

ARTICLE 2

Morck, R., Yeung, B., and Zhao, M. (2008)**Perspectives on China's outward foreign investment***Journal of International Business Studies*, 39(3): 337-350.<http://www.palgrave-journals.com/jibs/journal/v39/n3/abs/8400366a.html>**Explanatory note**

The authors delve into the characteristics and trends of China's outward FDI, examining the underlying motives and links with ownership and control issues. They find that Chinese outward FDI, although still small, is growing rapidly. High-profile foreign investments, such as Lenovo's takeover of IBM's PC business, have attracted headlines. State-owned enterprises (SOEs) are at the forefront of China's outward FDI. By contrast, private enterprises, which are the powerhouses of the economy, are less likely to invest abroad. Although this unbalanced situation may seem unlikely to deliver the benefits which companies seek from FDI, the authors find that FDI theories can help to gain insight into motives and possible gains. They argue that, although small in comparison to China's inward FDI, outward flows are likely to increase in volume as the economy develops. As this process unfolds, FDI would be expected to adapt to more diversified environments.

Chapter links

The authors draw on internalization theory, discussed in Chapter 2. Overall the article is of relevance to Chapters 2, 3, 7 and 14.

Questions**Part A: Grasping key points**

1. Describe the types of firm which are most likely to pursue outward FDI and their main destinations.
2. Identify the three aspects of the macroeconomic environment highlighted by the authors, which help to explain the nature of Chinese outward FDI, and explain how they impact on FDI.
3. Why are China's private-sector firms, despite their economic success, slower than SOEs to invest abroad?

Part B: Building skills in critical thinking

1. How do the authors argue that internalization theory be modified and applied to Chinese outward FDI? Do you agree with this argument?
2. In what ways do the authors see a 'role reversal' taking place in the traditional FDI rationale whereby the owner of technology (often from a developed country) invests in manufacturing capacity abroad?
3. Is international experience likely to change Chinese companies, and how?