Heterogeneity and the Choice of Internationalization Path of Chinese Enterprises

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Abstract. Since the reform and opening up, China's economy has been further integrated with the world economy. Especially in the past two decades, China's foreign trade and foreign direct investment have maintained a rapid growth. More and more Chinese enterprises are actively choosing to participate in international competition. During this process, some Chinese companies have achieved great success in overseas investment, while others have failed in international competition. Therefore, what kind of enterprises are suitable for "going out", how to choose the optimal mode of overseas investment, and what kind of enterprises are suitable for overseas investment mode have become the urgent problems for Chinese enterprises in order to successfully realize overseas expansion. Under the concept of enterprise heterogeneity, this paper tries to answer the above questions by analyzing the facts of current internationalization path choice of Chinese enterprises, and provides relevant suggestions on how to correctly choose the internationalization modes for Chinese enterprises.

1. Introduction

Since the reform and opening up, China's economy has been further integrated with the world economy. Especially in the past two decades, China's foreign trade and foreign direct investment have maintained a rapid growth. At the same time, more and more Chinese enterprises are actively choosing to "go global" to participate in international competition. During this process, some Chinese companies have achieved great success in overseas investment, while others have failed in international competition. Therefore, what kind of enterprises are suitable for "going out", how to choose the mode of overseas investment for Chinese enterprises, and what kind of enterprises are suitable for overseas investment mode have become the urgent problems for Chinese enterprises to successfully realize overseas expansion. Under the concept of enterprise heterogeneity, this paper analyzes the factors that influence the internationalization path choice of Chinese enterprises, and provides relevant suggestions on how to correctly choose the internationalization path for Chinese enterprises.

In the mid-1990s, the enterprise heterogeneity was introduced, which, for the first time, from the perspective of micro enterprise behavior to explain and analyze the relationship between international trade and investment, and analyze how multinational companies making the choice of global production. This paper will study and sort out the "new new trade theory", from the perspective of enterprise heterogeneity, to explore the motivation significance of different internationalization path choices of Chinese enterprises, in order to provide new reference basis and theoretical support for the overseas development of Chinese multinational enterprises.
2. Heterogeneous Trade Theory

In recent years, the research on trade liberalization and trade cost reduction at the enterprise level has attracted a large number of scholars. In their analysis of the importance of trade and cross-border investment to globalization, they introduced the factor of imperfect competitive market, thus creating the "new new trade theory", also known as the theory of heterogeneous trade among firms.

Bernard and Jensen [1] studied the data of American manufacturing industry and found that some enterprises in the same industry engaged in export trade and some did not, and the difference mainly came from the different characteristics among enterprises, namely the difference in production efficiency. Based on the findings of this study, more and more scholars start to discuss the factors that affect the participation of enterprises in international division of labor and international market competition from the enterprise level, and try to create a theoretical basis for it. Later, Bernard and Wagner [2] analyzed the data of German enterprises and concluded once again that only enterprises with high production efficiency would engage in export.

Melitz [3] constructed the theory of heterogeneous trade by adding heterogeneity of enterprise productivity and explained why some enterprises choose to export. Later, Bernard and Jensen [4] analyzed the data of American enterprises from 1987 to 1992, and further confirmed that only enterprises with high productivity would export, and the production efficiency of enterprises engaged in export was significantly higher than that of enterprises not engaged in export. Helpman, Melitz and Yeaple [5] introduced enterprise heterogeneity into a multi-country and multi-industry model. Through the data analysis of 52 industries in the United States, they believed that the productivity difference of intra-industry enterprises was the main factor to explain foreign trade and international investment. Only the most productive enterprises will develop overseas business, and among these enterprises engaged in overseas business, FDI is the most efficient choice. For industries with more heterogeneous enterprises, the proportion of foreign investment is much higher than that of foreign trade.

Thus, we can see that new new trade theory broke through the traditional trade theory on enterprise homogeneity assumption, mainly from the perspective of enterprise heterogeneity, to the enterprise in exports and export, in the export and foreign direct investment, how to make a choice between cross-border M&A and greenfield investment, direct investment and direct investment in horizontal and vertical between research and discusses how to make a choice.

