

Analysis of Outward Foreign Direct Investment of Chinese Multinational Companies

-- Take HUAWEI as an example

Xinru Xu *

Business School, Beijing Institute of Technology, Zhuhai, Zhuhai, Guangdong, 519088, China

* Corresponding author: Xinru Xu (Email: XinruXu0222@outlook.com)

Abstract: In the post-epidemic period, the global economic development is weak, the rise of trade protectionism and the trend of anti-globalization, and the frequent geopolitical conflicts, the complex international environment has many effects on the outward foreign direct investment of Chinese multinational companies. Due to the influence of economic downturn and geopolitics, Chinese multinational companies have the lack of international operation ability, risk prevention awareness and single investment structure, which are hindered in the field of outward foreign direct investment. This paper will be integrated use of data analysis, literature analysis and case analysis, by combining the HUAWEI reasonable use of law, technology, supply chain, strategic adjustment and the experience of globalization layout, from the enterprise monopoly advantage, internalization and location factors respectively for Chinese multinational companies greenfield investment and international mergers and acquisitions suggestions to improve the ability of outward foreign direct investment.

Keywords: Chinese multinational corporations, Outward outward foreign direct investment (OFDI), Trade barriers, HUAWEI company.

1. Introduction

Since the reform and opening up, China's economy has shown a rapid growth trend, and Chinese multinational companies have begun to develop in a real sense. Up to now, they have experienced a complex and tortuous development process from scratch, from small to large.

With the deepening development of globalization, outward outward foreign direct investment (OFDI) has become the main way for Chinese enterprises to expand and enhance their international competitiveness. In the 21st century, the economic interdependence of various countries has deepened, and international investment and international trade have been widely developed around the world at an unprecedented speed. In the process of jointly promoting the economic integration of various countries, multinational companies play a huge role, and the outward direct investment of multinational companies has also become an important driving force. However, in recent years, with the outbreak of COVID-19, the conflict between Russia and Ukraine, and the escalation of the trade war between China and the United States and other natural and human factors leading to the restructuring of global supply chains, the outward foreign direct investment strategies of multinational companies have undergone new changes. In 2023, HUAWEI, with its strong 5G technology, has reached a sales scale of 100 billion US dollars. HUAWEI as a representative of Chinese multinational enterprises, its outward direct investment strategy and practice are of great significance for understanding the internationalization process of Chinese science and technology enterprises.

In the current complex international situation, the analysis and development trend of the current situation of China's multinational companies have not been clearly discussed, and many problems have not been perfect. For example, the

bottlenecks and opportunities of the globalization development of China under the current anti-globalization background have not been clear. Therefore, based on the above literature, this study presents the development status, problems and solutions of Chinese multinational companies.

2. Characteristics and Trends of Chinese Enterprises

2.1. Characteristics of the Investment Scale of Chinese Multinational Companies

The expansion of the investment scale of Chinese multinational companies includes the growth of their OFDI amount and the expansion of the investment area. Since the implementation of the strategy of "bringing in" and "going out", the OFDI of Chinese multinational companies has welcomed new development opportunities. Later, the Belt and Road initiative and the implementation of the concept of a community with a shared future for mankind have further promoted the overseas expansion of Chinese multinational companies.

In terms of investment amounts, the outward FDI flows of mainland Chinese TNCs reached US\$147.85 billion in 2023, ranking third in the world and remaining among the top three in the past decade. Hong Kong, China, ranked fifth in the world in terms of outward FDI flows with \$104.29 billion. Taken together, China's outward foreign direct investment (OFDI) is a major player in the world and is expected to continue to be so.

