CS3, the private group company also interested in the mining sector, was able to fully purchase a local mining company, before setting up a JV with another local company, felt that “local government was not as sensitive towards our investment proposal as they did with some investments made by Chinese SOEs” (C3).

To conclude, the interview results show that Chinese investors in general found the Australian government quite supportive of their investment efforts. However, larger SOEs investing in sensitive industries (such as mineral extraction) had to face a prolonged examination period amidst public controversy before the approval of their investment proposal, feeling pressured, if only indirectly, to select the relatively low-profile strategy of joint venturing with local firms rather than setting up WOSs.

Chinese Government Support

All but two interviewees from CS8 (B1 and B2) acknowledged that the Chinese government had provided the companies with reasonable support, through means of policy incentives, financial support and complementary consultations regarding their proposed investments into Australia. Most

of them including T1, V1, V2 and H1 said that the Chinese government had no explicit rules limiting the type of entry mode specific companies should choose. As long as the application for an overseas investment was supported with appropriate materials and reports, companies could get approvals, and sometimes financial and policy supports in a relatively short period of time.

For instance, H1 disclosed that “we have had several WOSs around the world already... so the government welcomed our proposal for the Australian investment... we did not encounter any trouble [to establish the Australian WOS]... and the government was very supportive in this regard”. Also, the Chinese government was very supportive to CS6 especially when they were facing financial difficulties. The supportive attitude of the government towards CS6 was a major reason why the company engaged in FDI and started their foreign clinical trials. If considering solely the home governmental support, Z1 from CS6 also suggested that they would opt for WOS since it enabled greater flexibility. However, Z1 was the only interviewee who indicated that there was a relationship between home government support and entry mode choice.

In summary, it seems that while home government support serves as a strong backup for any Chinese corporations investing abroad, it does not have determinant power upon their entry mode choices. In other words, firms will not make their relevant decision based solely on the level of support they are receiving from the Chinese government. As V2 concluded, “the supportive attitude of the government... has given the enterprise some confidence in doing the business the way they like”, perhaps not more than that. This is especially the case with smaller firms, “I think the government also knows the most suitable mode for a corporation is different in each case, and the corporation itself knows which entry mode suits them best” (S1).

Cultural Distance

Only T1 from CS1 suggested the influence of cultural distance upon their entry mode decision. It was indicated that setting up a WOS could “minimise” those cultural problems, so that no extra effort

would be needed to “accommodate your partner” as was necessary with a JV (T1). However, the interviewee also stated that cultural distance was not a key or determining factor in their overseas investment decisions.

The interview results from the government officials suggested that while cultural factors are an important issue that companies need to deal with once the subsidiary is established, it does not very much shape their entry mode choice which tends more to be influenced by other factors. “They [Chinese investors] tend to do things the way they will do in China, which normally doesn’t work here... the communication between the local staff and their overseas managers may also cause disputes... nevertheless, the precise entry mode is more dependent upon the industries those companies are in, their firm specific characteristics rather than anything else” (G1).

To conclude, while the issue of cultural distance may pose challenges for outbound Chinese MNEs in their daily operations, it does not seem to have played a major role in their entry mode decision process.

5.10 Conclusions

This chapter discusses the results and analysis of the study. Sections 5.1 to 5.8 provide the details of the eight cases studied. Each of these sections are further divided into five subsections, introducing the industry the firm concerned is in, the background of the firm, and their previous overseas investment experience, if any. Interview quotes relating to relevant research themes are also classified and discussed in those subsections.

Section 5.9 summarises the interview results in accordance to the research questions. More in-depth discussions related to these findings are set out in the following chapter, Chapter 6, Discussion.

Chapter 6 Discussion

This chapter provides a discussion of the findings of this study. It is broken down into three main parts. Section 6.1 discusses the findings regarding the first research question, ‘Why do Chinese firms invest in Australia?’, and associated propositions. The findings suggest that while many of the motivations are the same as those driving Chinese investment in other markets, owners of smaller Chinese firms in Australia were driven, at least in part, by the aim of gaining permanent residency status, a motive not identified in most earlier studies and in none of the studies of Chinese investment in Australia. Section 6.2 discusses the findings in relation to the second research question: ‘What entry modes have Chinese firms selected for their investments in Australia?’ It is found that while some factors such as corporate size and previous international investment experiences do have an influence on a Chinese firm’s entry mode choices for Australia, a number of other factors which were deemed important in previous FDI entry mode studies were not as significant in this context. This chapter concludes in Section 6.3.

6.1 Research Question 1: Why do Chinese firms invest in Australia?

This section discusses the study’s findings in relation to Research Question One and the related propositions one and two.

6.1.1 Proposition 1: Chinese firms invest in Australia for primarily market-seeking and asset-seeking motivations

As regards Proposition 1 that Chinese investors invest in Australia primarily for both market-seeking and asset-seeking purposes, the findings from this study provide some support for this proposition, notably in regard to iron ore and good quality sheep skins, both in short supply in the Chinese

domestic market. The motive was primarily that of asset-seeking. This has been typical of Chinese OFDI since the start of Chinese OFDI in the late 1970s.

The predominance of the asset-seeking motive has been noted in the literature. In fact, as noted by Taylor (2002), ever since the start of Chinese outward FDI in late 1970s, this natural resource-seeking motivation has been the predominant driver for Chinese firms. It is a major reason for Chinese OFDI in Africa and Central Asian countries, given their often rich natural resources endowments (Larum, 2010). Although the often high levels of political and economic unrest in these countries tended to deter firms from other countries, it does not seem to be a major deterrent for Chinese firms (Kolstad & Wigg, 2012).

Existing literature suggests that a major reason for such relatively high risk investments by Chinese firms is that the majority, if not all of the firms involved are SOEs. As SOEs they can gain financial support for such high risk investments from state-owned banks and investment funds at less than the cost of obtaining such funds from privately owned banks or investment funds. The latter would charge substantially higher premiums for such high risk loans, or, in the riskiest cases, reject the relevant applications. In addition, SOEs may gain extensive, high-level, political support in negotiating access to the resources in question, sometimes under the umbrella of bilateral investment treaties (Buckley *et al.*, 2008; and Buckley *et al.*, 2007).

In contrast, Australia is not a high risk market and, in addition, only one of the three enterprises in this study that invested in Australia to secure the supply of natural resources or commodities is a SOE (CS2), with the second being a publicly listed company (CS3), and the third a small private company producing sheep skin products (CS7). Indeed, it is because Australian markets are relatively low risk and stable that smaller Chinese firms with limited capital and risk tolerance find it an attractive investment market. In this sense Australian markets are broadly similar to those that have attracted Chinese investment in North American and Europe.

