Journal of International Marketing Strategy
Vol. 2, No. 1, Fall 2014, pp. 1-12
ISSN 2122-5307, *All Rights Reserved*

LOCATION CHOICE AND ENTRY MODE OF EMERGING MARKET MULTINATIONALS: A STUDY OF CHINESE FIRMS

Geng Cui*
Dept. of Marketing and International Business
Lingnan University
Tuen Mun, Hong Kong
Tel: (852) 2616-8245, Fax: (852) 2467-3049, E-mail: gcui@ln.edu.hk

Tsang-Sing Chan
Dept. of Marketing and International Business
Lingnan University
Tuen Mun, Hong Kong
Tel: (852) 2616-8230, Fax: (852) 2467-3049, E-mail: chants@ln.edu.hk

Yuanyuan Zhang
Dept. of Marketing
City University of Hong Kong
Kowloon Tong, Hong Kong
Tel: (852) 3442-5260, Fax: (852) 3442 0346, Email: mkzhang@cityu.edu.hk

ABSTRCT: This study explores the location choice and entry mode strategies of emerging market multinationals. Based on the data from of 301 manufacturing firms from China, the results suggest that their location choice and entry mode strategies vary significantly across foreign markets and the type of foreign direct investment (FDI) operations. While Chinese firms pursue export opportunities in both developed and developing economies, they are more likely to engage in FDI operations in developed economies, including marketing, production, and research and development (R&D). Moreover, firm background variables and the host and home country institutional factors also affect their entry mode decisions. The findings have meaningful implications for understanding the internationalization of emerging market multinationals.

Keywords: foreign direction investment, location choice, entry mode, multinational corporations, China

INTRODUCTION

The globalization of the world's economies has sparked off an increasing number of studies of firms' internationalization. In recent decades, multinational corporations (MNCs) from emerging market economies, many of who lack firm-specific advantages (FSAs), have expanded rapidly in international markets. The expansion of emerging market multinational corporations (EMMNCs) has attracted much interest from scholars in international business. The leading theories of internationalization including the transaction cost perspective (Anderson and Gatignon, 1986), the ownership-location-internalization (OLI) framework (Dunning, 1988), and the knowledge development process model (Johanson and Vahlne, 1977) are largely based on studies of firms from industrialized economies and emphasize the FSAs and the gradual process of knowledge development. These theories cannot adequately explain the internationalization process of firms from developing countries. The expansion of EMMNCs offers a unique opportunity for theoretical development and empirical research of the factors that drive the internationalization of firms (Child and Rodrigues, 2005; Buckley et al., 2008).

While many studies have focused on the motivations of EMMNCs and the host country factors (Peng et al., 2008), empirical findings regarding the market selection and entry mode decisions of EMMNCS are particularly lacking. In this study, we examine the location choice and entry mode strategies of market-seeking EMMNCs in manufacturing industries. Based on the data from of 301 manufacturing firms from China, the results suggest that their location choice and entry mode strategies vary significantly across foreign markets and the type of foreign direct investment (FDI)

operations. While Chinese firms pursue export opportunities in both developed and developing countries, they are more likely to engage in FDI operations in developed economies, including marketing, production and R&D. Moreover, firm background variables and the host and home country institutional factors including joint venture experience, ownership type, home government support, host country institutional quality and cultural distance also affect the outward FDI (OFDI) of EMMNCs. The findings have meaningful implications for understanding the internationalization of EMMNCs.

THE INTERNATIONALIZATION OF FIRMS

Theoretical Perspectives

One of the most important issues of internationalization concerns the reason for firms to choose a suitable entry mode in a foreign market. Several theories have been put forward to explain the entry mode choice of firms. The transaction cost theory suggests that in choosing entry modes, firms make trade-offs between control (or the level of integration) and cost of resource commitment, and posits that firms prefer internal integration or wholly owned subsidiaries when their asset specificity is high, because the cost of vertical integration can be offset by the benefits deriving from such an arrangement (Anderson and Gatignon, 1986). The ownership, location and internalization (OLI) framework proposes that the choice of entry mode for a target market is influenced by three factors: ownership advantages of a firm, the internalization advantages of integrating transactions within the firm, and the location advantages of a market (Dunning, 1988). The ownership advantages indicate that firms with proprietary assets and skills have the abilities to develop superior products. Thus, the existence of multinational firms is based on the assumption of market imperfections and the firm's ability to internalize market transactions. This theoretical perspective emphasizes the FSAs largely related to Western multinational corporations (MNCs) in the internationalization process and has dominated international business research for the past decades.

Another popular theory of the internationalization of firms is the so-called process theory or the knowledge development model (Johanson and Vahlne, 1977). The saturation of domestic market is considered one of the primary reasons for firms to expand overseas. In this process, firms begin by exporting to foreign countries. As firms develop more knowledge about foreign markets and international business, they may establish foreign sales subsidiaries and then overseas manufacturing operations by direct investment. The "Uppsala model" posits that firms expand internationally through various stages: from low risk, low-commitment mode of entry such as indirect export to high risk, high-commitment modes of entry such as FDI in foreign sales and manufacturing subsidiaries (Johanson and Wiedersheim-Paul, 1975).