3. Analysis on the Current Situation of Internationalization of Chinese Enterprises

3.1. Overview of the International Development Status of Chinese Enterprises

The main way for Chinese enterprises to participate in international operation is export trade. Since the 1990s, "Made in China" has gradually become popular around the world, so that China has been called the "factory of the world". After more than 40 years of development, especially since China's accession to the WTO, China's foreign trade has maintained an average annual growth rate of over 15%, and its import and export share in the world has risen from less than 1% in 1978 to 12%. In 2019, China's total import and export volume stood at 31.54 trillion yuan, an increase of 3.4 percent over 2018. In 2019, private enterprises surpassed foreign-invested enterprises for the first time, becoming the largest body of China's foreign trade. Last year, the import and export of private
enterprises reached 13.48 trillion yuan, up 11.4 percent and accounting for 42.7 percent of China's total foreign trade, 3.1 percentage points higher than that of 2018. China's status in the world trade market has been gradually improved, and the high trade surplus has also accumulated a large number of foreign exchange reserves for China.

However, with the expansion of China's trade scale, trade friction is also escalating. At the same time, the pressure of RMB appreciation increases, the external export environment deteriorates, and the export faces challenges. Therefore, the OFDI is put on the agenda. After entering the 1990s, the state began to strongly encourage Chinese enterprises to "go out", and China's OFDI began to take shape. Especially after China's accession to the WTO in 2001, the scale of China's outbound investment has maintained a rapid growth, and a large number of multinational companies have emerged, and achieved remarkable results. In 2018, China's stock of foreign direct investment reached $1.98 trillion, ranking third in the world. By the end of 2018, more than 27,000 domestic investors had set up 43,000 OFDI enterprises overseas, covering all sectors of the national economy. Among them, the proportion of foreign investment of non-public economy holding entities has increased significantly, and over 70% of overseas enterprises have realized profits or maintained a level.

3.2. Overview of Common OFDI Modes of Chinese Enterprises

Chinese enterprises are constantly exploring and innovating investment modes in reality, and have formed a variety of effective and unique modes according to their own conditions, industries and different implementation strategies.

3.2.1. Cultivate Independent Brand Mode

Cultivate independent brands pattern mainly refers to the enterprise in the process of overseas investment set up the independent brand around the world for the purpose to foster independent international famous brands, which rely on consumers recognition with their own brands to develop overseas market business model. For example, Haier Group has always taken the establishment of world-renowned independent brands as its core goal in the process of overseas investment and transnational operation. As early as in the 1980s, Zhang Ruimin, general manager of Haier Group, put forward the strategy of "creating Haier's world famous brand". When Haier Group invests overseas to set up factories, it insists on playing the brand of Haier. By implementing the localization strategy of designing, producing and selling in the United States and Europe, Haier Group has successfully established the localization image of a famous brand in European and American countries, thus making Haier a world famous brand. Enterprises that adopt this mode of operation tend to have a high brand positioning. Therefore, enterprises are doomed to go through a long period of difficulties in the early stage of transnational operation. Only after that, the brand can be gradually recognized by consumers. This mode requires the enterprise to have a strong capital and strong management ability.

3.2.2. Overseas Assets Acquisition Mode

It refers to the investment behavior in which Chinese enterprises, as the acquirer, purchase all or major operating assets of overseas target enterprises or purchase a certain number of their shares in order to control or participate in their shares. After a Chinese enterprise merges a target enterprise, it generally does not undertake the original creditor's rights, debts and possible compensation of the target enterprise, but only accepts the original assets and business of the target enterprise.
cases include Beijing Orient electronics group buy Korean modern electronics. Therefore, the foreign assets M&A mode is a kind of overseas investment mode commonly used by Chinese multinational companies. It is characterized by a large number of non-listed enterprises as trading objects, more suitable for the majority of small and medium-sized enterprises. With the increasing scale of overseas investment in China, the mode of asset M&A has become an important way for enterprises to invest overseas.

