

Entry strategies into China: The choice between Joint Ventures and Wholly Foreign-Owned Enterprises

An application to the Italian manufacturing sector

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Received 9 January 2007; received in revised form 3 June 2007; accepted 14 July 2007
Available online 26 February 2008

Abstract

We investigate the entry choice between Joint Ventures and Wholly Foreign-Owned Enterprises in the Chinese market. The analysis is based on Italian firms, thus allowing to evaluate the behaviour of also small-medium sized companies — usually less focused on by the literature on entry modes. The data, mainly from a questionnaire, supply detailed enterprise-level information and make possible to properly measure and evaluate the impact on entry modes of several variables such as innovation, internationalization, and, new in the empirical literature on this issue, corporate capital structure.

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JEL classification: L60; L22; F23; C25

Keywords: China; Joint Ventures; Wholly Owned-Foreign Enterprises; Questionnaire; Logit models; Entry modes

1. Introduction

The aim of this paper is to empirically analyse the motivations for foreign enterprises to produce in China choosing a Joint Venture (JV) or a Wholly Foreign-Owned Enterprise (WFOE). The econometric discrete model draws advantage from firm-level detailed information, collected through a questionnaire designed for the purpose and based on direct interviews (for details, see Bontempi & Prodi, 2007, and Orlandi & Prodi, 2006).

The literature on the enterprise internationalisation choices and on entry modes into foreign markets is very rich. The empirical model is specified by mainly following the approach of the Transaction Costs Analysis (TCA). Good references are Anderson and Gatignon (1986), and Erramilli and Rao (1993). It is however necessary to bear in mind that the Chinese market is extremely complex, hard to describe, and not easily interpretable with the same theoretical

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¹ We wish to thank “Osservatorio Asia” for the financial support and for the help in building the dataset we used in this paper. We are grateful to Professors Roberto Golinelli, Aldo Geuna, Fabio Gobbo for reading a previous version of this paper. We thank the participants at the ACE conference held in Hong Kong (18–20 December 2006) for useful comments. All mistakes are ours.

and analytical tools applied to other developed/developing countries. As far as its dimensions, institutional assets, development rate, data availability and quality, China is a case by itself. As a consequence, in specifying the econometric model, special attention was given to the measuring and preliminarily analysing the variables able to spot the different institutional, strategic, operative motivations underlying the internationalisation process and, specifically, the entrance into China. We deal with a specific target country, as opposed to most empirical literature on FDIs; hence, in evaluating paper's results, factors such as the cultural distance between investing country and target country, and the risk, dimension and growth potentiality of the target country have to be considered as assumed. The reliability of the empirical results was validated by various tests.

Table 1
Choice between WFOE and JV: estimated results

Explanatory variables	Coef.	Std. Err.	P-value	Marginal effect	Coef.	Std. Err.	P-value	Marginal effect
<i>Model 1</i>								
<i>year_inv</i>	-0.512	0.197	0.009	-0.028	-0.097	0.072	0.177	-0.023
<i>internal*</i>	7.119	4.156	0.087	0.096	1.456	0.846	0.085	0.269
<i>good_int*</i>	-0.605	1.194	0.612	-0.038	2.169	0.941	0.021	0.420
<i>inn_cont*</i>	-8.928	3.224	0.006	-0.674	-1.694	0.760	0.026	-0.364
<i>mach_it</i>	-0.107	0.059	0.071	-0.006	-0.041	0.011	0	-0.010
<i>place_it*</i>	-10.825	5.127	0.035	-0.986	-	-	-	-
<i>nw*</i>	4.958	2.671	0.063	0.287	2.988	1.216	0.014	0.569
<i>val_inv</i>	1.217	0.637	0.056	0.067	0.977	0.473	0.039	0.230
<i>internat</i>	2.249	1.136	0.048	0.124	0.201	0.252	0.426	0.047
<i>sales_cn</i>	0.067	0.021	0.002	0.004	0.021	0.014	0.139	0.005
<i>suppl_cn</i>	0.068	0.053	0.198	0.004	0.028	0.014	0.052	0.007
<i>re_group*</i>	-11.317	4.822	0.019	-0.992	-	-	-	-
N. observations	79				79			
% correctly predicted	94.94				89.87			
Pseudo R-squared	0.8407				0.5912			
<i>Model 2</i>								
<i>year_inv</i>	-0.737	0.280	0.009	-0.062	-0.077	0.085	0.361	-0.019
<i>internal*</i>	5.089	3.217	0.114	0.129	1.627	1.102	0.14	0.312
<i>good_int*</i>	0.672	0.930	0.470	0.051	1.700	0.883	0.054	0.365
<i>inn_cont*</i>	-10.393	3.775	0.006	-0.857	-2.592	0.941	0.006	-0.537
<i>mach_it</i>	-0.062	0.025	0.012	-0.005	-0.031	0.010	0.001	-0.008
<i>place_it*</i>	-10.559	2.791	0.000	-0.988	-	-	-	-
<i>small*</i>	8.916	3.861	0.021	0.138	3.355	2.073	0.106	0.434
<i>med_large*</i>	4.730	1.961	0.016	0.361	2.098	1.046	0.045	0.450
<i>val_inv</i>	0.283	0.567	0.618	0.024	1.176	0.584	0.044	0.287
<i>internat</i>	2.919	0.874	0.001	0.244	0.398	0.286	0.164	0.097
<i>sales_cn</i>	0.039	0.015	0.008	0.003	0.013	0.011	0.237	0.003
<i>suppl_cn</i>	0.038	0.017	0.021	0.003	0.017	0.013	0.169	0.004
<i>re_group*</i>	-9.099	2.751	0.001	-0.976	-	-	-	-
N. observations	79				79			
% correctly predicted	97.47				89.87			
Pseudo R-squared	0.8487				0.5371			

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