Other behavioral perspectives on firms' internationalization include the adaptation of organizational learning theory and the resource-based view (RBV) in the internationalization context. Organizational learning theory suggests that firms not only hold specialized knowledge, but also have the opportunity to learn from other organizations. Thus, the difference in their absorptive capacity explains the probability of local firms to develop knowledge of international business (Tsang, 1999; Szulanski, 1996). Based on the concept of economic rent, the RBV proposes that the performance of firms is determined by sustainable competitive advantages, which derive from the resources the firms control that are rare, valuable, imperfectly imitable, and non-substitutable (Barney, 1991). Firms can enhance their performance by acquiring or developing rent-generating assets through preempting scarce and valuable resources and monopolistic power. Researchers have adapted the RBV to explain firms' internationalization efforts as means to acquire and control critical resources that cannot be accessed in the local market or developed within a short period (Child and Rodrigues, 2005).

Emerging Market Multinationals

Since the 1980s, international markets have undergone dramatic changes, marked by modern transportation and logistics systems, new information technologies such as the Internet, breaking-down of trade barriers, and globalization of the world's economies. These factors have made it much easier for today's businesses to acquire knowledge about foreign markets and conduct business across national boundaries. Meanwhile, recent studies have shifted their attention to small and medium-sized enterprises (SMEs), born-global companies, and third-world multinationals. Researchers have pointed out the limitations of existing theories in explaining the emerging patterns

of internationalization of firms. New theoretical frameworks have emerged, such as the role of communication technologies and the networks theory (Karlsen et al., 2003).

Since China instituted the open-door policy in the late 1970s, many Chinese firms formed joint ventures with foreign partners to learn new technologies and manufacturing processes. By importing products, machinery and capital from foreign countries, Chinese enterprises have developed rapidly in recent decades. In the meantime, the domestic markets have become saturated and increasingly competitive over time. In the post-WTO years after 2001, in response to the "going-out" call from the government, more Chinese firms began to expand to overseas markets by exporting products or establishing overseas subsidiaries via outward foreign direct investment (OFDI) or through mergers and acquisitions (M&A). According to the 2006 Statistical Bulletin of China's Outward Foreign Direct Investment, there were about 10,000 subsidiaries of Chinese firms overseas, with 33% of them in manufacturing industries, 34.5% in services, and 32.5% in banking, finance and natural resources (MOFCOM, 2007).

Researchers have analyzed the motivations and patterns of Chinese OFDI, including acquiring natural resources, diversification, and seeking market opportunities and strategic assets such as technology, brand, and distribution channels (Deng, 2007). Aside from "inward" internationalization by means of original equipment manufacturing (OEM) and joint venture partnerships, Child and Rodrigues (2005) found two outward expansion strategies: 1) organic growth strategy by building foreign sales and manufacturing subsidiaries, and 2) the acquisition strategy via mergers and acquisitions (M&A) of foreign firms. This coincides with the increasing number of M&A activities by Chinese firms, which account for 36.7% of their OFDI activities in 2006. Others have explored the effects of institutional constraints in China and proposed the Chinese OFDI as an escape from the misaligned conditions and their disadvantages at home (Buckley et al., 2007; Witt and Lewin, 2007). Yiu et al. (2007), for instance, suggest that their international expansion may be affected by home industry competition, export intensity and corporate entrepreneurship. Therefore, the overseas expansion of Chinese firms is motivated by multiple factors including both firm-level variables such as the need to strengthen export and acquire strategic assets and macro-level factors, for example, competition and government policies.

Summary

While current research has pointed out the limitations of existing theories and explored the motivations for OFDI by EMMNCs, empirical studies of the location choice, entry mode and investment type of these firms are particularly lacking. First, many multinationals from China are state-owned enterprises in banking, finance, mining and natural resources. Their OFDI behaviors often represent government agenda and strategic planning and may be different from those firms in manufacturing industries in terms of foreign market selection and entry mode strategies. Second, while market opportunities and investment incentives from host countries help attract foreign investors, how host country institutional factors such as institutional quality and cultural distance affect their entry modes remain unexplored. Moreover, institutional factors from the home country such as government support and ownership type of firms may also influence their internationalization behaviors, especially for those firms from transitional economies (Peng et al., 2008). Certain home country institutional factors may constitute the comparative ownership advantages of firms from developing economies such as China (Sun et al., 2012). Thus, taking into account both the host and home country institutional factors may provide fresh insight into the internationalization of EMMNCs.