In addition to the motivation to acquire natural resources and commodities, three of the companies in this study (CS1, CS4 and CS5) indicated that at least part of their motivation to invest in Australia was to “attract more market shares” (T1), in line with Dunning’s market-seeking motivation (Dunning, 1993). However, the majority of the interviewees from these three cases indicated that market-seeking was not the sole or sufficient motivation, especially CS5. Rather, they also indicated one or more additional motivations for their investment decision, notably asset-seeking, with at least one interviewee from each of the eight companies indicating that their companies invested in Australia to acquire intangible assets of strategic value. The types of assets sought included that of operating experience in a relatively mature Australian market so as to facilitate their possible future operations in other developed nations; another was to secure technologies necessary to upgrade their products that, in turn, would enhance their brand image and sales. While both points are important for all of the Chinese investors examined, the larger firms with larger capital resources and comprehensive overseas investment plans were motivated more by the experience they could accumulate by operating in Australia. Interviews with staff in both Australian and Chinese government also confirmed this point, with those interviewed indicating that larger Chinese firms often viewed Australia as a valuable “testing field”.

Taylor (2002) was the first researcher who linked strategic asset-seeking motivation to the investment activities of Chinese investors. She recognised that a country’s OFDI can be regarded as a quest for market information aimed at improving domestic exports, and thus could be construed as a type of strategic asset-seeking motivation. The findings of Deng (2004, 2007), Rui and Yip (2008), and Luo and Rui (2009) have also confirmed the importance of acquiring strategic assets in Chinese MNEs overseas investments. Regarding the type of strategic assets gathered through this type of investment, Taylor noted that information was the principal type of such intangible assets when conducting FDI. Similar evidence could be found in Lu (2002), Sauvart (2005) and Buckley *et al.* (2008), who all confirmed that in the early stage of Chinese OFDI, Chinese MNEs with a strategic asset-seeking motivation internationalised mainly to “acquire information and learn about operating abroad for the benefit of other domestic enterprises” (Buckley *et al.*, 2008: 722). However, more recently, the type

of strategic assets pursued by Chinese enterprises have increasingly switched from that of general market information to the specific production knowledge of technology intensive advanced foreign firms (UNCTAD, 2003). While general information gathering may refer to the collection of information regarding market condition, consumer preference, operation strategy and production method of established firms in the same industry, this shift shows that Chinese MNEs are particularly interested to know the advanced practices of local firms at the current stage. This trend was also identified in this study with CS5, CS6, and CS7. In other words, Chinese MNEs are progressing from absolute new hands in FDI activities to the next stage, where they have already grasped the general conditions of the overseas markets and know what they want to get from them.

Both market-seeking and strategic asset-seeking motivations have been identified in a number of studies concerning Chinese FDI in other countries. Nicolas (2010), for example, found that market-seeking and strategic asset-seeking were the major forces that motivated Chinese firms to invest in France. The growing significance of strategic asset-seeking among Chinese outward investors was also found in Pietrobelli *et al.* (2010). In addition, Liu and Tian (2008) suggested that market-seeking was the dominant driving force for Chinese direct investment in the UK after 2006, but it is arguable that many of the firms they studied had an underlying intention of seeking access to the much larger EU market from their UK base, a type of strategic asset-seeking motivation, as noted by Mintzberg (1987). Moreover, Cui *et al.* (2011), Buckley *et al.* (2008), and Zha (2013) have also identified market-seeking and asset-seeking motivations among Chinese MNEs. However, all the above mentioned studies, while recognising the existence of these two investment motivations, did not investigate their relative importance in Chinese MNEs' investment decisions. The findings from this study make it clear that that individual Chinese MNEs may not be motivated by a single motivation, so that, for example, the desire to acquire market shares in foreign markets may very likely coexist with a need to acquire strategic assets, and natural resources.

Apart from market-seeking, resources-seeking and strategic asset-seeking as indicated in the interview results, the study also identified another type of motivation which has motivated at least two of the

entrepreneurs (CS5 and CS7) to carry out their FDI attempts in Australia. That is to use their investment as a means of gaining PR in Australia.

Previous research concerning business migrants in Australia or the western countries in general tends to focus from a cultural perspective (see Selvarajah & Masli, 2011; Gao, 2003; and Rauch & Trindade, 2002). However, only a very limited number of studies have linked the motivation of Chinese investors or even corporations from emerging economies at large to engage in FDI with the purpose of gaining PR in the countries concerned. Antkiewicz and Whalley (2007) for example, were among the first to discuss the possibility that an important motivation for investors from less developed regions to invest in developed countries was to enjoy the social benefits of Western welfare states by gaining residence rights in those nations. Similarly, Deng (2004) indicates that the social benefits concerned could include legal protection, social security, free or cheap quality education and health care services, and a safe and clean environment for family life. In a study investigating and comparing motives of Chinese OFDI in the small developed economies of Finland and Sweden, Lintunen found this to be a relevant motive particularly for smaller Chinese family companies (Lintunen, 2011). According to Lintunen (2011: 94), their relatively lax immigration policy has “plainly increased the interest of the Chinese towards the immigration motive for FDI in the country (Sweden)”. It is apparent from this study of Chinese investment in Australia that some Chinese firms, especially family-run private businesses, at least in part use FDI as a vehicle to access PR, where the investment and immigration policy permits.

To sum up, on the basis of the cases in this study four related reasons seem to largely explain the attraction of PR for family-run private businesses in Australia. First, interviewees suggested that living in China makes those individual investees “feel less secure” materially, whereas living in Australia could largely, if not altogether, eliminate the concerns about food, drink and air safety. “Almost every week, you can hear outbreaks about illegal additives in the processed food you buy in supermarket, and the food you consume in a restaurant... it almost feels that you can no longer have a

sense of security here [China], no matter how much money you have” (X1). “At least we know what we are eating will not cost our lives here (in Australia)” (S1).

Second, the interviewees also expressed a lack of a psychological sense of security when doing business and living in China. “For businessmen like us, we have some money, but we do not have the privileges that civil servants [of China] enjoy, we are thus more vulnerable than ordinary people who at least do not possess the great deal of wealth to be ‘averaged’ in any political turbulence” (X1); “the general public in China are getting more and more frustrated with inflation, rocketing property prices and food security; who knows what would happen tomorrow... investing in Australia although it does not guarantee any return, at least it is a stable environment and we do not need to worry about the repercussions of an unstable political institution” (X1). To these investors or perhaps the majority of Chinese individual businessmen who invest in Australia to gain PR, Australia is somewhat like a fund management institution where they can safely allocate some of their capital, a type of haven for capital.

The third reason relates to the children of the investees. As two interviewees noted “It is just too competitive in China. If my kid was to be left in China and follow the traditional educational pathway, he would never be able to get an admission to university, and that means he would never get a decent job and would be looked down upon by his friends and my friends” (S1). “Australia is different, there is less competition here, and university is not a luxury, even if you are a plumber here you earn good money, which is completely different compared to the case in China” (X1). The desire to ensure the best possible education for children was definitely a concern for the relevant interviewees, perhaps intensified by the one-child-policy implemented some thirty years ago. Hence the desire to make sure he or she gets the best quality education, food, social welfare, and an “opened up mind”, overseas. A recent Bank of China paper also noted this trend, indicating that more than half of Chinese multimillionaires invest overseas to achieve their educational purposes for their children (Bank of China, 2011: 2). This confirms the interviewees’ view that investing overseas may not only benefit the business, but children of the business owners.