3.2.3. Overseas Equity M&A Mode

Overseas equity M&A mode refers to an overseas investment behavior in which Chinese companies purchase the voting shares issued by an overseas listed company or subscribe for its newly registered capital so as to obtain a certain proportion of shares and exercise management control over the company. In the mode of overseas equity M&A, the object of the transaction is the equity of the overseas target company, and the final acquisition is the control of the target company. Chinese enterprises become the new shareholders of the overseas target company as the acquirer. In recent years, there have been an increasing number of cases in which domestic enterprises choose the mode of equity M&A for overseas investment, such as Wanxiang Group's M&A of Nasdaq-listed American Israel Industrial Corporation in 2001, and Beijing Oriental Electronics Group's acquisition of listed TPV Technology in 2003.

3.2.4. Overseas M&A Mode of Shared Brand

The overseas M&A mode of Shared brand is to combine the internationally unknown brands and internationally well-known brands to drive domestic products to go abroad. The advantage of this model is the long-term sharing of brands, but in the long run, it is still necessary to launch their own brands. For example, TCL International Holdings Ltd. invested 8.2 million euros to acquire Schneider, a famous German national brand, including the trademark rights and interests of Schneider and other famous brands. Schneider is an old household appliance manufacturer with a history of 113 years. It has 3 color TV production lines and an annual output of 100,000 color TV sets. Schneider has a smooth sales channel in Europe. This time, Schneider values the scale of TV market in Europe, which is far higher than that in the United States and China, and the acquisition realizes TCL's overseas expansion and operation.

3.2.5. Overseas R&D Investment Mode

Overseas R&D investment mode refers to that high-tech enterprises in China, instead of traditional manufacturing enterprises or resource development enterprises, establish overseas R&D centers, make use of overseas R&D resources, internationalize R&D, obtain independent intellectual property rights at the international advanced level, and combine foreign direct investment with service provision. The pioneer of this overseas investment model is Huawei Technologies Co. Huawei has established a number of overseas R&D centers in silicon Valley, Dallas, Bangalore, India, Stockholm, Moscow, Russia and other places in the world with regional and branch offices. It has also attracted outstanding scientific and technological talents at home and abroad for R&D through various incentive policies. Huawei relies on its global technology development network and its R&D facilities around the world to provide high-quality products and services. By mastering more and more core technologies, Huawei occupies a pivotal position in the world telecom market. To participate in international competition and carry out overseas investment, high-tech enterprises must have strong technological development strength, technological innovation ability and independent intellectual property rights. However, the weakness and weakness of Chinese high-tech
enterprises lie in the general lack of independent intellectual property rights and the serious lack of technological innovation ability. The mode of overseas R&D investment perfectly solves this problem, promotes Chinese science and technology enterprises to obtain internationally leading independent intellectual property rights, and effectively enhances their international competitiveness.

3.2.6. The National Strategy Leading Mode
The national strategic leading investment mode mainly refers to the overseas investment carried out by some large energy enterprises with the aides of the government. This kind of investment focuses on the macro interests of China and mostly invests in overseas resource industry for the purpose of maintaining sustainable development of the national economy and the national energy security. Such investment normally is risky, which requires huge capital input and long investment recovery period. Therefore, the government always provides support and bears the main risks.

In short, it can be seen that in addition to traditional export trade, the internationalization mode of Chinese enterprises also includes common FDI modes such as Greenfield investment and M&A. How enterprises choose their entering mode is often closely related to their business characteristics, industries, product characteristics and technological advantages. Therefore, Chinese enterprises should carefully choose the path of internationalization according to their own characteristics and advantages.

4. The Path Choice of Internationalization of Chinese Enterprises under the Theory of Heterogeneous Firm Trade
Enterprises can choose to exit the market, serve the domestic market, export trade and foreign direct investment in the choice of internationalization path, and the main factor that affects this choice is enterprise heterogeneity, namely the difference in production efficiency. Manufacturers with low productivity can only serve the domestic market, while enterprises with high productivity can serve the international market by means of export, and enterprises with the highest productivity can serve the international market by means of outward direct investment. In the process of internationalization, Chinese enterprises are faced with two key choices: whether to enter the international market, whether to remain a local enterprise or to enter the international market; second, how to enter the international market, that is, to choose export or FDI; third, if FDI is chosen, is it Greenfield investment or M&A? The heterogeneous firm theory is analyzed from a new perspective.