RESEARCH FRAMEWORK AND HYPOTHESES

Firms face two important decisions when investing overseas: market selection and entry mode. Meanwhile, they encounter two types of risks when entering a foreign market. On one hand, there are contractual risks with high transaction cost for firms with ownership advantages when they engage in international transactions. On the other hand, firms face environmental risks as they enter an unfamiliar market. Facing the dual risks, firms make a trade-off between the high control modes to protect their particular know-how and minimize the transaction cost and the low control modes that allow adapting their strategies flexibly in an uncertain environment. Based on the above conventional thinking, firms without ownership advantages, such as those from developing countries, are expected to either avoid entering foreign markets via OFDI or use a low control mode such as exporting, especially for the overseas markets among the advanced economies.

Although these firms may lack firm-specific competitive advantages, they have been observed to enter foreign countries with high-control modes such as joint ventures (JVs) and wholly owned subsidiaries (WOS). While the usual location-specific factors such as the market size of the host countries remain an important variable in explaining their location and entry mode choices, their motives for outward investment have received much attention. For EMMNCs, OFDI often serves dual purposes. In recent years, multinationals from emerging market economies such as China, India and Brazil have expanded rapidly overseas in search of market opportunities, natural resources, and strategic assets such as brand, technology and distribution channels (Child and Rodrigues, 2005). Thus, they can leverage their "comparative ownership advantages" in overseas market and at the same time pursue resources and assets that further propel their growth (Sun et al., 2012).

In this study, we examine the location choice and entry mode strategies of emerging market multinationals (EMMNCs) across different types of FDI operations and examine the role of firm background variable, and both the host and home country institutional factors. First, for EMMNCs, their export and FDI flow falls into three types of country destinations: 1) advanced economies, 2) newly industrialized economies, and 3) developing countries. We posit that these market locations vary in market attractiveness for EMMNCs for export and FDI operations in sales and marketing, production, and R&D operations. Moreover, for FDI operations, we propose that their comparative ownership advantages may stem from the firm-background variables and the related institutional influences from the home country. Meanwhile, institutional factors of the host countries including institutional quality and cultural distance also affect the flow of FDI from EMMNCs.

In the absence of firm-specific advantages (FSAs), EMMNCs face tremendous challenges for growth and overseas expansion. Like many EMMNCs, Chinese multinationals play dual roles, i.e., suppliers as the original equipment manufacturers (OEM) to industrialized economies and exporters of mature products to other developing countries. Since they have more comparative advantages in low-cost manufacturing at home, especially in comparison with firms from advanced economies, they can continue exporting to the key markets of their products. Thus, they are more likely to export to advanced economies and NIEs – the prime target markets for Chinese export given their market size and purchasing power – through both direct export and original equipment manufacturing (OEM). Meanwhile, to overcome trade barriers, to be closer to their customers and to develop their foreign market knowledge, they are also more likely to engage in OFDI in developed economies and the newly industrialized economies (NIEs) than in the developing countries (DCs).

Hypothesis 1. EMMNCs are more likely to 1a) export to and 1b) make foreign direct investment (FDI) in developed economies and newly industrialized countries than in developing countries.

Previous studies of the entry mode of FDI based on the transaction cost perspective focus on manufacturing or production operations. This may be true under the conventional OLI framework – i.e., firms have developed ownership advantages at home, such as advanced technology and quality products. However, this is often not the case for EMMNCs. Expanding the overseas market for their products is the top priority for many Chinese firms, especially in the developed economies and NIEs, which are the main target markets for their products. To be closer to their customers and to avoid trade barriers, an increasing number of Chinese firms have started overseas sales and marketing divisions and established production operations in these countries to develop local market knowledge and to better serve their foreign customers. These types of FDI operations may be followed by forward or upstream internationalization via M&A and represent the generic growth model. Although developing countries also grow increasingly attractive for Chinese firms, their markets are not as big as those of developed economies. Moreover, China's investment in developing countries often represents strategies to acquire natural resources (Child and Rodrigues, 2005). Therefore, based on the above considerations, we propose the following research hypothesis.

Hypothesis 2. EMMNCs are more likely to 2a) establish sales and marketing divisions and 2b) establish production operations in developed economies and newly industrialized countries than in developing countries.

Existing studies suggest that EMMNCs have other motivations for overseas expansion in that they pursue different opportunities overseas. Based on the Buckley and Hashai (2005) framework, firms may engage in three types of FDI operations in terms of value chain activities: 1) sales and marketing, 2) production, and 3) research and development (R&D). Therefore, aside from production and marketing, firms increasingly invest in R&D operations in other countries that have greater advantages for new product development. For many EMMNCs, overseas investment or internationalization may not be the end, but often the means to acquire strategic assets and proprietary knowledge, especially R&D capabilities. Since such capabilities cannot be developed at home within over a short period, EMMNCs often invest in overseas R&D operations to upgrade their technology and product development capabilities (Child and Rodrigues, 2005; Deng, 2007). Such opportunities are more often available in advanced economies and NIEs than in developing countries. Therefore, we propose:

Hypothesis 3. EMMNCs are more likely to make FDI in R&D in developed economies and newly industrialized countries than in developing countries.

