Teaching & Learning Guide

The Internationalization of Chinese Firms: A Critical Review and Future Research

This guide accompanies the following article:

Read the original article at: http://bit.ly/vT22pI

Author’s Introduction

In recent years, a significant development within the broad globalization trend has been the active role played by Chinese multinational enterprises (MNEs), which are looking for opportunities to expand around the world. Thanks to the recent acceleration, China has become the world's fifth largest investor with a total of $68.0 billion outward foreign direct investment (OFDI) in 2010. As China moves to centre stage in global economy, research on the internationalization of Chinese firms (ICF) has been gaining importance.

The rapid development of research on the ICF is partially because that China is a particularly good test case to stimulate possible theoretical extensions of mainstream theories on internationalization of firms and foreign direct investment (FDI). Equally important, as the ICF will undoubtedly reshape the international economic and political landscape, the subject may also turn out to have wider policy significance as well. Many aspiring multinationals in emerging economies, particularly those of East and Southeast Asia, which are among the world’s fastest growing MNEs and are also the most closely intertwined with China, are watching with intensive interest how Chinese firms succeed in establishing a competitive position in international markets.

Despite that Chinese MNEs are increasingly gaining scholarly attention, the literature on the ICF has been fragmented to date and lacks consolidation and integration. This paper reviews the scholarship on the ICF during the period 1991-2010 across a variety of disciplines and offers insights into the specific areas in critical need of further development. Within the reviewed literature, three primary streams of inquiry are identified which focus on the antecedents, processes and outcomes of the Chinese internationalization. Achievements within each of the three research streams are carefully reviewed by using content analysis, whereby a number of important issues are identified and recommendations are provided for future research, aimed at developing a more integrated research agenda on the ICF for management and international business scholars.

Author Recommends


   This article discusses the ICF in the light of existing internalization theory and introduces the notion of "institutional arbitrage" to capture Chinese firms’ pursuit of efficient institutions outside of China. It argues that strategic exit from China rather than strategic entry into foreign markets may explain the internationalization of many Chinese firms.

This article is one of the first systematic empirical academic works that investigates the determinants of Chinese OFDI. It argues that rather than rejecting mainstream theories of the MNE, special modifications to them are required to incorporate better, for example, institutional factors and capital market imperfections of Chinese internationalization.


This article examines the patterns of, and motives for, internationalization by prominent market-seeking Chinese firms. It is one of the first academic publications that explicitly argues that the ICF could present a unique opportunity to extend, rather than replace, mainstream theories on the internationalization of firms and FDI.


This article is one of the first papers that focuses the factors that motivate Chinese MNEs to engage in OFDI and draws strategic implications from this important phenomenon. It presents a study of aggregate data, both macro and micro, from the FDI database of the UNCTAD that describe the overall patterns and destinations of China's OFDI.


Building on institutional theory, this article proposes a model of strategic-asset-seeking motivation behind Chinese overseas M&A. Draw on a multiple-case study of Chinese MNEs, it argues that cross-border M&A from Chinese firms that represents a means to acquire strategic assets is the logic of Chinese unique institutional environment.


This article assesses the aggregate dynamic of China’s OFDI and traces the strategic shift of Chinese overseas investment in both arenas of government policy and corporate entrepreneurship. It also discusses the strategic implications of emerging Chinese multinationals for their Western counterpart.


From the political economy perspective, this article elucidates why and how Chinese government enthusiastically stimulates OFDI. It concludes with theoretical and managerial discussions wherein the authors call for convergence institutional escapism and governmental promotion as an institutional logic explicating the ICF.


This article offers justifications for China's OFDI from both economy- and firm- level perspectives and facilitates a better understanding of the deeper causes and consequences of China’s OFDI. It argues that any sensible economic analysis of Chinese firm strategies will have to take institutional, political, and social aspects into consideration.


This article is among the first academic works that investigates the ICF by analyzing five Chinese state-owned enterprises (SOEs) regarding their international activities and strategies. It focuses upon internationalization processes (inward and outward) as mechanisms for facilitating competitive catch-up by Chinese MNEs.

This article is one of the first practitioner-oriented articles that argues the emergence of Chinese MNEs (e.g., Haier, Galanz, and CIMC) as powerful global rivals. It focuses upon both country specific variables and firm specific advantages in China that allow them to overcome the weaknesses of the Chinese system and become globally competitive.

Useful Links

1. [http://www.mofcom.gov.cn](http://www.mofcom.gov.cn), the official website of the Ministry of Commerce, The P. R. of China. This website and specifically its Department of Outward Investment and Economic Cooperation site provide official statistics on China’s OFDI and other government documents.

2. [http://www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics). This is the website of the United Nations Conference on Trade and Development (UNCTAD) for its FDI Statistics. The site documents and analyses global and regional trends in FDI, and assists developing countries in formulating FDI policies based on quality FDI data and information.