In addition, this study has also tentatively identified another factor which might encourage Chinese firms, particularly those family-run private business to invest in Australia; that is the social network for businessmen is much simpler than that of China, so doing business in Australia involves less entanglement with a complex network of relationships. “Most of the contracts do not get settled on the negotiating table; rather they get settled in restaurants, on drinking tables... if you do not smoke more than the others, you do not drink more than the others, you will not get the contract and you cannot do the business... It is a weird philosophy, but it is how it works at home” (S1); “There are lots of things that if you do not give responsible officials some benefit [bribing] your contract or operation would not get done successfully, it’s like an implicit rule which really complicates all the networks in business” (X1). Individual investors who do not have deeply rooted governmental relationships may be vulnerable in situations of even minor political unrest or personnel changes. Although they do know the possible repercussions of having illicit relationships with government officials, they still have to work to expand such connections in order to operate successfully. Also, the larger your business gets, the more likely you are to have intensive connections with government authorities such as local council and tax office, hence the more unavoidable this problem becomes.

In addition to the above points, on a speculative basis, China offers a number of preferential policies to foreign enterprises and foreigners who work in China. Specifically, these preferential policies include discounted tax rates, concessions on the purchase (or renting) of land, a variety of regional preferential policies offered to qualified enterprises, and free technical support for incoming investors (see details in MOFCOM, 2013b; and State Council Information Office, 2013). Although some preferential policies have been removed in recent years regarding incoming foreign entities, as an individual investor, one is still entitled to some tax advantages that local, Chinese entrepreneurs may not be able to enjoy (State Council Information Office, 2013). Thus, Chinese entrepreneurs may find it practicable and beneficial to invest back into China as a foreign investor after gaining foreign citizenship in order to take advantage of the preferential investment policies. This point may also explain, in part, their aim of gaining Australian PR, followed later by possible citizenship after meeting further requirements.

Since this PR seeking motivation cannot be classified into know-how, technology, or operational experience which are strategic to the firms' (rather than the owners) future development and therefore form the basis of strategic assets, the PR seeking motivation is not a subclass of the asset-seeking motivation. Rather, it forms a separate type of investment motivation that deserves additional research. Identifying this motivation may contribute to the body of knowledge in such a way that it may not only explain the FDI practices of Chinese family-run private businesses in Australia, but perhaps also gives a possible explanation for emerging market FDI into industrialised countries in general.

The incentives for Chinese firms to invest in Australia involve market-seeking, asset-seeking, and strategic asset-seeking, as indicated by Proposition 1. However, for some private firms PR, or welfare-seeking, is an additional motivation. Hence, Proposition 1 provides only a limited, partial explanation of the motives driving Chinese investment in Australia and, possibly, in a range of other developed countries. This point has rarely been addressed in the existing literature

6.1.2 Proposition 2: The motives driving Chinese firms to invest in Australia are different from those which drive Chinese investment in other countries.

The main factors that have driven Chinese MNEs' investments in Australia are natural resource-seeking and what often tends to be a combination of market and strategic asset-seeking. This result differs from the findings of Chinese MNEs' investment motivations as revealed in the UNCTAD (2006) and CCPIT (2009) studies. In these studies, market expansion was deemed to be the main driving force for their internationalisation, followed by strategic asset-seeking and, to a limited extent, transaction cost minimisation (UNCTAD, 2006: 171; CCPIT, 2009: 16). Even in the limited number of studies which looked at Chinese MNEs' internationalisation motives in a specific country setting the results do not resemble what has been found in this study. For example, Zhang and Van den Bulcke (1996) and Liu and Tian (2008) all found that market potential or market-seeking was the primary reason for Chinese MNEs' FDI in the UK.

Proposition 2 is therefore supported, as the cases studies show that the motives for Chinese MNEs' to conduct OFDI in Australia do show a different pattern as compared with most other, previous studies identified. In part, this is not surprising as all countries are likely to display a variety of differing as well as similar characteristics, so that, in turn, they stimulate somewhat varying motives for investment. Australia, for example, has major reserves of natural resources, so is likely to attract firms with a resource-seeking motivation, which is not the case for even a number of major developed countries such as Italy. However, the importance of the "test bed", and welfare seeking motivations have only rarely been identified in earlier studies and warrant further investigation, not only in Australia, but in other developed countries.

6.2 Research Question 2: What factors have influenced Chinese MNE's choice of entry mode for Australia?

This section discusses the study's findings in relation to Research Question Two and the related propositions three to ten.

6.2.1 Proposition 3: Chinese firms with a market-seeking motivation tend to choose the WOS mode of entry for the Australian market.

The interview results suggest that CS1, CS4 and CS5 invested in Australia, in part for market-seeking purposes. Out of the three companies, CS1 and CS4 ended up with a WOS; while CS5 chose to set up a JV with a local partner. The reasons for CS1 and CS4's choice were that: one, it takes time for both parties to get familiar with each other in a JV context, which may be more time consuming than for a WOS given they wanted to acquire market shares in a given period of time; two, a WOS enables more flexibility in decision making, obviating any need to discuss matters with JV partners, and a WOS can get access to advanced marketing strategies without the assistance of JV partners; and three, there was no appropriate local partner to partner with. On the other hand, in contrast, S1 and S2 from CS5

felt that because they wanted to learn from the advanced technology of local Australian companies, and since they had no previous experience in business overseas, they would prefer to, and did actually set up a JV to help guide them through the process. Therefore, Proposition 3 is not fully supported. As explained in the above section 6.2.1, all three companies invested in Australia on the basis of a number of motives, not for the sole purpose of market-seeking; they also wanted to accumulate experience, gain access to the advanced technology, or obtain PR for the owner managers. Hence, given that market-seeking was not the sole or predominant motivation for the cases, no final conclusion as to the validity of Proposition 3 can be offered, although two of the three cases did select the WOS entry mode.

Unlike most Chinese MNEs in this study who expressed a preference towards full control ownership type, the findings of previous research suggest that investors often do not have a clear preference as regards their entry mode choices. For example, Kogut and Singh (1988) and Kim and Hwang (1992) studied the FDI activities of US MNEs; Hennart (1991) investigated Japanese MNEs' investment activities in the US; and Larimo (1993) analysed Finnish direct manufacturing investment in OECD countries – none found a clear preference as regards entry mode choices. More recent studies such as Demirbag, Tatoglu and Glaister (2009), which looked at the FDI activities of Turkish MNEs, and Ang and Michailova (2008), who examined such activities among the BRIC countries, provided similar findings from the developing world. Gao (2009: 1), and Cui *et al.* (2011: 495) on the other hand, found that where a Chinese firm aimed to gain market shares in a new market, there was a preference for using WOS rather than JV. This suggests a change in investors' preferences across time, compared to the findings from the other studies, or different perceptions of the value of the WOS and JV modes among developed and developing country MNEs, or both.