Firm background variables also have a tremendous influence on the OFDI of EMMNCs. The existing literature has largely considered the outward activities as the beginning of the internationalization process. Not surprisingly, prior studies of internationalization focused on outward operations such as exporting and establishing overseas subsidiaries (Andersen, 1997). However, several recent studies have started to challenge this perspective and examined the role of inward activities in firms' internationalization (Korhonen et al., 1996; Welch and Luostarinen, 1993). Their key argument is that domestic firms can begin the knowledge development process by engaging in inward activities, such as becoming a distributor of foreign products or forming an equity joint venture with a foreign company. These inward activities, by building relations with foreign actors and by providing opportunities for firms to learn from foreign firms, "may form an important platform for subsequent outward operations" (Karlsen et al., 2003: 385). Mostly notably, firms that have had joint venture experience with foreign firms are more familiar with foreign markets and have a greater tendency for OFDI.

Hypothesis 4. EMMNCs with joint venture experience with foreign firms are more likely to make OFDI in a foreign country than those without such experience.

Previous studies, which have focused on firms from developed economies, have not paid much attention to the ownership issue (i.e., state-owned versus private firms). This is not surprising because private ownership tends to be the norm in the developed economies. However, in emerging market economies, ownership has become an increasingly important factor, attracting a growing number of studies that examine the effect of ownership on internationalization from the organizational perspective (Peng, 2003). In emerging market economies, firms with different ownership arrangements vary greatly in (dis)advantages as a result of variation of institutional constraints across the types of enterprises (Zhou and van Witteloostuijn, 2010). In comparison with private firms, state-owned enterprises (SOEs) in China are often larger and more resourceful. SOEs usually enjoy preferential treatment from the government in many areas, especially in accessing low interest loans from the government. As a result, they are more responsive to the internationalization agenda of the Chinese government, thus more likely to engage in OFDI activities. Private firms, on the other hand, are more subject to the influence of market forces and thus more conservative in their decision making.

Hypothesis 5. EMMNCs that are state-owned enterprises are more likely to make OFDI in a foreign country than those that are privately owned.

Government policies toward FDI have been regarded as one of the influential institutional factors in studies of location and entry mode choices. The important role of selective policies for attracting inward FDI, such as fiscal incentives and lower tariffs, has been examined in extant studies (Pan and Tse, 2000). Overall, a positive relationship has been found between government support and equity investment overseas (Hitt et al., 2004). Most studies, however, focused on government policies and incentives from the host countries and have not paid sufficient attention to the role of the home country government. As EMMNCs become more involved in overseas markets, home government agencies from these countries have instituted various policies and incentives to encourage firms to move abroad for growth and expansion. Yiu et al (2007) point out that in some emerging market economies, firms have to seek government

approval when they plan to establish foreign ventures. Chinese firms, including many of successful private companies, receive significant support from the Chinese government. Consequently, the home government often plays a key role in outward FDI activities by providing favorable policies, financial support, and government connections in host countries.

Hypothesis 6. EMMNCs with home government support are more likely to make OFDI in a foreign country than those without such support.

As for host country factors, institutional quality and cultural distance are the two main institutional factors that affect inward FDI. From the environment risk perspective, high institutional quality may decrease the perceived risk of the decision makers of firms. Based on the data from of 31 developing countries, Jun and Singh (1996) find that political risks significantly affect entry modes of firms in that those countries with higher political risks attract less FDI. Lower nationalization risk, less corruption, and better contract enforcement can lead to higher FDI inflows. Furthermore, environment stability also decreases the perceived risks of investors (Gastanaga et al., 1998). Meanwhile, researchers have found that there is a negative relationship between cultural distance and equity investment, as cultural distance between countries increases the cost of cross-border transactions (Gatignon and Anderson, 1988). Under conditions of high cultural distance, firms may limit their resource commitment to reduce their risk exposure in these markets. In such cases, MNCs may require greater flexibility, resulting in preferences for modes of entry with lower control such as export. Therefore, we offer the following hypotheses for the above factors:

Hypothesis 7. EMMNCs are more likely to make FDI in a foreign country with high institutional quality than those with low institutional quality.

Hypothesis 8. EMMNCs are more likely to make FDI in a foreign country with low cultural distance than those that with high cultural distance.

METHODOLOGY

The Survey and Data

The data on firms' OFDI activities and their background variables are collected through a survey of mainland Chinese firms using the questionnaire developed by the authors. A major multinational research company was commissioned to conduct the survey using its proprietary panel of executives from Chinese companies that had some international businesses at the end of 2009. These companies mainly come from four major manufacturing sectors, 1) food and beverages, 2) textile and apparel, 3) electric machinery and electronics, and 4) transportation and other equipment. All these firms are indigenous Chinese firms or joint-stock companies in which Chinese partners are the majority owners. Firms from sectors in natural resources, finance, and banking were excluded because their outward FDI activities often reflect government agenda rather than firm behavior.