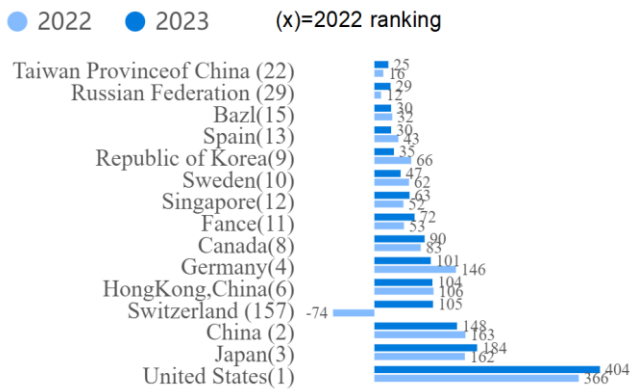


Figure 1. Top 15 economies in 2023 (in \$ billion)

Data source: According to the UNCTAD. World Investment Report (2024) related data collation.

2.2. Regional Characteristics of Chinese Enterprises

In terms of investment regions, the investment of Chinese multinational corporations in the world shows the characteristics of unified universality and pertinence. By 2023, Chinese multinational companies have spread to more than 80% of the world's countries and regions, and have invested in more than 190 countries, showing extensive characteristics. From 2019 to 2022, the growth rate of China's direct investment in Europe changed from slowing down to

declining, while for North America, the annual growth rate was nearly 3.9%, and for Oceania, OFDI was 1.4%. The main reason is that the china-us trade disputes in 2019, Chinese multinational company investment in North America mainly lies in the United States, Chinese multinational companies have cautious investment in the United States market, due to the developed countries in Europe and the United States in TMT, medical and life sciences have comparative advantage so our country for Europe and the American OFDI substitution effect, in the same year our country multinational companies will be more perspective to European investment, the European OFDI growth of 59.6%. From 2020 to 2022, China and the United States have experienced many negotiations, and the Sino-US relationship has slightly slowed down the trade friction level. In addition, in recent years, China has increasingly developed the mining industry, and the United States and Oceania have rich mining and energy resources, which promotes the investment of Chinese multinational companies in both.

Even though China's attitude towards North America has eased and seems to be rising, the trade dispute between China and the United States continues. 2024 is the US presidential election, and there are still great political and economic uncertainties, and the upward trend may be suspended so far. Due to the substitution effect mentioned above and the risk of geopolitics and international debt in Europe in recent years, the investment of Chinese multinational companies will continue to show a downward trend.

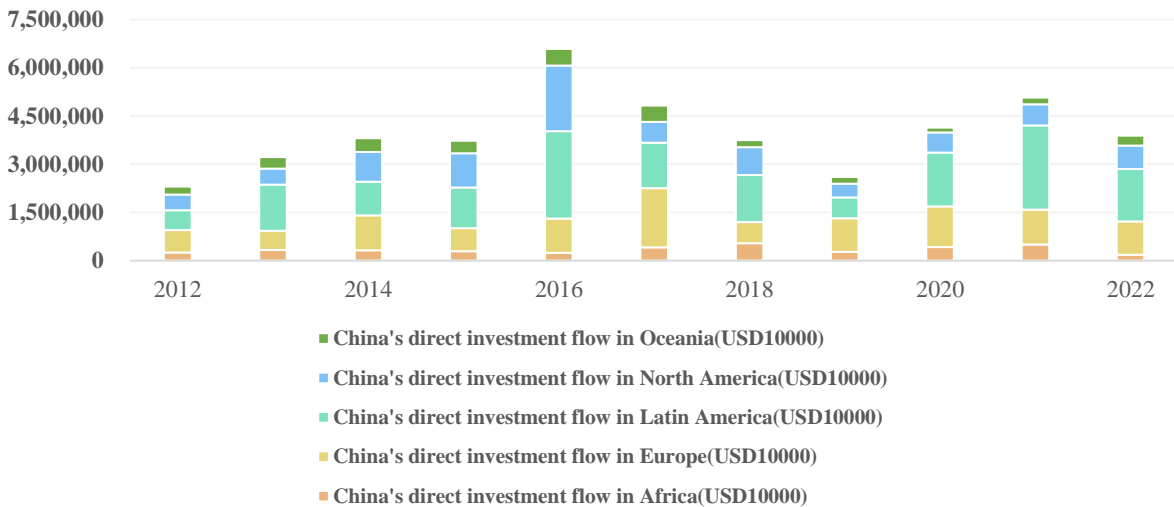


Figure 2. Regional Distribution of OFDI Flow in China from 2012 to 2021 (excluding World and Asia)

Data source: According to the relevant data of China national database (2012-2021).