4.1. Path Choice of Enterprise Internationalization: Trade or FDI?
Under the condition of heterogeneity of enterprises, enterprises with different production efficiency have different business strategies, which lead to the coexistence of international trade and OFDI. Specifically, the most productive enterprises choose FDI, the less productive enterprises choose to trade internationally, and the less productive enterprises choose to supply the local market. Both OFDI and international trade are the result of enterprises' "self-selection", and the level of production efficiency of enterprises determines their operation decisions. For a single enterprise, it can enter the foreign market only when its production efficiency is higher than the critical entry condition of the foreign market. It cannot blindly enter the foreign market to avoid losses.

For Chinese enterprises, with the continuous expansion of China's trade scale, Chinese
enterprises frequently choose export trade, an international model with relatively low costs and small business risks, resulting in frequent trade frictions and disputes, huge pressure on RMB appreciation and other problems. In particular, the rise of trade protectionism in the world today has caused a severe situation in China's foreign trade export. Therefore, domestic enterprises are encouraged to further enhance the international competitiveness of enterprises and products and enter the international market by means of investment by improving the industrial structure and mastering core technologies.

Of course, the new trade theory also shows that only enterprises with high productivity can make OFDI, that is, OFDI is a necessary condition for enterprises to be competitive. Therefore, for some enterprises with low productivity and lack of core competitiveness, full consideration should be given to their own strength and main purpose of entering the overseas market, balance the costs and benefits of OFDI, and prudently choose the path of internationalization.

4.2. How to Choose FDI: Greenfield Investment or Cross-border M&A?

The main ways of OFDI that enters the host country are Greenfield investment and cross-border M&A. The so-called Greenfield investment, also known as new investment, refers to the transnational corporations' "package" of production factor input to build brand new enterprises in the host country and form new production capacity, regardless of whether the corresponding industry market in the host country has a certain production capacity in the original. Cross-border M&A is the combination of cross-border M&A. Cross-border merger refers to the establishment of a new entity or merger into an existing enterprise after the merger of assets between a transnational corporation and a local enterprise in the host country. Cross-border acquisition refers to the acquisition by a transnational corporation of the controlling shares of an existing local enterprise or foreign subsidiary in a host country, that is, more than 50% of the equity.

Greenfield investment and M&A have their own advantages and disadvantages, so enterprises should choose appropriate strategies according to the characteristics of the industry and their own economic strength.

First of all, when choosing a mode, enterprises should take comprehensive consideration according to different countries, industries and their own situations. They should not only see one aspect of factors but ignore others. They should know that different industries have different selection criteria and there is no uniform and universal result.

Second, the heterogeneity of enterprise productivity is the main factor to determine the choice. In order to correctly understand and evaluate their own productivity level, they should also pay attention to the cultivation and improvement of productivity. Then according to the characteristics of the industry, they should choose an OFDI model that is indeed in line with the growth and development of enterprises.

Furthermore, for industries with different productivity based on technological advantages, enterprises with higher productivity should choose Greenfield investment, because technology can flow across borders. For those industries whose productivity differences are based on localized management experience and resource advantages, enterprises with high productivity should choose cross-border mergers and acquisitions because these advantages and capabilities cannot flow across borders.
Finally, in view of the current Chinese enterprise development stage and characteristics, for the high-tech industry, whose core competitiveness is technology, should choose cross-border M&A to enter the international market due to the technology level remains low and relative low productivity. They can set up branches, or set up R&D centers abroad, in order to enhance their competitiveness and market share. For labor-intensive industry, whose core competitiveness is the resource and labor cost, should not be encouraged to undertake foreign direct investment. If these kinds of enterprises insist on going out, they should give more consideration to Greenfield investment and carefully choose the investment destination country.

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