First, a random sample of 1,132 firms from these industries was drawn from the company's database based on the above criteria. The research company delivered the questionnaires by regular mail and email to the top executives at these companies who were familiar with their international operations. After two weeks, follow-up phone calls and email reminders were sent to those panelists who had not responded. At the end of the survey, research assistants employed by the authors placed phone calls to 10% of the respondents randomly to verify their identity and response to the survey. Finally, 301 completed questionnaires were collected, resulting in a response rate of 21%.

Measures

A questionnaire was developed to collect firm's export and FDI activities and their background information. The questionnaire was first developed in English and then translated into Chinese using the back translation method. The Chinese version of the questionnaire was used in the survey. We classify entry mode choices as the following: non-equity mode (export) vs. equity modes (FDI, including WOS and JV). If a firm adopts FDI modes when entering a foreign market, it is denoted as 1, while the export mode is denoted as 0. Firm background variables include industry category, firm age and firm size. Firm age is measured as the number of years since the beginning of its operations, while firm size is measured by the total number of employees. We group their country destinations into three

categories: 1) advanced economies including Japan, North America and West Europe, 2) newly industrialized economies including South Korea, Taiwan, Singapore, and Hong Kong, etc., and 3) developing countries (DCs).

Ownership type, JV experience, and home government support are the indicators of firm and home country factors. As for ownership type, SOEs with the government as the sole or the largest owner are denoted by 1 while private firms of various types are coded as 0. Firms with previous experience of joint ventures with foreign firms are denoted by 1, otherwise 0. Home governmental support is measured by five indicators: (1) Chinese government drew up a series of policies encouraging us to explore overseas markets; (2) Chinese government helped negotiating with host country governments when we encountered problems in overseas markets; (3) Chinese government helped us to realize our goal in the host country through developing close relationships with local governments; (4) Chinese government helped us to find appropriate projects in overseas markets; (5) Chinese government put in place relevant policies to help us obtain financing with favorable terms for our overseas expansion. These items are measured on a 7-point Likert scale with 1 denoting the lowest and 7 the highest level of agreement with a point of neutrality in the middle. The five items then are analyzed through factor analysis and achieve good conceptual validity. The resulting factor score is used to represent home government support.

The data about the host country's institutional quality are collected through a secondary source: the PRS Group's International Country's Risk Guide (www.prsgroup.com), including eight factors that affect the operations of foreign businesses ranging from investment and trade regulations to the ease of doing business in different countries (Dikova et al., 2010). The institutional quality of a country is measured by the mean scores of eight dimensions: government stability, socioeconomic conditions, investment profile, internal conflict, corruption, law and order, democratic accountability, and bureaucracy quality. Cultural distance is measured by the mean differences between China and the host countries using the country scores of Hofstede's (2001) five cultural dimension: power distance, individualism, masculinity, uncertainty avoidance and long-term orientation and the standard formula: $CD_J = \sqrt{\sum_{i=1}^{5} (I_{ij} - I_{ic})^2}$,

where CD_j denotes the cultural distance for the *jth* country, I_{ij} denotes Hofstede's culture score on *ith* cultural dimension in the *jth* country, and *c* denotes the home country of China (Morosini et al., 1998). Using these index scores can help avoid the problem of common method bias or retrospective evaluation of national cultures, which are often attributed to the same individuals answering questions about firm behaviors. Then, we appended these secondary country-level data to the primary survey data that we collected.

THE RESULTS

Among the respondent firms, 49% of them are state-owned enterprises (SOEs) while the rest of them are various types of private firms. Joint ventures with foreign companies account for 21.3% of these firms. Most of them come from manufacturing industries in electric and electronics (31.9%), followed by transport and equipment (14.6%), and textile and apparel (11.5%), with the remainder coming from other sectors. The number of employees among these firms ranges from 100 to more than 100,000, thus representing firms of various sizes. On average, these firms have 33.2% of their total sales from export, 23.9% of their total sales from overseas subsidiaries (excluding export). Among these firms, 25.6% of their total assets come from overseas divisions, thus still low by conventional definition of multinational corporations (i.e., over 50%). These companies' international business operations cover over 25 host countries in different parts of the world.