2.3. Industry Characteristics of Outward Foreign Direct Investment of Chinese Multinational Companies

The OFDI of Chinese multinational companies covers a number of industries, including leasing and business services, manufacturing, finance, wholesale and retail, etc. It is no longer limited to the traditional energy industry, showing a diversified investment pattern.

As shown in Figure 3, 2019 is the same as the 10 industries with the largest investment amount in OFDI in 2021. Among them, the sum of the four industries, leasing and business services, wholesale and retail, manufacturing and financial industry, accounted for more than 70%, which is the key

direction of OFDI of Chinese multinational companies. Specifically, the proportion of leasing and business services gradually decreased, from 30.6% of the total investment of the whole industry in 2019 to 27.6% in 2021. The growth rate of wholesale and retail, transportation, storage and postal services, and mining showed an upward trend of 1.5%, 4.0% and 1.0% respectively. The sum of leasing and commercial services and wholesale and retail industry accounts for about half of the total investment, so it can be seen that the tertiary industry is still the current investment focus of China's multinational corporations. The changes and adjustment of the foreign investment industry not only reflect the stability of the investment industry but also see the trend from the fluctuations: the growth rate of the mining industry reflects the adjustment of energy structure in China. The favorable investment policies promote the development and investment of Chinese multinational companies in overseas mining

industry. Mining resources are one of the trends of investment in recent years. The growth of transportation, storage and

postal services stems from a boom in Chinese companies going overseas and is expected to continue to grow.