3. [http://www.uschina.org](http://www.uschina.org). This is the website of The US-China Business Council (USCBC), which regularly provides reports, analysis and statistics on trade and investment related topics regarding American and Chinese firms.

4. [http://www.fdiintelligence.com](http://www.fdiintelligence.com), the website of fdiIntelligence, a specialist division from the Financial Times Ltd. It provides insight into globalisation with a portfolio of products, services and business tools that allow business organisations and academic institutions to make informed decisions regarding FDI and associated activities.

5. [http://www.alacra.com/research/thomson-mergers-and-acquisitions](http://www.alacra.com/research/thomson-mergers-and-acquisitions). This is the website of Thomson Financial's (TF) Worldwide Mergers and Acquisitions database, which covers public and private transactions involving at least a 5% ownership of a company. Transactions include M&A, stock swaps, LBO’s, spinoffs, rumoured and seeking buyer deals, and more. The database tracks U.S. deals date as far back as 1979, and international deals to 1985.

6. [http://www.bcg.com](http://www.bcg.com). This is the website of the Boston Consulting Group (BCG), a global management consulting firm. It regularly publishes a number of in-depth annual reports regarding global competition and FDI particularly from emerging market MNEs.

Sample Syllabus

TITLE: The Internationalization of Chinese Firms: Research and Prospective

Week 1: Overview of the internationalization of Chinese firms (ICF)

This session introduces the research area of the ICF and explores why this topic is becoming increasingly important phenomenon that may shape the future of the global economy and international competitive landscapes.

Suggested Reading


**Week 2: Theoretical Perspectives on the ICF**

This session outlines major theories that have been applied and could be applied into the topics and contexts where Chinese internationalization has been studied, thus stimulating possible extensions of mainstream theories.

*Suggested Reading*


**Week 3: Determinants of ICF**

This session investigates the driving forces behind the emergence of Chinese OFDI. There are four important streams of antecedents of the Chinese internationalization that can be explored, and they include firm-level, industry-level, transaction-specific, and institutional factors.

*Suggested Reading*


**Week 4: Processes of ICF**

This session investigates the research efforts which are related to effective implementation of the ICF and focuses on a variety of international strategies made by Chinese MNEs while entering both developed and developing economies.

*Suggested Reading*


**Week 5: Outcomes of ICF**

This session outlines major performance studies on the ICF, which concentrate on the economic and financial performance of Chinese MNEs.

**Suggested Reading**


**Week 6: ICF and Latecomer Perspective**

It is widely regarded that as a latecomer, Chinese MNEs increasingly adopt a catch-up strategy to compensate for their competitive weaknesses. The focus of this session is on how and to what extent that Chinese firms are able to overcome latecomer disadvantages via aggressive acquisition of strategic resources and capabilities from well developed multinationals.

**Suggested Reading**


**Week 7: ICF and Institutional Factors**

Domestic institutional environment profoundly influences Chinese MNEs' international behaviours and strategies. This session examines the dynamic interaction between firms and institutions that drives the international expansion of Chinese MNEs.

**Suggested Reading**


**Week 8: ICF and Liabilities of Foreignness**

Chinese firms face a heavy liability of foreignness due to the distinctive institutional and social environment from which they come. This session investigates whether Chinese MNEs successfully reproduce their domestic business practices abroad or rather adapt to institutional and social contexts prevailing in host countries.

**Suggested Reading**


**Week 9: The Internationalization of Chinese and Other Emerging Market Firms**

The session concentrates on analyzing the emergence of Chinese firms and other emerging economy firms worldwide and explores how they develop resources and capabilities which are necessary to compete successfully with well established multinationals particularly in developed markets.

**Suggested Reading**


Focus Questions

- Why has the internationalization of Chinese firms (ICF) increasingly become one of the most profound business phenomena that may shape the global competitive landscapes in different industries?
- What are the theoretical and policy implications for the emergence of Chinese MNEs which may successfully compete with well established multinationals particularly in more developed markets?
- How and to what extent do the prominent and unique features of the ICF enrich and broaden our understanding of mainstream theoretical approaches?
- What are the roles of Chinese governments in supporting the ICF and implementing Chinese firms’ catch-up strategies via aggressive overseas acquisitions of strategic assets in developed markets?
- What are the sources of competitive advantages of Chinese MNEs? How do they sustain and enhance these advantages by simultaneously exploiting their existing advantages and exploring their capabilities with increasing international expansion?
- How do Chinese MNEs overcome the liability of foreignness given their unique institutional and social contexts? Do they face different types of liabilities in making OFDI across various business activities or across developing and developed economies? Are there different mechanisms or strategies for them to overcome the liability of foreignness?