The Rise of China’s Multinationals

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The Rise of Chinese OFDI
Chinese foreign direct investment
Political significance

• What is the political significance of the rise of Chinese MNCs?
• What are their investment objectives?
  • Developmental impact
  • Incentives for host countries
• How strong is state control?
  • How autonomous are Chinese MNCs?
  • What foreign policy agenda are they pursuing?
• What distinctions can we draw among Chinese MNCs?
Theory

• FDI as a strategy for high-productivity firms
  • Property rights to protect intangible assets

• Uncompetitive capital markets
  • SOEs are risk neutral (implicitly insured, weak profit motive)
  • Unproductive private firms seek rents

• Political influence
  • Comparative advantage for unproductive firms
  • Monopolistic strategies

• Political influence in China
  • Patron-client relationships
  • Regional power bases
Expectations

Capital markets

<table>
<thead>
<tr>
<th></th>
<th>Competitive</th>
<th>Uncompetitive</th>
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</thead>
<tbody>
<tr>
<td>SOEs</td>
<td></td>
<td>Private</td>
</tr>
</tbody>
</table>

Productivity

High

FDI

Low
Data

• MOFCOM OFDI license data, 2000-2013
• 26,954 investment deals made by 18,974 firms in 180 countries/regions
• 18,974 firms x 201 countries/regions x 14 years = 52,804,642 observations (unbalanced panel)
• Key covariates:
  • Political institutions
  • central vs. non-central firms
  • connected vs. unconnected firms
  • Sector
Non-parametric regression
Quadratic fit
Political connectedness of Chinese regions, 2000-2013

Note: The evolution of political connection at the provincial level, 2000-2013. Red denotes political connection. Blue denotes otherwise.
Shares of investments by firm types
Table 2: Taiwan Recognition and OFDI Deals, 2000-2013

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td></td>
<td>Burkina Faso, Belize, Chad*, Dominican Republic, Guatemala, Kiribati, Marshall Islands, Nicaragua, Paraguay, Palau, Panama, Taiwan Sao Tome and Principe (12)</td>
<td>El Salvador, Guinea Bissau, Haiti, Honduras, Nauru, Saint Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Solomon Islands, Swaziland, Tuvalu (11)</td>
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<td></td>
<td>Rest of the World (180)</td>
<td>Andorra, Bahamas, Bhutan, Dominica, Liechtenstein, Maldives, Monaco, Montenegro, San Marino, Somalia (10)</td>
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</tbody>
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*Note: Chad severed ties with Taiwan in 2006. The Chinese investment in Chad was made in 2005, when Chad still recognized Taiwan.*
Politcal variables

<table>
<thead>
<tr>
<th>Taiwan Recognition</th>
<th>-90.9%</th>
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<tbody>
<tr>
<td>UNGA Voting</td>
<td>48.4%</td>
</tr>
<tr>
<td>UNSC Temporary Member</td>
<td>-30.4%</td>
</tr>
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<td>AIIB Accession</td>
<td>45.5%</td>
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Responsiveness to state signals

<table>
<thead>
<tr>
<th></th>
<th>Connected firms</th>
<th>Unconnected firms</th>
<th>Central firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leader visits</td>
<td>25.6%***</td>
<td>10.9%***</td>
<td></td>
</tr>
<tr>
<td>State directives</td>
<td>129.5%***</td>
<td>158.4%***</td>
<td>208%***</td>
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</tbody>
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Sinohydro vs. Yuncheng