In the following sections, we examine their patterns of export and FDI operations across country markets using cross-tabulations and the chi-square test. As Table 1 reveals, within export operations, significantly more firms export to developed economies (47.4%) than to other types of countries, indicating the competitiveness of Chinese export, largely due to the low labor cost and prices of products. However, the percentage of firms exporting to NIEs (22.7%) is slightly lower than that to developing countries (29.8%), perhaps due to the small number of NIEs. According to Table 1, within outward foreign direct investment, more firms have invested in developed economies (46.2%) than in newly industrialized economies and the developing countries (28.1% and 25.7% respectively), thus revealing the pursuit of market and other growth opportunities by Chinese firms in these countries. These results largely support

the first two research hypotheses (H1a and H1b). Altogether, they include 2,372 export entry modes and 1,071 cases of equity-based investment. In this study, we do not treat export and FDI as mutually exclusively. A firm may export to a specific country and has FDI operations in the same country at the same time. However, overall Chinese firms are more likely to adopt the export model than the equity mode of accessing the foreign market, reflecting their comparative advantages at home and the nature of their early internationalization process.

Country/Operation Type		Export	FDI
Developed Economies	Count	1,125	495
	% within category	47.4%	46.2%
Newly Industrialized Economies (NIEs)	Count	539	301
	% within category	22.7%	28.1%
Developing Countries	Count	708	275
	% within category	29.8%	25.7%
Total	Count	2,372	1071
	% within category	100.0%	100.0%
Chi-square Test		548.95 sig. <0.001	323.85 sig. <0.001

Table 1. Export and FDI by Country Type from Chinese Multinationals
Note: The count and percentage of firms that do not export to and have not engaged in FDI in these countries are omitted.

According to Table 2, among Chinese firms that have set up OFDI operations in sales and marketing in overseas markets, about half of the firms have done so in developed countries (51.2%), significantly more than in newly industrialized economies and developing countries (29.6% and 19.2% respectively), indicating the desire of Chinese firms to pursue the market opportunities in the economically more advanced markets (Table 2). As for FDI projects in overseas production established by Chinese firms, the majority of them are in economically developed nations (42.2%), reflecting the desire of Chinese firms to be closer to the markets and supporting H2a and H2b. While NIEs account for 28.0% of OFDI in production, developing countries also enjoy a significant portion of this type of investment (29.8%), perhaps revealing the growing cost of production at home and the increasing attractiveness of DCs as a production base for Chinese multinationals.

Based on the results in Table 2, among Chinese firms that have set up R&D operations overseas, a greater majority of them have done so in developed countries (46.6%), followed by the newly industrialized economies (28.4%), and the developing countries (24.9%). These results suggest that Chinese firms have looked to the advanced economies as a major avenue to acquire new technologies for production and new products. Thus, these findings furnish support for the 3rd research hypothesis.

Country/Investment Type		Sales & Marketing	Production	R&D
Developed Economies:	Count	213	139	494
	% within category	51.2%	42.2%	46.6%
Newly Industrialized Economies:	Count	123	92	301
	% within category	29.6%	28.0%	28.4%
Developing Countries:	Count	80	98	264
	% within category	19.2%	29.8%	24.9%
Total	Count	416	329	1,059
	% within category	100.0%	100.0%	100.0%
Chi-square Test		15.61 sig. <0.001	4.523 sig. <0.001	15.44 sig. <0.001

Table 2. Types of OFDI by Country Group from Chinese Multinationals
Note: The count and percentage of firms that have not engaged in these FDI activities in these countries are omitted.

Model Fitness	R-square	0.10
	-2 Log Likelihood	5801.84
Variables/coefficients	B	Sig.
Firm age	.000	.957
Firm size	.092	.002
Industry categories (omitted)		
Joint venture experience	.386	.000
State-owned enterprises (SOEs)	.341	.000
Home government support	.646	.000
Host institutional quality	.072	.000
Cultural distance	−.010	.000

Table 3. Logistic Regression on OFDI in Foreign Countries

According to Table 3, we find that state-owned enterprises (SOEs) and those with joint ventures (JV) with foreign firms are more likely to engage in OFDI activities in foreign countries ($\beta=.341$ and $\beta=.386$ respectively) than the private firms and those without any JV experience. These results lend support to hypotheses 4 and 5. Meanwhile, home government support has a significant positive impact on OFDI of firms ($\beta=.646$), supporting hypothesis 6. As expected, Chinese multinationals are attracted to countries with higher institutional quality ($\beta=.072$). On the other hand, cultural distance has a very small and significant negative effect on the OFDI of Chinese firms ($\beta=-.010$). Thus, these results support for the last two research hypotheses.

DISCUSSION

Findings and Implications

The results of the study suggest that the market-seeking multinationals from China's manufacturing industries show distinctive patterns in terms of market selection and entry mode strategies. Overall, Chinese multinationals are more likely to export to and make FDI in advanced economies than in developing countries. Moreover, they are also more likely to engage in FDI in terms of production, sales and marketing, and R&D activities in advanced economies. While firms from the advanced economies have invested heavily in China, these countries have been the primary destinations for Chinese export. Now they have become the prime target for Chinese OFDI. Therefore, despite the great distance in culture and institutional environment between China and advanced economies, Chinese firms have invested in these countries to pursue production, marketing and R&D capabilities.