While Gao (2009) and Cui *et al.* (2011) found a positive relationship between market-seeking motivation and the preference for WOS among Chinese MNEs, this was not the case in the findings for this study, so Proposition 3 is not fully supported. This may be attributable to the methodology used. Both Gao (2009) and Cui *et al.* (2011) used a primarily quantitative approach, which is

appropriate “for testing well defined relationships and concepts” (Jormanainen & Koveshnikov, 2012: 712). However, the quantitative method only allowed them to fit the identified pattern into a defined mathematical model, in this case a linear regression relationship; whereas in reality the causal relationship may not be able to be sufficiently comprehended by a model, which is a simplified relationship of what is happening in an ideal world. As revealed earlier, most interviewees think other factors, including corporate size, previous international experience and host government regulations are more relevant to their entry mode decisions, so the proposed relationship is not identified in this thesis, using a qualitative case study method. The use of case studies is a technique that has proved useful in providing an in-depth understanding, revealing what cannot be observed statistically.

6.2.2 Proposition 4: Chinese firms with an asset-seeking motivation tend to choose the WOS mode of entry for the Australian market.

Cui *et al.* (2011) found that the WOS is preferred by Chinese MNEs with an asset-seeking motivation (for both tangible and intangible assets). However, in the CS2 and CS3 cases of this study, while both firms gave asset-seeking a high priority and indicated that they would have preferred to establish a WOS, they selected the joint venture mode. The reason given for this decision was the interviewees’ perception that a WOS would not be viewed favourably by the FIRB and the Australian Government, leading to public controversy and delays in the application process. Hence, it is clear that had interviewees not perceived, accurately or otherwise, the possible opposition of FIRB and the Australian Government to Chinese ownership of major reserves of natural resources, especially by SOEs, then they would have selected the WOS entry mode for the Australian market.

In contrast to the natural resource-seeking motivation, Chinese firms which are perceived by the interviewees as aimed at gaining overseas operational experiences and learning advanced technologies from the developed industry overseas, preferred to operate the new business with the guidance of local partners. The interviewees from CS5, CS6 and CS7 indicated that strategic asset-seeking was their priority in Australia, and also indicated that they preferred to have local help, either through

setting up a JV, or fully-purchasing an existing, local company to continue production. This is because in order to learn advanced technologies from firms in the developed country, one has to immerse oneself in the environment, through operating with, or having guidance from local partners. Starting a Greenfield investment provides companies with a reduced chance of exchanging information and learning from advanced technologies that they are in need of. From this perspective, Proposition 4 is not fully supported.

6.2.3 Proposition 5a: Chinese firms with larger sizes tend to choose the WOS mode of entry for the Australian market;

Proposition 5b: Chinese firms with smaller sizes tend to be indifferent as to their mode of entry for the Australian market.

This study finds that firm size is a very influential factor in Chinese firms' entry mode choices for Australia, supporting, in part, Proposition 5a. Interviewees from the larger firms (including CS1, CS2, CS3, CS4, and CS8) either agreed that their size had strongly influenced their final choice of a WOS, or that they would have preferred the WOS mode if there had been no countervailing pressure from FIRB and the Australian Government. It was felt that greater size provided the capacity to finance large investments such as those involved with the establishment or purchase of a WOS. Similarly, interviewees felt that larger size usually provided a greater capability to deal with the uncertainty and challenges that may arise with an international investment. Interestingly, interviewees from smaller firms (such as CS5) indicated that if they had been of sufficient size, they also would have preferred to set up WOSs. In other words smaller Chinese firms investing in Australia were not indifferent to their entry mode choice, contradicting Proposition 5b. It seems that most firms, including smaller, family-owned firms, preferred to retain control over their firms rather than sharing it with external parties in a JV. Also, the business culture of some smaller family-owned enterprises (in this case CS5 and CS7) may be significantly different to that of a public enterprise in China, let alone a business in

Australia; and, knowing that, those entrepreneurs may choose to avoid cooperating with foreign companies to circumvent any possible conflict.

Several earlier studies, including Kogut (1989), Gomes-Casseres (1990), Agarwal and Ramaswami (1992), Aulakh and Kotabe (1997) found a correlation between size and a preference for a full control, WOS. However, all of these studies focused only on FDI from the US. It is worth mentioning that Agarwal and Ramaswami (1992) also classified the companies they studied according to their size. They found that larger firms demonstrated a higher propensity to choose a sole venture, WOS mode, and that smaller firms had a higher propensity for entry through a JV mode, in contrast, in part, to the findings of this study. It might be that the smaller Chinese MNEs examined in this study, as noted above, lacked confidence in their capacity to collectively run a business with local partners due to cultural barriers and contrasting ideas as regards business management. This was not a concern among the US firms studied in Agarwal and Ramaswami (1992: 13), which were all leasing companies and invested in countries with a similar level of industrialisation. Acs, Morck, Shaver and Yeung (1997) studied the relationship between small and medium-sized US enterprises and their entry mode in countries with weak intellectual property protection (IPR). They also found that those firms with smaller sizes would prefer a JV mode of entry, because the barriers imposed by poor IPR could be circumvented by cooperating with local multinationals (Ace *et al.*, 1997: 17). The contexts of the above mentioned studies are very different to that of this study, which may explain the contrasting findings. Also, this preference of Chinese MNEs towards full control mode regardless of their corporation sizes is not fully explainable by the resource-based perspective, which assumes that firms would make an investment choice that best suits the resources they have on hand. This suggests the limitation of the theory when applied in the peculiar Chinese context.

6.2.4 Proposition 6: Chinese firms with previous international experience tend to select the WOS mode of entry for the Australian market.

Almost every interviewee recognised the importance of experience when it came to their entry mode decision making. Specifically, interviewees from CS3, CS4, and CS8 indicated that their previous experience in outbound direct investments had made them prefer to enter with a WOS mode (though for reasons explained earlier CS3 ended up choosing JV as its mode of entry); CS1 and CS5 had no previous experience in FDI directly, but they had had experience of JVs with international firms in China, and the interviewees felt it had also contributed to their final choice of full control mode of WOS; CS2 and CS6 acknowledged that although JVs were eventually selected, the preference would have been for a WOS had they had sufficient size, capital or experience; and CS7 indicated had they had previous experience they would be more confident with their current mode of WOS. The interviewees felt that while managing a WOS can bring substantial benefits, it required greater understanding of international operations, which could largely be achieved through the accumulation of experience.

