The Dragon is Flying West: Micro-Level Evidence of Chinese Outward Direct Investment

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Summary

The People's Republic of China (PRC) is the world's fifth largest source of foreign direct investment in 2010 (in terms of flow), after the United States, France, Germany, and Japan. He et al. (2012) predict that the PRC's cumulative outward direct investment (ODI) would probably exceed $5 trillion USD in 2020, increasing from a mere $3 billion in 2010. Given the PRC's sheer size, the volume of its ODI may be expected; but considering its relatively early stage of economic development, its recent surge in ODI is surprising to many. While it is still a fairly new phenomenon, reports about Chinese ODI often hit news headlines, such as Lenovo's acquisition of IBM PC units, CNOOC's rejected acquisition of Unocal, and Dalian Wanda Group's acquisition of AMC Theaters. The target sectors are widespread and even as mundane a product as pork has attracted tremendous media attention recently due to Shuanghui's acquisition of Smithfield. Tensions in developed countries towards Chinese ODI are rising, similar to the 80s when Japanese firms were making high-profile acquisitions.

Despite the rising concerns, existing studies about Chinese ODI are either descriptive in nature or based on aggregate data. Using a new, unique, and comprehensive data set that covers close to 10000 Chinese ODI deals from 1998 to 2009, we find that in contrast to the common perception, over half of the ODI deals are in service sectors, with many of them appearing to be export-related. In addition to documenting the pattern and trend of the PRC's ODI, we empirically examine both the determinants and effects of ODI at the firm level. We find that ex ante larger, more productive, and more export-intensive firms are more likely to start investing abroad. Using matching estimation techniques, we find that ODI is associated with better firm performance, including higher total factor productivity, higher employment, higher export intensity, and more product innovation. To assess the relative contributions of technology transfer, export promotion, and resource seeking to the positive effects of ODI, we use ODI data merged with customs transaction-level trade data. We find that firms' ODI participation is associated with significantly better trade performance, measured by export and import volume, export and import unit values, and number of export destinations. In contrast with the technology- and resource-seeking motives, we find no evidence that ODI firms import more capital or intermediate inputs, compared to non-ODI firms.