These findings on the export and FDI patterns among Chinese firms shed some new light on the foreign market selection and entry mode choice of firms from developing countries. Both market-seeking and R&D capability development represent the primary motives for Chinese multinationals to expand overseas. Thus, different from multinationals from advanced economies, the motives and entry mode strategies of EMMNCs reflect that of getting closer to the customers and pursuing opportunities for upgrading their research and development capabilities. This is consistent with the fact that much of the Chinese manufacturers' export has been under OEM arrangement and that Chinese firms have a strong desire to upgrade their own R&D capabilities and move up in the value chain.

Meanwhile, Chinese firms with JV experiences and the SOEs are more aggressive in pursuing FDI activities in foreign countries. SOEs, which receive more government support, are more responsive to the government's call for "going out" and are more likely to engage OFDI than private firms. Home government support proves to be a strong and significant driver of Chinese firm's OFDI. Consistent with the findings on country destinations, Chinese multinationals prefer investing in countries with higher institutional quality, i.e., those advanced economies and NIEs that provide strong support for the role of market mechanism. Lastly, cultural barrier is only a small and weak deterrent for the OFDI of Chinese firms.

Practically, the findings of this study have meaningful implications for government on public policy making and for firms on strategy development and their internationalization endeavors. Given these findings, governments from emerging market economies can strategically support firms' expansion in certain country markets when they pursue growth opportunities or strategic assets, especially for the large SOEs and experienced firms to invest in economically advanced and perhaps culturally distant countries. To some extent, this study provides support for the "going out" policy in that government can play a critical role in promoting outward activities and internationalization to satisfy the technology and market needs of Chinese firms. For managers of Chinese firms, it may be necessary to think more strategically about how to conduct inward activities to develop their learning capacity and how to acquire the quality resources from foreign partners for their subsequent outward operations.

Limitations and Suggestions

Readers must bear in mind several limitations of this study when interpreting the results. First, the study is based on a sample of Chinese firms in selected industries and may not represent the overseas investment behaviors of firms in other sectors. Second, the sampled firms are relatively small in comparison with the large state-owned enterprises (SOEs). In China, small- and medium-sized enterprises (SMEs) receive less support from the central government and are less subject to the influence of government agenda. Third, this study is limited to the data from only one home country and may not apply to firms from other emerging market economies. Moreover, we did not consider other factors, such as host country factors in terms of trade policies and investment incentives.

Future research should build strong theories and test the hypotheses with data from other emerging market economies. It is also necessary to compare the motivations and internationalization patterns of SMEs with those of SOEs in greater depth. Future studies may adopt a longitudinal approach and explore the impact of changing institutions at home on the internationalization of firms from emerging market countries. Since EMMNCs have long operated in complex and dynamic institutional environments, institutional changes in terms of government policies and regulations may affect their internationalization efforts as time passes by (Cantwell et al., 2010). The effects of both host and home institutional factors on the internationalization strategies and performance of EMMNCs in overseas markets of different environments warrant systematic investigation.

Note: The authors acknowledge the financial support of the Hong Kong Research Grant Council for this study (Reference No.: LU340208).

REFERENCES

Andersen, O. (1997). Internationalization and market entry mode: A review of theories and conceptual framework. *Management International Review*, *37*(2), 27-42.

Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and hypotheses. *Journal of International Business Studies*, *17*(3), 1-26.

Barney, J. (1991). Firm resources and sustainable competitive advantage. *Journal of Management*, *17*(1), 99-120.

Buckley, P. J., Clegg, J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. (2007). The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies*, *38*(4), 499-518.

Buckley, P. J., Cross, A. R., Tan, H., Liu, X., & Voss, H. (2008). Historic and emergent trends in Chinese outward direct investment. *Management International Review*, 48(6), 715-747.

Buckley, P. J., & Hashai, N. (2005). Firm configuration and internationalization: A model. *International Business Review*, *14*(6), 655–675.

Cantwell, J., Dunning, J. H., & Lundan, S. M. (2010). An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment. *Journal of International Business Studies*, *41*(4), 567-586.

Child, J., & Rodrigues, S. B. (2005). The internationalization of Chinese firms: A case for theoretical extension? *Management and Organization Review*, *1*(3), 381-410.

Deng, P. (2007). Investing for strategic resources and its rationale: The case of outward FDI from Chinese companies. *Business Horizons*, *50*(1), 71-81.

Dikova, D., Sahib, P. R., & van Witteloostuijn, A. (2010). Cross-border acquisition, abandonment and completion: The effect of institutional differences and organizational learning in the international business service industry, 1981–2001. *Journal of International Business Studies*, *41*(2), 223-245.

Dunning, J. H. (1988). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies*, *19*(1), 1-31.

Gastanaga, V., Nugent, J. B., & Pashamova, B. (1998). Host country reforms and FDI inflows: How much difference do they make? *World Development*, *26*(7), 1299-1314.