This perceived correlation corresponds to the bulk of previous research findings including Phatak, Muralidharan and Chandran (1996) which concerns global firm's entry mode choices into Thailand, Malaysia and Indonesia; Chen and Mujtaba (2007) which concerns US firms' entry mode choices; Yiu and Makino (2002) which examines Japanese MNEs' multinational experiences, and Ekeledo and Sivakumar (2004). This suggests that Chinese MNEs investing in Australia are no different to the other MNEs from the industrialised world when weighing previous international experience in their entry mode choice. A study of Taiwanese firms' FDI entry mode patterns also confirmed that firms with more extensive international experience prefer to set up WOSs which offer full control (Tsai & Cheng, 2004). Proposition 6 is thus supported, with the qualification that firms without direct OFDI experience but with JV experience in China also tended to select the WOS.

6.2.5 Proposition 7: Chinese firms who value their goodwill capital at a higher level tend to select the JV mode of entry for the Australian market.

Only three interviewees from two companies suggested that the company's goodwill capital had influenced their entry mode choices. However, the interviewees felt that its influence acted in quite opposite directions regarding the two companies. One interviewee from CS4 felt that their outstanding level of goodwill indicated a JV would be more appropriate since establishing a WOS would involve greater risk to its goodwill capital and that it would be harder to taken any remedial action if the investment experienced serious difficulties. However, the interviewee also indicated that as there was no suitable JV partner in the Australian market the WOS mode had been selected. In contrast, interviewees from CS1 felt that in order to protect their strong goodwill capital, it would be more effective to set up an affiliate with full control. The remaining interviewees felt that the issue of goodwill capital had not had an impact on their entry mode decision.

In summary, only one interviewee in this study agreed to the findings of Cui *et al.*'s Chinese study (2011: 492) that firms with strong goodwill capital would prefer to set up a JV. While the bulk of literature suggests a positive relationship between firms' level of goodwill capital and the level of control they desire in their corresponding FDI as discussed in Chapter 3.3.2, the findings in this study suggest almost no support for Proposition 7. It is possible that the difference between the findings of this thesis and those of Cui *et al.* (2011) is largely attributable to the sample sizes used. In particular, the three small and private cases in this study had little in the way of goodwill capital; also, as indicated above, the interviewees from the two mining companies felt constrained to select the JV mode, even though their preference was for the WOS. On the other hand, in Cui *et al.* (2011), their 138-firm-sample included more Chinese firms with larger scales and longer operational history as compared to this study, which may imply substantial levels of goodwill capital, and, hence, its greater impact on the entry mode decision. Hence, Proposition 7 is not supported in this thesis.

6.2.6 Proposition 8: Chinese firms who perceive Chinese governmental support as being helpful tend to select the WOS mode of entry for the Australian market.

It is found in this thesis that overall, if conditions allow, Chinese MNEs in Australia would prefer to have full control over their affiliates. Although the majority of interviewees acknowledged that the Chinese government had provided them with various types of support regarding their Australian investments, it seems that the factor of governmental support did not significantly influence their entry mode choices. Rather, the supportive attitude of the government had encouraged their FDI, through the entry mode of either WOS or JV. In other words, home government support is not one of those prominent factors (such as host government regulation, firm capacity, and previous international experience) that are more intensely related to firms' entry mode decision making process. Consequently, there is not enough evidence to support Proposition 8. This is in contrast to previous studies such as Cui *et al.* (2007), who found that home government support is more likely to result in full control WOS mode. One major reason for this inconsistency in findings may be that the research methods utilised are different. While this study relied on comprehensive interviews where the relative significance of each potential factor may be identified, the survey method used by Cui *et al.* (2007) was weak in this regard, hence it was unable to identify that other factors carried more weight in the actual entry mode decision making process. Hence, the relative importance among different factors was not observed, as is in this thesis.

It is worthwhile to note that the relative popularity of the WOS and JV modes among outbound Chinese MNEs has changed over time. In the early years of Chinese OFDI development, around 70 per cent of overseas projects took the JV form of entry, and 30 per cent opted for WOS (Buckley, *et al.*, 2008: 734; SAFE). Ten years later, in 2001, 61 per cent of outbound Chinese MNEs chose to set up a WOS while 39 per cent selected the JV (Buckley, *et al.*, 2008: 734); the relative proportion further evolved to 70 (WOS) to 30 (JV) by the end of 2011 (CCPIT, 2012: 26). The change seems to be largely related to government attitudes towards entry modes to be selected by outbound Chinese firms. Although the Chinese government has never put in writing that a JV mode was preferred for any outbound Chinese firms, it was largely an implied guideline that firms proposing JVs would pass

domestic scrutiny more easily. This is especially the case in the early years where the only source of experience the government had accumulated regarding FDI at all is from incoming FDI, which largely, if not exclusively, took the form of JVs (Buckley, *et al.*, 2007: 504). It was not until 2004 that the government officially encouraged outbound investing Chinese MNEs to adopt “various ownership types” including WOSs (MOFCOM, 2004: 10). This more flexible policy was accompanied by a more liberal policy regarding the capital raising requirements specified in “Issues relevant to further intensifying the reform of foreign exchange administration on external investment circular” as promulgated by SAFE in 2003. This provided Chinese firms with easier access to the larger capital required for establishing a WOS, perhaps, in part, leading to the increasing popularity of WOS among Chinese MNEs, as suggested by Buckley *et al.* (2008).

From an institutional perspective, this thesis does recognise that the home country institutional environment is strongly related to the level of OFDI activities among Chinese MNEs, in which an encouraging government attitude would stimulate such investments. However, as found in this thesis, there was no directly observable causal relationship between government support and Chinese MNEs’ subsequent entry mode choices. To conclude, there is not sufficient evidence to support Proposition 8. Nonetheless, this study has confirmed the discussion in the literature review section that the Chinese government’s attitudes to outbound FDI are open and encouraging overall, regardless of the ownership type or origin or even industry of the businesses.

6.2.7 Proposition 9: The greater the perception by Chinese managers that Australian regulations constrain investment in Australia by Chinese firms, the more likely it is that they will select the JV entry mode.

Although the majority of interviewees did not indicate any explicit regulatory constraints when asked whether host government regulation or the regulatory reviewing process had in any way directed their entry mode choices, several interviewees clearly felt that influence was exerted, if only indirectly (CS2 and CS3). Interviewees (V1, V2 and C3) indicated that while the Australian government may

be open to different types of investment modes by foreign firms, a WOS proposed by an SOE would certainly attract more stringent scrutiny, a lengthier application process, a possible rejection of the application, or a requirement that the entry mode be amended. As a result the JV entry mode was selected in these cases to avoid the potential difficulties. A number of those interviewed in the larger firms indicated that a number of problems had been faced in the process of entering the Australian market but that, overall, the Australian government had welcomed overseas investment. The one exception was CS5 though even here it was not suggested that government authorities had attempted to influence CS5's choice of entry mode.

