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China's outward foreign direct investment

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Abstract China's outward foreign direct investment (FDI) is steadily increasing. The United States is now a key target for China's outward FDI, and the response by the American public tends to fall at opposite ends of the spectrum: fever or fear. Chinese FDI in the United States faces challenges posed by its liability of foreignness in political, cultural, marketing, and technological aspects. Utilizing mini case studies, we herein examine the polarized responses to Chinese outward direct investment, its history, and the challenges faced by Chinese multinational corporations operating in or attempting to enter the U.S. market. Finally, strategy suggestions are proposed.

1. China's outward foreign direct investment

Like the Taoist philosophy of *yin* and *yang* in everything, China's growing international activity and its foreign direct investment in other countries, such as the United States, have aroused two opposite responses among the citizens of those countries. On one hand, there is a feverish pursuit of Chinese investment; for example, American governors and mayors have flocked to China during the past few years soliciting Chinese investors for their states and cities, as well as promoting Chinese purchase of their goods. As former Virginia governor Mark Warner once remarked, "Virtually every American governor has visited China" (Warner, 2005). On the other hand, fear was the response to Chinese computer maker Lenovo's acquisition of IBM's PC division and Chinese oil giant CNOOC's bid for the mid-sized American oil company Unocal, resulting in raised national security concerns among both the Congress and the public.

We believe both views—China fever and China fear—are shortsighted and not solidly based on an accurate understanding of China's increasing economic power. In this article, we argue that China's growing direct investment in the United States is more economically than politically driven, and therefore should be understood from a business perspective rather than from a political angle. We explore the opportunities and challenges for Chinese multinational corporations (MNCs) to directly invest in the United States. We discuss their lack of experience in foreign operations, which creates a high liability of foreignness, specifically in political, cultural, marketing, and technological aspects, and explore how Chinese firms might deal with these inherent disadvantages of competitiveness. Finally, we give strategic suggestions for Chinese firms which wish to directly invest in the United States.

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2. China fever vs. China fear

China's entrance into the World Trade Organization (WTO) led many MNCs to view China as an attractive place for their foreign subsidiaries. China's lively economy and entrepreneurial spirit enhance that attractiveness. These attributes, linked to low labor costs, the seemingly easy transfer of manufacturing activities, and the possibility of serving 1.3 billion customers, appear irresistible. American businesses have looked at options of manufacturing, opening offices, licensing technology, and setting up R&D centers in China. The majority has found these relationships work, although they are sometimes slower and more difficult to implement than predicted. With a clear awareness of China's rising economic power and Chinese firms' eagerness to become world-class MNCs by entering the U.S. market, American business representatives have gone to China to recruit Chinese firms as investors in their businesses.

In addition to Corporate America's interest in investing in China, there is a new trend of China fever among American state and local governments and communities for soliciting direct investment from China. More than 20 states have established commercial offices in China (Cox, 2006). Despite China's unchanged political regime, U.S. state and local leaders tend to see China more like a potential business partner with whom they could work, rather than primarily as a menacing communist country. State and local decision makers' pragmatic mentality toward foreign direct investment moderates their responses to China, and leads to their largely positive and realistic attitudes about Chinese firms' investment as a source of jobs and tax revenue. In short, the business of state and local government is business. To them, China is no exception.

Fear of China comes in many packages. First is a fear of China's political power due to its rapidly increasing clout in the international arena. Americans seem to be afraid that China will overtake the United States economically and politically. The trade imbalance is seen as an indication that China is winning and will shortly have more power than the U.S. Most Americans do not realize that many of these imports represent products from American overseas subsidiaries coming back to the United States. Arguments have been made that America is losing its manufacturing base to China and that this causes widespread unemployment. Similar arguments were made in the past about Mexico; within the U.S., this led to strong negative reactions with ongoing ramifications. Linked to this concern is a fear of communism in China and what that means, especially now that most other communist systems have fallen but China's endures.

Other fears relate to national security, health, and safety issues. Chinese companies have been looking abroad for market expansion, assets, and technology, but there has been a growing distrust of China because of its poor enforcement of product quality, safety measures, and intellectual property rights, among other things. Furthermore, fears surround the sale of U.S. resources to foreigners. Hence, attempts by Chinese firms to acquire American assets, such as CNOOC's attempt to buy Unocal, are met with resistance and eventually fail.

The growing prowess of Chinese firms and the increase of outward direct investment by Chinese firms constitute a primary fear focus. In a similar situation during the 1980s, Japan was accused of seeking global dominance when Japanese firms bought up American companies and real estate. Japanese purchases of prominent properties that once were American icons, such as the Empire State Building, Rockefeller Center, Columbia Pictures, and the Pebble Beach golf course, evoked economic, socio-cultural, and political fears among politicians and the public.

However, any fear of unfair competition from Chinese state-owned companies because they don't have to make money or be responsible for financial losses is outdated. After three decades of reform, especially following a drastic escalation of change since the 1990s, Chinese state firms have taken on a distinctly more capitalistic flavor due to radical restructuring, mergers leading to diversified ownership structures, and massive layoffs. Although the government may still hold the majority share in companies like Lenovo or CNOOC as a legacy of the companies' founding, government involvement in the strategy and operation of state firms has been diminishing, even for large state-owned firms like those (Pottinger, Gold, Phillips, & Linebaugh, 2005). Each state firm has to earn profits for its shareholders, with the government being merely one of those shareholders, just as their Western counterparts do; Chinese boards of directors largely make decisions on their own.

2.1. Do we understand the context?

Sometimes lost in this frenzy is a solid understanding of China and its history. This is a reality check for those people who forget China is still a developing economy, transitioning from a centrally-planned economy to a market economy. It has not reached the efficiency of a true market economy. Typical of many formerly centrally-planned economies, China has many informal ways of getting things done, such as corruption or cash payments. Indeed, 20 years ago China was just developing its technology and