Gatignon, H., & Anderson, E. (1988). The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation. *Journal of Law, Economics and Organization*, 4(2), 305-336.

Hitt, M. A., Ahlstrom, D., Dacin, M. T., Levitas, E., & Svobodina, L. (2004). The institutional effects on strategic alliance partner selection in transition economies: China vs. Russia. *Organization Science*, *15*(2), 173-185.

Hofstede, G. (2001). *Culture's Consequence: Comparing Values, Behaviors, Institutions, and Organizations across Nations*. Second edition, Thousand Oaks, CA: Sage Publications.

Johanson, J., & Vahlne, J.-E. (1977). The internationalization process of the firms - A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, *8*(1), 23-32.

Johanson, J., & Wiedersheim-Paul, F. (1975). The internationalization of the firm - four Swedish cases. *Journal of Management Studies*, *12*(3), 305–322.

Jun, K., & Singh, H. (1996). The determinants of foreign direct investment in developing countries. *Transnational Corporations*, *5*(2), 67-105.

Karlsen, T., Silseth, P. R., Benito, G. R. G., & Welch, L. S. (2003). Knowledge, internationalization of the firm, and inward–outward connections. *Industrial Marketing Management*, *32*(5), 385-396.

Korhonen, H., Luostarinen, R., & Welch, L. S. (1996). Internationalization of SMEs: Inward-outward patterns and government policy. *Management International Review*, *36*(4), 315-329.

MOFCOM, Ministry of Commerce of the People's Republic of China (2007). 2006 Statistical Bulletin of China's Outward Foreign Direct Investment. accessed July 13, 2011, http://preview.hzs2.mofcom.gov.cn/accessory/200710/1192783779118.pdf.

Morosini, P., Shane, S., & Singh, H. (1998). National cultural distance and cross-border acquisition performance. *Journal of International Business Studies*, *29*(1), 137-158.

Pan, Y., & Tse, D. K. (1996). Cooperative strategies between foreign firms in an overseas country. *Journal of International Business Studies*, *27*(5), 929-946.

Peng, M. W. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, *28*(2), 275-296.

Peng, M. W., Wang, D. Y. L., & Jiang, Y. (2008). An Institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, *39*(5), 920-936.

Sun, S.L., Peng, M. W., Ran, B., & Yan, D. (2012). A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs. *Journal of World Business*, *47*(1), 4-16.

Szulanski, G. (1996). Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal*, 17(winter special issue), 27-44.

Tsang, E. W. K. (1999). Internationalization as a learning process: Singapore MNCs in China. *Academy of Management Executive*, *13*(1), 91–101.

Welch, L. S., & Luostarinen, R. K. (1993). Inward-outward connections in internationalization. *Journal of International Marketing*, *1*(1), 44-56.

Witt, M. A., & Lewin, A. Y. (2007). Outward foreign direct investment as escape response to home country institutional constraints. *Journal of International Business Studies*, *38*(4), 579-94.

Yiu, D. W., Lau, C. M., & Burton, G. D. (2007). International venturing in emerging economy firms: The effects of firm capabilities, home country networks, and corporate entrepreneurship. *Journal of International Business Studies*, *38*(4), 519-540.

Zhou, C., & van Witteloostuijn, A. (2010). Institutional constraints and ecological processes: Evolution of foreign-invested enterprises in the Chinese construction industry, 1993–2006. *Journal of International Business Studies*, *41*(3), 539-556.

ABOUT THE AUTHORS

Geng Cui, PhD (University of Connecticut), is Professor of Marketing and International Business at Lingnan University, Hong Kong and a Yunshan Scholar at the Guangdong University of Foreign Studies, Guangzhou, China. His research interests include China consumer market, international business strategies, and data mining and applications of machine learning in marketing. His works have appeared in journals such as *Journal of International Business Studies, Management Science, Journal of Management Information Systems, Journal of International Marketing,* and *Journal of World Business*. He has been a consultant to private and public organizations on China business and marketing strategies. He is the corresponding author and can be contacted at: gcui@Ln.edu.hk

Tsang-Sing Chan, DBA (Indiana University), is Shun Hing Chair Professor of Marketing and Associate Vice President at Lingnan University, Hong Kong. He has published/edited twelve books and over 100 articles and papers in the areas of international marketing channel strategies, cross-cultural consumer behavior, joint venture decisions, and marketing education. He serves on the editorial board of five international journals. He is also Chair of the Southeast Asia Chapter of the Academy of International Business. He consults widely for corporations and government agencies in Hong Kong and abroad in the areas of strategic marketing planning, effective selling, leadership and human relations, and intercultural communication.

Yuanyuan Zhang is a doctoral student in the Department of Marketing at the City University of Hong Kong. Her research interests focus on international marketing strategies, foreign direct investment. She has published in journals including the International Marketing Review.