New Zealand Asia Institute

Research snapshots

No. 25

The New Zealand Asia Institute (NZAI) undertakes research focusing on engagement with Asia, provides a forum for informed debates, and offers a bridge to Asia-related expertise and research within the University of Auckland.

How Chinese firms internationalise through "institutional work"

Multinational enterprises (MNEs) from emerging economies often lack resource-based advantages. Instead, they internationalise with the help of policies and regulations of their home governments aimed at steering outward foreign direct investment (OFDI). These policies and regulations can be termed OFDI institutions.

A recent retrospective study** of China – the biggest emerging economy and growing source of OFDI – argues that both governmental "agents" and firm "actors" shape OFDI institutions. The study argues that individuals and organisations act to create, maintain or disrupt the policies and rules affecting OFDI, with these actions defined as "institutional work".

The research findings are based on analysis of a variety of public sources of information, including government documents and Chinese and foreign news reports. The institutional agents in this study were policymakers and regulators in central and provincial government. State-Owned Enterprises (SOEs), their senior management led by Communist Party representatives, were treated as institutional actors with state attributes, while Privately Owned Enterprise actors (POEs) more closely resembled Western MNEs.

OFDI institutions were most obviously created by agents. At the national level, cautious exploration through Deng Xiaoping's Open Door policy of the 1980s helped firms accumulate foreign exchange. Market liberalisation in the 1990s targeted strategic OFDI policies like advanced technologies. Since the Going Out policy was launched in 2000, emphasis has shifted from restriction and control to encouragement and facilitation. This latest phase includes the Belt and Road Initiative (BRI, unveiled in 2013), building a network of ties to Asia, Europe and Africa.

China's provincial governments, too, have created OFDI institutions. For instance, under the BRI, Shaanxi province, where the New Silk Road begins, has focused on honing institutions to foster firms internationalizing in resource extraction, construction and manufacturing.

Actors engaged in institutional creation have used both public persuasion (for example firms in open Party–business forums collectively securing bi-national agreements against double taxation); and private negotiation (often to gain regulatory exemptions for individual firms).

Agents must also actively maintain OFDI institutions. Maintenance, in turn, requires support by actors, often led by the politically affiliated SOEs. One SOE went to extraordinary efforts buying out the Port of Piraeus in Greece in 2016, as part of the implementation of BRI policy.

In addition, both government agents and firm actors sometimes disrupt OFDI institutions, demolishing and replacing obsolete parts, or working to subvert them. Thus some SOEs have diverted OFDI assistance to other purposes, while private enterprises have at times illegally circumvented capital outflow limits.

This article provides a typology of institutional work that unfolds in a cycle where agents establish and modify institutions, while actors both respond to the institutions and communicate with the agents. The research shows why and how home countries matter for their outward-internationalising MNEs, especially in emerging economies, whose governments actively promote or hinder firms' overseas investment. Crucially, it demonstrates that the policymaking underpinning internationalisation is developed through both top-down government rule-making and bottom-up firm responses.

** The full study results are available in an article authored by Zheng Joseph Yan, Jiuhua Cherrie Zhu, Di Fan and Paul Kalfadellis: "An institutional work view toward the internationalization of emerging market firms". Journal of World Business, 53:5, 682–694, 2018.

THE UNIVERSITY OF AUCKLAND
Te Whare Wānanga o Tāmaki Makaurau
NEW ZEALAND

NEW ZEALAND ASIA
INSTITUTE