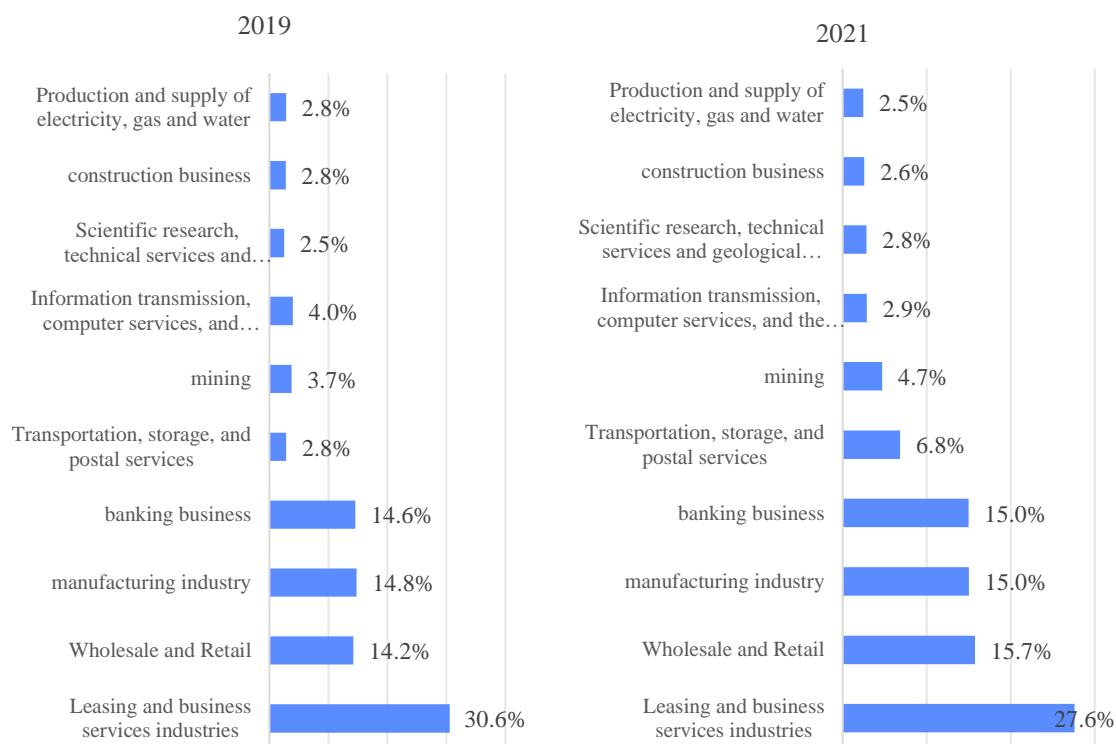


Figure 3. Comparison of the top ten industries in China's outbound investment in 2019 and 2021

Data source: According to the relevant data of China National database.

3. Problems Faced by Chinese Multinational Companies

3.1. Add Additional Trade Barriers by The Host Country

The number of global investment policy measures adopted in 2023 was 25% lower than in 2022. In developing countries, 86% of the measures are good for investors, but in developed countries, 57% are not good for investors, obviously increasing the difficulty for developing countries to invest in developed countries [4]. Since the China-US trade war in 2019, the US has imposed tariffs on China from financial and manufacturing industries, restricted access, imposed a series of economic sanctions and stimulated the rise of trade protectionism. Europe has previously promulgated REACH regulations and EUP environmental protection directives, which have improved market access for chemicals and electromechanical industries. In 2023, the EU Carbon Border Regulation Mechanism (CBAM) regulations, namely the world's first "carbon tariff", will be implemented. According to CBAM, the additional tax industries will mainly include cement, steel, aluminum, fertilizer, electricity and hydrogen energy, which is expected to start in 2026 and be fully implemented by 2034. As the EU's largest trading partner, the largest source of commodity imports and the largest source of carbon emissions from the EU's imports, this move undoubtedly affects the OFDI choice of relevant Chinese enterprises.

3.2. Severe International Environment

Global total outward foreign direct investment in 2023 was

1.3 trillion USD, down 2% from 2022. The overall figure was affected by the volatility in a few European pipeline economies, which saw global capital inflows down by more than 10%. By 2024, the global environment for international investment remains challenging: weak growth prospects, economic disruption, trade and geopolitical tensions, industrial policy and supply chain diversification are reshaping FDI models. In this international environment, Chinese multinational corporations will face the challenges of global economic downturn and industrial change.

3.3. Lack of International Operation Ability

Compared with multinational companies in developed countries, Chinese multinational companies are lacking in technology, brand and management, resulting in weak core technologies. Chinese multinational companies still lack the innovation ability and core technology of high and new technology. Among the list of the world top 100 multinational companies in 2019-2023, resource-based enterprises are more than half. In the overseas market, Chinese multinational companies have international recognition, popularity and high market share. Due to our country multinational company development late relative to the world, talent cultivation and accumulation need time. So, there is lack for international talent and management experience of multinational companies. Management system remains to be improved and the resulting enterprise localization level is not enough. There may be the problem of cross-cultural integration. The company overall international management ability is not enough.

4. Case Analysis: HUAWEI Outward Foreign Direct Investment of The Company

4.1. HUAWEI Development Process

Initial Entrepreneurship (1987-1991): HUAWEI Technology Co., Ltd. was established in 1987, mainly engaged in communication equipment: user switch (PBX) agent sales development of import and export trade.

Independent research and development (1992-2000): In 1992, HUAWEI began to independently develop PBX technology, and launched the first digital programming switch C & C08 in 1994, marking the beginning of the company's independent research and development capabilities in the communication field. Since then, HUAWEI has continuously increased its investment in research and development and gradually formed its own technical system and research and development team. At this stage, HUAWEI also actively expanded the overseas markets, laying the foundation for the company's international development.

