

# **FOREIGN DIRECT INVESTMENT FROM DEVELOPING COUNTRIES: A CASE STUDY OF CHINA'S OUTWARD INVESTMENT**

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Submitted for the degree of PhD



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**September 2003**

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## **Acknowledgements**

This thesis would have not been possible without significant advice, stimulation and encouragement from many people.

First, I am indebted to my supervisor Professor Bhajan Grewal and co-supervisor Professor Peter Sheehan for their generous advice, encouragement and support. My research has benefited substantially from discussions with them. Professor Grewal's detailed comments on each draft and Professor Sheehan's methodological and analytical guidance are especially appreciated.

I am very grateful to Dr. Fiona Sun for her support and encouragement. She has read an earlier draft of the thesis very carefully and provided valuable comments about many theoretical issues and economic realities.

My deep thanks also go to Dr. Enjiang Cheng for his encouragement and comments on Chapter 5.

I appreciate the financial support received from Victoria University and the Centre for Strategic Economic Studies for undertaking the research. I have benefited from the assistance of the staff in the Centre as well as the staff in the University responsible for postgraduate study and international students. My special thanks go to Mrs Margarita Kumnick for her editorial assistance.

## **Abstract**

This thesis presents an interpretation of foreign direct investment (FDI) by Chinese firms. The research is motivated by the phenomenon that, compared with foreign investment in China, direct investment from China has so far attracted relatively little attention from researchers.

The development of China's outward direct investment exhibits distinctive features. It was expanded rapidly in a relatively short time and was directed heavily to a few developed countries, namely, the United States, Canada and Australia. In addition, it is not evident that Chinese investors possess clear international competitive advantages. Existing mainstream theories of FDI from developing countries cannot provide a ready explanation of the underlying rationale for the pattern of China's FDI.

Given the difficulties in providing a convincing explanation of the pattern of China's outward FDI by using mainstream theories, this thesis develops a network model of FDI by formalising network ideas from business analysis for application to economic analysis, and interprets China's outward FDI in terms of the network model. This thesis holds that Chinese firms were engaged in FDI for various network benefits. Accordingly, the geographic distribution of China's outward FDI reflected the distribution of network benefits required by Chinese firms and the relevant cost saving effects for obtaining such benefits. As the functioning of networks relies on elements of market economies, the development of China's outward FDI was affected by the progress of marketisation in China.

China's outward FDI has a very short history and comprehensive data on industrial composition and overseas subsidiaries' operation are not yet available. This has ruled out the possibility of more specific testing with formal econometric analysis. Rather, the method of approach is essentially descriptive and the interpretation is mainly based on qualitative analysis.

## Abbreviations

CSIESR	China State Institute of Economic System Reform
CSPC	China State Planning Committee
FDI	Foreign direct investment
FDI affiliates	Overseas affiliates which are established by firms through FDI, such as wholly owned subsidiaries, joint ventures, etc.
GDP	Gross National Product
GNI	Gross National Income
IDP	Investment Development Path
IIE	Institute of Industrial Economics under the Chinese Academy of Social Sciences
IMD	International Institute for Management Development
IMF	International Monetary Fund
ITD	Industrial and Transportation Department of the National Bureau of Statistics (China)
L&MFs	Large and middle-sized firms
MNE	Multinational enterprise
MOFTEC	Ministry of Foreign Trade and Economic Cooperation (of China)
Multinationals	Multinational enterprises
NBS	National Bureau of Statistics (of China)
R&D	Research and development
SAFE	State Administration of Foreign Exchange (of China)
SOEs	State-owned enterprises
TNC	Transnational corporation
TWFDI	Third World FDI
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre of Transnational Corporations

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