These findings tend to confirm Proposition 9 and also tend to confirm the findings of other Chinese FDI-related studies including Voss *et al.* (2011), Deng (2012) and Cui *et al.* (2007). Voss *et al.* (2011) concluded that in most cases where the host country regulatory barriers are higher for SOEs than for non-SOEs, then SOEs would tend to select the JV entry mode, 'to exchange ownership for legitimacy' (Deng, 2012: 7). Cui *et al.* (2007) also found that the JV mode is preferred in markets with excessive government regulations where more stringent scrutiny and restrictions are in place. In addition, studies regarding developed countries FDI into China have similar findings. For example, Sun, Mellahi and Thun (2010: 1167) found that the institutional constraint has influenced Volkswagen's Shanghai investment, which convinced it "to partner with an SOE, an entry mode that it never used in other countries before". Also, other studies regarding developed country MNEs including Osland and Cavusgil (1996); Bruning, *et al.* (1997); Demirbag, *et al.* (2008); and Tan and Meyer (2011) also confirmed the influence of host governments. However, none of the above mentioned studies noted that larger firms, while preferring a WOS, sometimes felt constrained to select a JV because of perceived, or actual government pressure, which again is a novel point of this thesis, and which, can readily be explained by the institutional perspective.

6.2.8 Proposition 10: The significant cultural distance between China and Australia results in a tendency for Chinese firms to select the JV mode of entry for the Australian market.

Somewhat surprisingly, none of those interviewed thought that their entry mode choice was in any significant way influenced by the cultural distance between China and Australia, with the result that there is no support for Proposition 10. This is in marked contrast to previous research regarding either Chinese MNEs in particular, or the general population of MNEs engaging in FDI from the developed or developing world. The bulk of such studies have found that cultural distance does influence firms' entry mode choice, although in a variety of different, sometimes opposite ways. For example, Brouthers (2002), Brouthers and Brouthers (2000), Barkema and Vermeulen (1998) concerning MNEs from the EU, Japan, and the Netherlands all found that a large cultural distance tended to encourage investors to select the WOS mode of entry, in order to avoid culturally based difficulties with local partners; similarly, Cheng (2006) after investigating Taiwanese manufacturing firms investing globally reached the same conclusion.

Kogut and Singh (1988), based on their study of US MNEs, found that JVs could lower the managerial costs associated with a high level of cultural distance by assigning managerial tasks to local partners who are "better able to manage the local labour force and relationships with suppliers, buyers and governments" (p.414). Kim and Hwang (1992) and Erramilli and Rao (1993) also found the same relationship between entry mode and cultural distance for US MNEs; and Pak and Park (2004) found the same results regarding Japanese MNEs. In addition to that, there is evidence regarding developing regions as well. For instance, Filatotchev, Strange, Piesse, and Lien (2007) and Tsai and Cheng (2004), in investigating the FDI activities of Taiwanese MNEs, found that a WOS was preferred where cultural distance was small since firms can manage their new corporation with reference to their existing knowledge relatively easily. More recently, Xu *et al.* (2011), who have examined the case of Chinese investors particularly, have also found that larger cultural distance promotes the choice of JVs while a smaller cultural distance between countries encourages the full control mode of WOS.

The author believes the difference in the findings of this thesis and those such as Xu *et al.* (2011), which also concerns Chinese MNEs, may be explained by the different methodologies applied. Most if not all of the previously mentioned studies adopted a quantitative method. Specifically, Xu *et al.* (2011) tested the significance of entry mode to cultural distance between home and host countries using logistic regression based on secondary data. The authors identified firm size (approximated by annual sales), industry (classified by manufacturing or service industry), and ownership type (classified by state-owned or private) as control variables for their regression test. However, the authors provided limited explanation as to how those control variables were identified (see Xu *et al.*, 2011: 71); also, it is reasonable to suspect that other factors such as previous international experience and host government constraints, which were not, and would be hard to quantify in their secondary-data-based study, also have significant influence on firms' entry mode choices. Whereas this thesis is largely constructed by semi-structured interviews, which was able to identify *relative* significance, being that factors including host government regulations, corporate size and previous international experience are of more significant determining power towards MNEs' final entry mode choices than cultural distance between China and Australia; consequently, the proposed relationship was hardly observed in this context.

6.3 Conclusion

In conclusion, Chinese FDIs in Australia, depending on their industries and ownership types, are generally driven by a combination of motives, including: natural resources seeking, market-seeking, asset-seeking, and welfare-seeking. Except for mining companies (which tend to be very largely driven by Australia's natural resource endowments), the other motivations tend to appear in pairs or groups in driving the final investment decision. Among them, welfare seeking is a little-researched phenomenon affecting small private enterprises. It might also be of importance, perhaps not only in Australia, but also in countries such as New Zealand and Canada, which both have investment

migration programs. The bulk of the earlier, western-perspective oriented literature largely overlooked this issue.

In terms of the preferred mode of entry of Chinese MNEs in Australia, while most enterprises preferred greater control or a WOS in general, they had to weigh other external factors (such as host government restrictions and, to limited extents, cultural distance) and internal factors (including their operational scale, financial capability, and previous international experience) before making their entry mode choice. For the above mentioned reasons, some companies chose to set up JVs or fully acquiring a local company to continue their operation, despite the fact that they “of course preferred WOS for it allows... greater convenience and control” (S1). Therefore, following Cui and Jiang (2009) who found that in general Chinese MNEs expanding overseas prefer WOSs against JVs, this study has at least partially confirmed their findings. However, what is preferred in the way of entry mode choice was not always what was selected. There are many factors influencing entry mode choices, rarely a single factor. In fact, among the 8 propositions which predicted the entry mode preferences of the cases in this study, only three were supported or partially supported (Proposition 5a, Proposition 6 and Proposition 9). The remainder could not be supported or fully supported on the basis of the findings. This result corresponds to what was observed by Fan *et al.* (2012), who in their study regarding the corporate integration of Chinese enterprises in Australia observed that neither WOS nor JV dominated when it comes to entry mode choice in Australia. The findings also confirmed that none of the three theoretical perspectives adopted in this study, being the eclectic paradigm, the resource-based perspective, or the institutional perspective, could provide a sufficient understanding of the OFDI activities of Chinese MNEs in Australia; though they do have some explanatory power towards some certain aspects individually.

Overall, this study suggests that the patterns of Chinese MNE investment motivations as well as their entry mode choices in Australia are different, at least in part, to those displayed in other national contexts.

Chapter 7 Conclusion

This chapter provides a conclusion for this thesis. It consists of four parts. Section 7.1 provides a brief summary regarding the impetus of the study, theoretical underpinning, how the study was conducted, and the findings observed. Section 7.2 discusses its contributions and implications for the literature as well as FDI practices. Section 7.3 reviews the limitations of the study. The chapter and therefore the whole thesis concludes in Section 7.4.

7.1 Summary of Findings

Since the Chinese government encouraged local enterprises to go global in 2000, Chinese MNEs have engaged in OFDI activities on an increasing scale. However, due to its relatively short history compared to that of industrialised countries, there are still only a limited number of studies examining the characteristics of Chinese OFDI. In addition, perhaps not surprisingly, whether theoretical frameworks regarding MNEs' FDI activities developed from the experience of industrialised countries are fully applicable in the Chinese context is a question that still needs close scrutiny. This thesis was aimed, in part, at furthering our understanding of the characteristics of Chinese OFDI and the value of existing theoretical frameworks for understanding those characteristics.

