OFDI Motives of Emerging Economies: A New Exploration Based on Global Value Chain

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Abstract. By using the smiling curve of Global Value Chain and China’s cases from Zephyr database during 1997-2017, this paper depicted the ongoing OFDI motives of emerging economies. Through the mapping analysis, the GVC reconstruction tested crucially in OFDI motives forming mechanism. Different GVC process paralleled diversified OFDI motives. The case of China embraced those new motives, promoting by national strategy, grasping the Global Value Chain, safeguarding strategy asset security, are ultimately complement to the traditional motives analysis system. Statistics also showed the complexity of OFDI motives. The stability and sustainability of OFDI increasing from Emerging economies still relied on the highly growth of those new motives OFDI.

1. Introduction

In today’s prevalence of unilateralism and trade protectionism, global outward foreign direct investment (OFDI) has fluctuated significantly. In 2017, the flow of global OFDI decreased 23%. However, as an important source of OFDI, emerging economies have conversely increased. Their share of OFDI in global has risen from 6.1% in 2007 to 15.8% in 2016. China has engaged in grave matter. In 2016, China has become the world's second largest source of foreign direct investment. Even in 2017, China's non-financial OFDI also fell by 29.4% year-on-year, its OFDI still accounted for 12.6% of the global one. For its declination, part of the reason is that some developed countries have implemented anti-M&A trends against China. In addition, energetically China has effectively curbed some over-fervent irrational investment. OFDI of emerging economies have shown different motives from those of developed countries which was dominated by multinational corporations.

2. Literature Review

The traditional foreign direct investment theory is subject on multinational corporations from developed countries and its gradient investment activities to developing countries. Bridging the gradient industrial transfer of globalization and utilizing endogenous structure transformation of domestic economy, the emerging economies have been highly integrated into the global value chain (GVC) through foreign trade and investment activities, and gradually gained some comparative advantages in the global production network (GPN). For their foreign direct investment, their motivations are changing rapidly distinguished from those of developed countries.

Study of OFDI conducted by developing country focus on whether the framework of traditional theory is suited [5] or the existence of “Monopoly Advantage” worked still. The theory of small-scale production [9] and technology localization [3] and other related theories describe small-scale manufacturing adapting the host countries, which are similar in market and institutional (cultural) environment with the home countries. All of them are developing countries like India. Through the absorption of standardization technology and innovation, developing country could achieve technology localization. Moreover, a newly competitive advantage for enterprises would shape spontaneously. On the perspective of Latecomers, the LLL theory discusses the investment process of developing countries (Asia-Pacific) multinationals. It linkages, represents the first L, the external resources to achieve leverage, the second L, of resource utilization Enterprises learn to
improve their competitive advantage through learning, the last L [4]. LLL theory is an important basic theory for explaining the formation and evolution of multinational corporations from emerging economies.

In 2006, UNCTAD complemented “Created Asset Seeking” as a new motivation [8]. The analysis framework of market seeking, efficiency seeking, resource seeking and created asset seeking foreign direct investment motives is gradually shaped. However, Rugman and Nguyen (2014) argue that “created asset seeking” does not exist because developed-country companies do not transfer advanced technology to emerging economies [6]. At the same time, this classification method has difficulties in data processing and empirical researching. The discussion of created asset seeking, mainly in knowledge and technology seeking, dissects the connection between the investment activities and the globalization strategy of emerging economies [1]. Some studies abstractly classify the motives of foreign direct investment into horizontal motives, targeting market development, and vertical motives, targeting production transfer. In addition, others from resource-based perspective, the motives divided into asset exploiting and asset exploring, enlarging in conception of resource-enhancement, resource-replenishement [7] and resource development [2] in the emerging economies investment motives.

However, multinational corporations in China and other emerging economies do not fully possess the “advantages” emphasized by traditional foreign direct investment theory. Existing theories cannot fully explain the OFDI motives of emerging economies. Therefore, According to the study of global value chain, the sources of competitive advantage of emerging economies’ OFDI and their investment motives need further research.

3. Newly OFDI Motives of Emerging Economies

In the process of integrating into the economic globalization, emerging economies merge into the global value chain. Still, part of the investment motives keep abiding with the traditional path, seeking lower production costs, richer original resources, more expanded market and diversified channels. However, there are also new motives for emerging economies. In this chapter, the first section interprets the traditional motives based on the smile curve of the global value chain. We portray the different motives of investment activities conducting by a home country enterprise that is “low-locked” in the manufacturing process. Moreover, in the second section, we will take China as an example to illustrate the new motives of foreign direct investment that differ from the traditional path. In addition, some statistics evidence will show on third part.

