Study on Outward Direct Investment in Information Technology Industry

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Abstract. The outward direct investment from China has seen fast expansion since the turn of the century. Information technology industry as one of the important strategic emerging industries has been growing rapidly. Based on the characteristic of information industry, with case studies of overseas investment activities from technology companies in China, this paper analyzes the development, the distribution, the strategies and risk management issues of outward direct investment in information and technology industry in China. The difficulties financing, technology development and human resources are examined in outward direct investment. The coping strategies are analyzed, such as legal and policy support financial support and negotiation of bilateral investment treaties. The technology companies would overcome the obstacles in overseas investment, and obtain reverse technology spillovers, so as to play its role in industry transformation and upgrading in the country.

Introduction

The outward direct investment from China to overseas surged in the last twelve years since the launch of the strategy to encourage firms to invest abroad. Information technology industry, which is one of the important strategic emerging industries, involves process and management of information. The development of information technology industry is considered driven force for future science, economic and social development. The industry plays a crucial role in economic structural reform and industrial transformation and upgrading. The scale of outward direct investment from information technology is relatively small, but is growing rapidly. The reason, strategy, location choice and subject are quite unique in outward direct investment in information technology industry. With through analysis of case studies of overseas investment activities from information technology companies in China, such as Lenovo Group, Alibaba Group, Huawei Technology, Tensent Technology, this paper analyzes the development, the distribution, the strategies and risk management issues of outward direct investment in information and technology industry in China. This paper is organized as follows: the first part provides introduction, the second part illustrate the characteristics and development of outward direct investment from information technology industry, the third part address risk factors and issues in investment, the fourth part gives coping strategies in promotion of outward direct investment and risk management, then the last part concludes.

The Development of Outward Direct Investment from Information Technology Industry

The Development

The scale of outward direct investment from information and technology industry in China is relatively small, which ranked eleventh in all industries in 2015. However, it has been growing rapidly, cross-border mergers and acquisitions in information technology industry surged in the past couple of years. In a more and more competitive market, driven by the aim of obtain frontier technology and skills, the so called technology mergers and acquisitions increased. Overseas research centers are also built by leading enterprises in the industry. The business of Huawei Technology is spreading all over the world, there are branches and affiliates in all continents. Not only did Huawei Technology conduct business overseas, research centers are also built or acquired to give the company
more innovation initiative. Following successful integration after acquisition of IBM, at the cost of 2.9 billion dollars, Lenovo Group acquired Motorola, to obtain brand influence, overseas market share, patent, core technology and research abilities from Motorola. Tensent Technology acquired various game companies from all over the world, such like Supercell from Finland, Kadokawa Animation and Comics from Japan, Level up from Singapore, Outspark from the united states, etc. The overseas mergers and acquisitions from Alibaba Group is more diversified, covering different area in information technology industry. Alibaba invested in online retailers overseas, such as Fanatics, 11Main, 1Stdibs, launched into the online retailing market in the United States. ShopRunner in logistic industry, Tango Me in mobile communication industry, Lyft as car pooling App and other industries are also in the scope of Alibaba Group in overseas investment. Baidu invested in IndoorAtlas, an indoor navigating system in Finland; Peixe Urbano, a group buying website in Brazil; PopIn, an advertisement company in Japan.

Characteristics

With particular features of information technology firms and unique characteristic of the industry, the outward direct investment from information technology sector also has distinctive feature than other traditional industries. Technology intensive investment, started later than labor intensive of capital incentive industries, is relatively inexperienced in overseas investment. The original driven factors of outward direct investment, which was examined and analyzed by academia and business, are cost reduction, transfer of marginal industry or obtaining natural resource. However, for information technology firms, especially in emerging economies, outward direct investments are usually for reverse technology spillovers. Unlike the investment from labor incentive industries, such like manufacturing sector, which are mostly small private own companies, into developing countries such like Southeastern Asia, for cost reduction purposes. Unlike the investment from capital incentive industries, such like energy sector, which are mostly by large state-owned corporations, into countries with poor institutional environment and rich natural resources. Most of the outward direct investment from information technology industry from China, went into developed countries, into Europe or North America. The investment in Europe and North America market, could improve the level of technology and skills of the information technology companies in China, and promote market expansion in overseas market, to avoid over competitive domestic market. The participants in outward direct investment are mostly private owned information technology corporations. Baidu, Alibaba and Tencent, which are considered three giants in information technology in China, play an important role in overseas investment. There are opportunities as well as challenges for private companies in outward direct investment. while political risk would be much lower, lack of financial or policy support could become an issue.

The Issues in Outward Direct Investment from Information Technology Industry

Financing Difficulties

The participants in overseas direct investment of information technology industry are mostly private owned companies. Compared with large sized state owned corporations, the private companies have much less support in funds, and may have difficulty in financing. The imperfection of the domestic financial market indicates limited channels through which companies could obtain funds to financing their overseas investment. The capital market in China has seen great development over the years, but it lacks of proper legislations, and still in the primary stage of development. Financing from commercial banks, to be specific loans, are costly and may not be granted. Accessibility into security market is not for small sized or start-up companies. Other instruments, facilities or derivatives are not available in domestic financial market. Successful IPO of Alibaba Group in the security market in the United States suggests that information technology companies can seek financing overseas. However, the enter threshold of foreign security market can keep away many companies. Mergers and
acquisitions are not always good reasons in applying for loans. Lack of funds in the stage of negotiation and in the process of cross-border mergers and acquisitions can lead to failure in the acquisition, or financial risks after the acquisition, which occurred during the acquisition of US corporate Smithfield by Shuanghui Group. Financing risk could even drive the mother company into the predicament of bankruptcy. Financial status deteriorates after cross-border mergers and acquisitions in many cases.