Initial expansion (2001-2010): HUAWEI began to anchor overseas markets successively establishing branches in Asia, Africa, Latin America, Europe and the United States, and established cooperative relations with operators in many countries and regions around the world.

Diversified development (2011-present): HUAWEI has begun to move into smart phones, cloud computing, big data, artificial intelligence and other fields. In 2011, HUAWEI launched its first smartphone, Ascend P1, officially entering the smartphone market. Since then, HUAWEI has continued to launch innovative products and technologies, such as the Mate series, 5G technologies and solutions. HUAWEI has also increased investment and research and development in cloud computing, big data, artificial intelligence and other fields. At present, HUAWEI has reached the layout of the global market and made breakthroughs in smart phones, cloud computing and other fields [5].

4.2. HUAWEI Strategy Analysis of OFDI

HUAWEI's road of foreign investment adheres to the development strategy of "from near to far, from small and large". As the first foreign investment country of HUAWEI, Russia not only has its vast territory and great development

potential, but also has the geographical advantage close to China and a friendly policy to China. In 1996, Russian President Boris Yeltsin paid a visit to China, and the two sides reached a strategic cooperative partnership. In the same year, HUAWEI entered the Russian market. HUAWEI through greenfield investment, sole proprietorship and joint venture are promoted simultaneously and reduce localized operation risks through cooperation with local enterprises.[2]

To further expand its market, HUAWEI has started investing in Asia, Africa and Latin America [3]. At the end of the 20th century, the Asia Pacific region, an emerging market in the telecommunications industry, developed unbalanced. The communication manufacturing industry in Africa was backward but showed rapid development rate and high demand. And Latin America had huge market potential due to the aggregation of developing countries. For regions with relatively good investment environment in Asia and Africa, HUAWEI also adopted the way of greenfield investment, while some countries in Latin America had not yet established diplomatic relations with China. In addition, frequent wars and the language environment of Portuguese and Spanish hindered the entry of HUAWEI, so HUAWEI took a cautious M&A approach to enter the market. After building up HUAWEI's market for developing countries HUAWEI targeted the European and American markets. HUAWEI focused on the European and American markets, and slow the layout in the way of setting up research and development centers before mergers and acquisitions. At the same time, it promoted the localization of enterprises in the way of joint venture and continuously cooperate with local enterprises to expand in the form of strategic alliance.

In the whole process of internationalization, HUAWEI has adopted different outbound investment strategies according to different regions, mainly in the form of greenfield investment to enter the market first, followed by cross-border M&A to accelerate its integration and expansion in the local market. As shown in the figure below, HUAWEI's outbound investment data in 2023 shows that it is currently promoting the internationalization process by means of greenfield investment and cross-border M&A, with the amount of greenfield investment slightly higher than that of cross-border M&A, reflecting its stable and long-term layout of the local market.