In particular, there have been very few studies of Chinese investment in Australia, despite the fact that Australia has always been one of the most popular destinations for Chinese outbound direct investments since China liberalised its market in late 70s. Therefore, this thesis also aimed at examining such investments, the motivations that drove them and the entry mode choices selected.

Two research questions were developed: Why have Chinese MNEs chosen to invest in Australia; and what factors have influenced their choice of entry modes for Australia? Three theoretical perspectives were used to help provide a framework for the study: the eclectic paradigm for corporations' FDI activities; the resource-based perspective; and the institutional perspective. In addition, a wide range

of studies that both drew upon these perspectives and, at times, were critical of their limitations, were also examined, including Buckley *et al.* (2007 & 2008), Biggeri and Sanfilippo (2010), Moss (2008), Yang (2003), Lu *et al.* (2010), and Cui *et al.* (2011), to name only a few. The studies were used to help develop the research questions.

As the subject of research, Chinese OFDI entry mode choices for Australia was relatively novel, with little existing research to draw upon, the study adopted a case study based, qualitative research method as advocated by Yin (2003). As Jormanainen and Koveshnikov (2012: 712) concluded after reviewing major studies concerning the OFDI activities of emerging markets, it is necessary to conduct explorative research designs (qualitative research) “to understand features and issues specific to the phenomenon of emerging market firms”. A total of eight cases were examined in this thesis. Interview was the primary method used, supplemented by secondary data (notably annual reports and other publicly available documents) and archival references (documents made available for corporate internal reference only). Interviews were conducted with 20 managers from Chinese corporations and two government officials from both the Chinese and Australian governments. These data were codified and then analysed to draw conclusions.

Regarding the first research question, it was found that Chinese firms invest in Australia for a variety of reasons, depending on the industry they are in. Specifically, firms in the mining or resource industry entered the Australian market with a primarily resource-seeking motivation, and it tends to be the dominant, if not sole, motivation for their investments. Manufacturing firms usually possess a different motivation for their Australian investments, and that is a market-seeking motivation, which sometimes co-exists with a strategic asset-seeking motivation as found in this thesis. Considering the relative maturity of the Australian market in technology development and market regulation as compared to China, it was found that the aim to acquire advanced operational and technological know-how (strategic assets) was another important incentive for Chinese investments in Australia, especially among manufacturing firms. An important finding in this thesis is that many Chinese entrepreneurs, who own and operate family-run small businesses, invest in Australia to get PR. By

doing so, they have the right to reside in the country and enjoy the social welfare it has to offer. The author summarises it as a PR or welfare-seeking motivation. This welfare-seeking motivation has received very little discussion in the international business literature, despite its growing popularity among successful Chinese entrepreneurs as noted in a report published by Bank of China in 2011. It is an issue worth further examining not only in the context of Australia, but in all developed countries which have a relaxed immigration policy for foreign investors. In sum, firms with a resource-seeking motivation tend to view this as their sole objective for their Australian investments. However, in the other cases two or more of the market-seeking, strategic asset-seeking and welfare-seeking motivations were of greatest importance.

The above findings differ from previous studies regarding the overall pattern of Chinese MNEs' OFDI activities as revealed in UNCTAD (2006) and CCPIT (2010 & 2012). In these studies, market expansion was deemed to be the main driving force for their internationalisation, followed by strategic asset-seeking and even transaction cost minimisation, all ranked more highly than natural resource-seeking (CCPIT, 2009). Given the fact that Australia has attracted the largest amount of Chinese FDI in recent years (with the exception of tax havens, MOFCOM, 2008-2012), this research has provided valuable insights regarding the internationalisation of outbound Chinese firms.

In terms of Research Question Two, it is found that generally, regardless of what entry mode Chinese firms selected for Australia, it seemed that investors for the most part would have preferred to establish firms with full control – that is the WOS – in the first instance. However, in practice, firms' final entry mode choices were influenced by a range of factors, and what they preferred was not necessary what they chose to set up in the end. In particular, it was found that Chinese firms which have a larger corporate size, and which have accumulated some international investment experience, tended to choose the WOS mode of entry. Those which perceived that Australian governmental regulations and policy, especially as regards Chinese SOEs, looked more favourably upon JVs tended to select the JV mode of entry for the Australian market. A range of other factors identified as having an impact on entry mode choices by previous research regarding Chinese OFDI, including investment

motivations, levels of goodwill capital, the regulatory environment in the home country, and cultural distance were found to be either not significant or of little significance.

This thesis also found that the entry mode choices of Chinese MNEs' could be explained with reference to various factors by relying on a multi-framework perspective. Developed based on practices of industrialised western countries more than 20 years ago, the eclectic paradigm, the institutional perspective, and the resource-based perspective can provide explanations of the internationalisation activities of developed country MNEs. However, as a new player in the international market, whether these theoretical perspectives are sufficient in their own to clarify the internationalisation activities of Chinese MNEs are of question. Therefore, a combined framework, which complements the limited scopes of individual framework, warrants the relative comprehensiveness of the perspective the author takes in this thesis. The findings of this thesis confirm the relevance and explanatory power of each framework, but also their limitations: Chinese MNEs invest in Australia for various reasons (the eclectic paradigm); corporate size and previous international experience are significant towards firms' entry mode decision making (resource-based perspective); and host government regulation plays an important role in Chinese MNEs' internationalisation (institutional perspective).

7.2 Contribution and Future Research Implications

This thesis provides useful, exploratory insights regarding Chinese FDI activities in a single country, Australia. Not only did it identify why Chinese MNEs choose to invest in Australia, what factors have influenced their entry mode choices, the study has also identified some interesting issues that may attract future research. It demonstrates that Chinese firms invest in Australia for a variety of reasons, including achieving the investors' personal goals such as obtaining Australian PR. This factor has received very little attention in the internationalisation and entry mode literature to date, so that its role and significance in firms' decision making warrants further, more systematic, national and

cross-national research. Does its significance, for example, vary by size of firm? Are the factors more important in smaller and family owned firms? Is it more common in firms from developing countries or certain types of developing country? Is it only found where developed countries provide immigration incentives for business owners? These are only a few of the questions which deserve to be addressed.

Another novel finding is the fact that most Chinese corporations engaged in OFDI, regardless of size, would prefer to establish WOSs if conditions permit. This was not only apparent in the interviews with corporate managers, but the government officials interviewed recognised that point as well. As far as the author recalls, there have been few earlier studies reaching the same conclusion, suggesting further research might be warranted. This could include, for example, why this is the case among Chinese investors in Australia? Do Chinese MNEs in other, developed or developing countries, have the same perception? Does the level of industrialisation of host countries affect Chinese MNEs' WOS preferences? Or is it more related to the cultural characteristics of Chinese corporations and therefore behaviour of Chinese investors?