**Technology and Development Risk**

Technology obtained through cross-border mergers and acquisition, may not be compatible in target market, either in China or other export destinations. Information technology companies may be confronted by more obstacles in localization. The information technology started late in China, there is still a gap with developed countries. Low level of technology of domestic companies, indicate that at least to some extent, the research and development depend on imported technology. Technology localization refers to the use of technology obtained from foreign companies, and then develops technologies and products that are suitable for the local market so as to meet the needs of the target market. Localization of research and development is an important measure to improve the ability of innovation ability of home country enterprises, especially in emerging economies. However, large proportion of acquired patent or copyright could not help investors achieve successful market value, nor did it upgrade their skill level. Patent and copyright ownership could be disputed. And whether the technology acquired by cross-border mergers and acquisitions is another problem. The acquisition of Thomson electronics by TCL, is an example of technology risk. TCL acquired low end and out of date technology from Thomson, which exposed to huge losses.

**Human Resources**

Outward direct investment from China required internationalized expertise and labor force. Human resources management in technology information industry also has its particular nature. Hence, the issue in human resource management in international investment activities is particularly difficult to deal with. Internationalization strategy requires internationalized talent tank. Cross cultural communication skills, knowledge about legislations, regulations, market situation in host country. In the outward direct investment in information technology industry, technology and expertise requirement of human resources is more important than other industries. The information talent strategy may contribute to outward direct investment in information technology industry. However, there is a lack of high level talents, and a gap in the need of medium level personnel. High level talents are highly complex type of talents, whom could take charge of long term development planning, constitute of development strategy, prediction of the industry, and making legislations, policies and industry standards. Medium level personnel are project managers, information officers, system analysts and other managerial level staff. There is a lack of information technology talent, and even more severe scarcity in internationalized talent, which amount to weakness in human resources in overseas investment from information technology industry. Short life cycle, lower level of employee loyalty than other industries, requirements in continuous learning and knowledge upgrading, all these factors contribute to difficulty in cultivation and maintenance of talent team in the industry. Moreover, the complicated and instantaneous changing legislations and policies in the industry required legal, financial and informational talent.

**Strategies and Risk Management**

**Legislations and Policy Support**

A sound legal system plays an important role in the development of outward direct investment. The legal system is still immature and imperfect, especially in the territory of investment. After the launch of going out strategy, some legislations and policies were formulated and implemented. However, with the increasing scale and expanding scope of outward direct investment, as well as new
internationalization strategies such as the belt and road strategy, the existing policies can no longer satisfy overseas investment activities. As one of the strategic emerging industries, information technology industry requires more legal support concerning copyright and patent protection, which is another drawback in our legal system. In addition, supporting policies to promote outward direct investment is crucial in industry transformation and upgrading.

Financial Support

The difficulties of technology companies in financing their overseas investment need to be addressed by facilitations and instruments which can provide various financing channel. Traditional financing methods, such like commercial bank loans, maybe costly and non-accessible for technological firms with shorter history and smaller size. Accelerating the pace of reform in domestic financial market, establishing multi level capital market, promoting cooperation between commercial banks and information technology companies, simplification of approval procedure for financing, would improve financial market efficiency, and provide companies more expanded channels for funding. Meanwhile, lower the standards for information technology companies to enter security or bond market, allowing loans using overseas investment projects as collateral, are more industrial specific financial policies.

Bilateral Investment Treaties

Bilateral investment treaties provide macro insurance against risks in foreign direct investment. Agreement between countries gives institutional protection for investors from different countries, and in case of dispute official appealing system would be in place. Actively promoting the establishment and amendment of bilateral investment treaties, would be responsibility of governmental function in outward direct investment, so as to protect legal rights of Chinese firms abroad. At the time, negotiation of bilateral investment treaties is taken place all over the word.

Conclusions

The outward direct investment from China to overseas has been developed fast since the turn of the century. Information technology industry, as one of the important strategic emerging industries, has seen a spurt of progress. The scale of outward direct information from information technology is relatively small, but is growing rapidly. Based on the unique characteristic of the industry, with case studies of overseas investment activities from information technology companies in China, such as Lenovo Group, Alibaba Group, Huawei Technology, Tensent Technology, this paper analyzes the development, the distribution, the strategies and risk management issues of outward direct investment in information and technology industry in China. The issues in outward direct investment in information and technology industry from China involves difficulties financing, technology development and human resources. The coping strategies include legal and policy support financial support and negotiation of bilateral investment treaties. With sufficient support, the technology companies would overcome the obstacles in overseas investment, and use it as a source to obtain technology advantage, so as to play its role in industry transformation and upgrading in the country.

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References