3.1 Connection with Global Value Chain

Assumption on a home country enterprise whose main business is steel production is “low-locked” in manufacturing process. Considering the factors such as its original industry, development strategy and related industrial relationship, we are mapping the smile curve of steel industry. Paralleling with the OFDI activities in different process of GVC shows the different motives. On the upper-stream represents the raw material enterprise in host country, absorbing such resources, such OFDI activities would be classified as a resource seeking one. If such investment subject matter, on the same stage, is the host country’s steel manufacture, primary season for that maybe the production cost when manufacture in home country, so that would classified as efficiency seeking. When minding the supplier or other competitive advantage like technology, the host enterprise would merge a logistics and service one offering such created asset. The market seeking OFDI related to cross-industry the steel used as intermediate product (Figure 1).
3.2 Evidence from the Case of China

In addition to the OFDI motives, emerging economy has shown diversified purposes in those investments. China’s story is a significant tale for the development path of emerging economies. Its OFDI motives complicate combing with the strategies in micro and macro level, relating with the whole country strategy, industrial policy and enterprise’s outlook. So unveiling dust of mass phenomenon, we summarize three main new motives for Chinese company conducting OFDI.

Promoting by National Strategy means the government's guidance on the location and industry of foreign direct investment. Since China’s “One Belt, One Road” initiative proposed, China’s OFDI to the countries along the Belt and Road routes has increased rapidly in the past five years. Furthermore, "Silk Road Fund" specifically invests in this area. The "Made in China 2025" strategy has imposed China's advanced manufacturing enterprises to go global. Moreover, a large number of Chinese companies have embraced in "going-out" strategy to seek superior resources. For instance, since 2016, Tsinghua Unisplendour Group has invested in semiconductor companies globally within its core business. The angel investors, Zheng Fund, also acquired a large number of emerging high-tech companies worldwide.

Grasping the Global Value Chain. Manufacturing companies in emerging economies are no longer contented in the local market, and corporates’ strategies focus on universal appeal. In 2010, Geely Group acquired Volvo to expand the high-end SUV production department. In 2013, it acquired the London taxi company for commercial vehicles. In 2017, Geely announced acquisition of Lotus, a Malaysia company in luxury-end sports car. For Geely, this acquisition rumored to entering the Southeast Asian market and assimilating its high-speed stability technology. In 2018, the acquisition of Daimler is more conducive to the coordination of the overall technical resources. The global resource synergy process of auto companies is also with the feature of companies conduct OFDI to insert the GVC. If these three mergers and acquisitions simply classified as “created asset seeking”, it does not declare the strategic layout of the enterprise, and still, reflect the ultimate purposes of such M&As. The subdivided production process requires the enterprise not only specialize in one product, but also grasp the global value chain becoming a leading enterprise in such field. Through controlling the industrial association, leading enterprise can realize the global layout in charge of such industrial chain. Like Bluestar group, the M&As are not limited in the new chemical materials industry, the main business, but extended in affiliates around the world to strengthen the ability grasping the global value chain.

Safeguarding strategy asset security. What differs from the manufacturing enterprise, the service enterprise does not have the production process. Therefore, its recourse allocation globally needs to consider the sustainability and strategic security of its own assets. Like the bank and insurance company, it is more complicated to attribute such OFDI activities to the traditional four major motives. A financial leasing company such as Tianjin Bohai Group, whose motive for OFDI is expanding its business scope of leasing targets on a global scale. The investment process of a financial company does not confine to one specific industry or production process, and its investment even has certain tax avoidance motives.

Figure 1. Association between GVC and OFDI Motives.
3.3 Statistics Evidence from China’s OFDI

Through the Zephyr database, we classified all completed M&A cases from China during 1997 - 2017. According to the Figure1 showed, the investment of home country enterprises would influenced by the home country’s resource endowment we, we classified the motives of China’s OFDI into 6 part. Despite of 4 traditional motives (efficiency, market, resource and created asset seeking), we augmented “tax avoiding” and other “New motives”. Therefore, the situation of the merged companied came from the tax havens is complicated. The “tax avoiding” comes when: the parent company invests in the subsidiaries of tax havens; the host country enterprises and the home business of the home country are inconsistent with no industry-related investment; the host country enterprises are financial Investment in industry-related companies. In addition, as in the above-mentioned integration and particularity of corporate motives, if the external direct motivation of the enterprise cannot be recognize as single motive, existing overlap and multiple combined motives, and we all incorporated it into the statistics of other “New motives”. According to this classification, the different motives trend of China’s OFDI pictured.

Data consolidation found that China's OFDI showed an increasing growth trend. In particular, the downward pressure on the economy in 2010, OFDI still figured a rapid growth trend. This high-speed growth is mainly relied on the steady growth of efficiency-seeking, resource-seeking and market-seeking investment. The biggest contribution attributed to it is the created asset seeking, tax avoidance and other new motives. Their rapid growth has effectively stimulated the growth of China's foreign direct investment. Among them, new motives had the highest growth rate.

4. Conclusion

Thus, emerging economies have new motives for foreign direct investment. In addition to the efficiency seeking, market seeking, resource seeking and created resource seeking, emerging economies' foreign direct investment mainly includes the following contents: Firstly. National strategy, in terms of location and industry, it will promote enterprises to focus on specific industries or in specific regions. Secondly. Grasping the Global Value Chain, through the globalization, "going out" would integrate global production resources, and empowering the in strategic advantage in global market. Finally, Global asset strategy security achieves resource sustainability and strategic security through "going out". Paralleling with the Global Value Chain new motives of emerging economies’ OFDI sprawl on the manufacturing process.
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