On a practical level, this thesis may provide some guidance on the internationalisation decisions of those Chinese MNEs who intend to conduct OFDI. In addition, the significant effect government can bring upon towards Chinese MNEs' entry mode decisions as found in this study also signals that thesis is of value to policy makers.

7.3 Limitations

As discussed in Chapter 4 Methodology, this thesis shares the same limitations common to all case-based, qualitative research.

First of all, because this research relies heavily on interviews, it might be argued that the results thus generated are weak in internal validity. This is because with a limited number of interviews, the

limitations of one observer may become the limitations of the whole study (Neuman, 2000: 125). Consequently, more than one interview was conducted in each case, and government officials who represent an external third party were also interviewed to provide extra references. In addition, corporate documents relevant to the research were examined where available. All of these triangulation processes were undertaken to ensure that this vulnerability was minimised.

Another limitation of this thesis is that, as an exploratory study, it provides only a limited, but hopefully useful basis for scientific and theoretical generalisation, particularly compared to quantitative studies which involve large sample pools. In case study research, only one or a few cases are examined, so it cannot, without further study, produce findings which are universally representative (Veal, 2005). Regarding this thesis, eight cases were examined, and instead of developing rigorous hypotheses ready for scientific testing, propositions were developed to see to what extent they were confirmed in the case study context of this thesis. Whilst the generalisability of the research findings (as they relate to the specific environment and experience of the eight companies) may not be readily applicable to other contexts, the findings developed may provide a useful guide to understand the activities of organisations that seek to penetrate the Australian market or even developed markets in general. The findings can thus be used to inform future qualitative and quantitative research to achieve a greater degree of generalisability.

A third limitation is that this research was able to analyse an organisation's initial entry mode choices into a developed market, but it was unable to consider, *inter alia*, other stages such as possible follow-up entry mode amendments and subsequent performance.

7.4 Conclusion

The aim of this research was to investigate the reason for Chinese MNEs' Australian OFDI, and identify factors that have influenced their initial entry mode choices. This research employed a qualitative method by conducting eight case studies focussed on Chinese MNEs with variant sizes,

ownership structures, and industries entering into the Australian market from mid 2000. The findings of this thesis identified various motivations that have driven their investments, and three factors that were important to their entry mode decision making. Theoretical contributions of this research include the recognition of a multi-framework perspective as a relatively thorough approach to understand emerging country OFDI into developed regions (in this case China to Australia), and the identification of a welfare seeking motivation among Chinese investors which stands out of the eclectic paradigm.

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Appendix 1: Key OFDI Regulations from 1984 to 2007

Time of Issuance	Regulation	Comment	Enunciator
May-84	Circular concerning the approval authorities and principles for opening non-trade joint venture overseas as well as in Hong Kong and Macau	The first regulation on Chinese OFDI	MOFCOM
Jul-85	Circular on the approval procedures for international economic and technical cooperation corporation to set up overseas subsidiaries	Opened OFDI to all economic entities with financial resources, foreign joint venture partner and relevant capabilities	MOFCOM
Apr-90	Administrative measures on overseas financial institutions	Primary rule concerning OFDI by the financial sector	PBC
Jun-90	Rule for the implementation of administrative measures for the investment of foreign exchange overseas	Detailed regulation on what was required to apply for an overseas investment	SAFE
Aug-91	Regulations on examination and approval of project proposal and feasibility report on FDI projects	Sets OFDI approval procedures and fund limitation and allowed sixty days for an approval result which virtually restrict outbound investment	NDRC
1997	Rules on foreign exchange administration of the People's Republic of China	Outlines that when making an investment abroad, home institutions shall receive an audit on their investing capital	State Council
Sep-99	Certain items exempted from paying security deposits for remittance of profits from overseas investment circular	The threshold starts to get lowered	SAFE
Oct-02	Comprehensive external investment results evaluation procedures	Clarification of standards and procedures for evaluating OFDI applications	MOFCOM
Oct-02	Joint annual inspection of overseas investment tentative procedure	Post-investment regulation	SAFE MOFCOM
Mar-03	Notice on certain issues relating to simplify foreign exchange fund source examination for overseas investment	Foreign exchange obtained from a source outside of mainland China is no longer examined	SAFE
May-03	Circular of the issues related to granting financing support to key overseas projects encouraged by the state	Regulates financial supports provided to certain overseas projects	NDRC ExIm Bank
Oct-03	Issues relevant to further intensifying the reform of foreign exchange administration on external investment circular	Simplification of approval procedures; establishment of pilot areas for eased and extended local approval	SAFE
Jul-04	Decision on reforming the investment system	Major reform of the OFDI approval and departure of former practice which initiated subsequent reforms	MOFCOM Ministry of foreign affairs
Oct-04	The interim measures for the administration of examination and approval of the overseas investment projects	All kinds of companies are allowed to invest abroad; sets out the threshold values for examination	NDRC
Oct-04	Provisions on the examination and approval of investment to run enterprises abroad	National approval for seven regions are needed, remaining countries are approved at sub-national level; no feasibility study is required anymore	MOFCOM

May-05	Circular on expanding the trial regions for the pilot program concerning overseas investment	Further decentralisation in approving process	SAFE
Jun-06	Circular on revision of certain foreign control policies relating to overseas investments	Lifts SAFE restrictions on using self-owned foreign exchange to undertake offshore investments	SAFE
Dec-07	Adjusting the relevant matters on the examination and approval of overseas investment	Enlarge the scope of countries where the local enterprises may set up branches that is examined and approved by local authorities	MOFCOM

(Compiled based on Buckley *et al.*, 2007)

Appendix 2: Categories and Definitions of Firm Types Used in China

Companies with limited liability – limited liability companies are funded by no less than two and no larger than fifty shareholders. These shareholders hold responsibility limited to their amount of capital contribution. To set up a limited liability company, the capital investment must achieve the minimum amount required: for manufacturing and wholesaling companies, the registered capital should be no less than 500,000 RMB; for retailing companies, the registered capital should be no less than 300,000 RMB; and the threshold for R&D and service companies is 100,000 RMB.

Companies limited by shares – in essence, company limited by shares is a special type of limited liability company. As the Corporation Law specifies, the number of shareholders in a limited liability company shall be no larger than fifty. This rule limits the ability of companies to raise funds. Companies limited by shares overcome such drawbacks, where the registered capital of the whole company is divided into small par value stocks. The maximum number of initial shareholders allowed is two hundred, and the minimum registered capital required is 5 million RMB.

Cooperative equity enterprises – this type of enterprise is based on a cooperative system, where employees of the enterprises and certain proportions of social capital form the basis of them. They maintain autonomous management, and assume sole responsibility for profits or losses; profits or dividends are distributed according to labour or proportion of shares.

Collective enterprises – there is no western correspondence for this type of enterprise, for it is a unique socialist economic organisation. Collective enterprises (collectively owned enterprises) mean that the property of the organisation belongs collectively to the labours working in them. In principle, the profits are distributed on the basis of working loads.