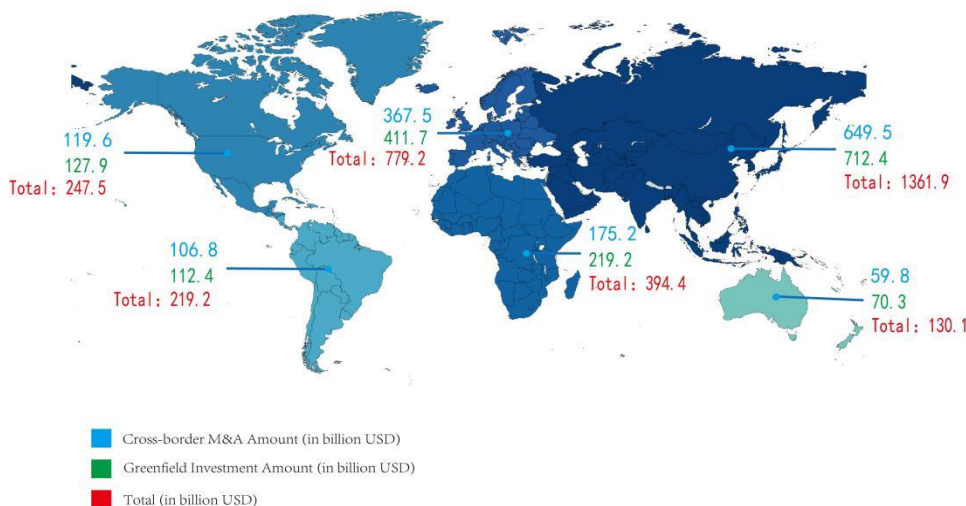


Figure 4. Regional distribution of HUAWEI's OFDI flow in 2023

Data source: According to the 2023 Annual Report of HUAWEI Investment Holding Company Limited and the

public reports published by HUAWEI.

5. Suggestions on Outward Foreign Direct Investment of Chinese Multinational Companies

5.1. Realize Economies of Scale Through Horizontal and Vertical Integration

The monopoly advantage theory emphasizes that when making international direct investment, enterprises must have a certain advantage over the local enterprises in the host country to help them offset the adverse factors encountered in foreign markets and outperform similar local enterprises. Large enterprises should adhere to the extension of their own advantageous projects, create monopoly advantages, and break through the competitive pressure of local enterprises. Technological advantage has always been the most important monopoly advantage of multinational corporations. After entering the host country, they should continuously maintain the core technology ability and technological innovation ability. The management adds the investment of human capital to ensure the efficient operation of the company and eliminate the losses caused by cultural differences. Finally, strengthen international cooperation projects to penetrate the market and deepen the supply chain layout in the host country to achieve economies of scale through horizontal and vertical integration.

5.2. Comprehensive Use of OFDI to Achieve Internalization Revenue

Chinese multinational companies in entering the host country should consider with the integration of the local economy which can open the local market through the sales department and establish the company sales network. And then through the greenfield investment, to set up research and development center, joint ventures to absorb the host talent and resources. Reduce the cross-cultural risk, gradually establish technology internalization. When enterprises develop steadily in the local area, they will accelerate technological innovation and market expansion in the form of cross-border mergers and acquisitions, improve the industrial chain and supply chain layout in the region, and gradually attribute the production and operation value chain to the internal income generation and coordinated income.

5.3. The OFDI Strategy is Formulated According to the Local Conditions Based on the Location Advantages

There are various types of outward foreign direct investment, and each type has different location advantages. When developing foreign investment strategy, Chinese multinational companies should first consider geopolitical factors and judge the diplomatic relations between the host country and the host country. Choose the host country with friendly enterprise, politically stable and legally transparent. Then focus on the countries with strong market potential in the host country. Consider the initial cost and cultural environment. When entering a developing country, it can combine the identity of sole proprietorship enterprise, joint venture enterprise and cooperative venture enterprise to construct the production and operation system and penetrate the local market. When entering developed countries, cross-border mergers and acquisitions and cooperation projects are conducive to reducing access barriers, quickly entering the market, expanding the visibility of the company, establishing brand reputation and building a market network.

References

- [1] Wan Zhihong, Wang Chen. China's outward direct investment and the internationalization of multinational corporations [J]. Nankai Journal (Philosophy and Social Sciences edition), 2020, (03): 67-77.
- [2] Wu Hao, Song Longfei. HUAWEI Analysis of the company's outward foreign direct investment strategy [J]. Journal of Anhui University of Science and Technology (Social Science edition), 2017,19 (03): 61-64.
- [3] HUAWEI International investment case —— location advantage and international investment path selection <https://www.docin.com/p-709930232.html>
- [4] UNCTAD. “World Investment Report” (2024). <https://unctad.org/topic/investment/world-investment-report>
- [5] Aya technology. HUAWEI Enterprise development history: the road to success under the innovation-leading and globalization strategy. <https://baijiahao.baidu.com/s?id=1790962681787360233>