FDI in China: What We Know and What We Need to Study Next

by Chung Ming Lau and Garry D. Bruton

Executive Overview

China is the world's fastest growing economy and is the focus of extensive discussion by both academics and businesspeople. One of the principal drivers of China's growth is foreign direct investment (FDI) into the country. China has pursued a historically unique FDI policy that has long-term implications for both Chinese and international businesses. The largest portion of China-related research is focused on FDI in China. This paper looks at what we know from this research and where future research about China and FDI needs to move. This paper will allow academics to build that knowledge of China and FDI into teaching and into a foundation for understanding this dynamic economy. Such an understanding of FDI will also help academics whose expertise is not China to better understand what is unique about China and its economy and lay the foundation for understanding other emerging economies. Using a process framework this paper examines various issues related to FDI in China, including the nature of earlier foreign investments into China, the timing and mode of entry, partner selection decisions, joint venture strategies, interpartner issues, and people issues in FDI.

China is a constant topic of interest among businesspeople and increasingly among academics around the world. A review of China's economic statistics makes clear the reason for this interest. The nation has experienced an annual real GDP growth of approximately 9% per year since 1978—an aggregate increase of more than 700% between 1978 and 2004. Contrast this with the growth in Europe, which averaged less than 2% per year during the same period. Chinese foreign trade growth is approximately 15% per year over a similar period—an aggregate increase of approximately 2,700%. This growth has led in turn to the widespread belief that China will be the world's largest economy in terms of GDP in 25 years. Thus, China not only contains 25% of the world's population but also represents the world's fastest growing economy.

The most common view in the West is that China's exports drive this great economic success. For example, Chinese exports in 2006 were $968.9 billion, representing an increase of 63% over the $593.3 billion in 2004. But focusing on exports alone belies the real engine of growth in China: Foreign direct investment (FDI) into the country (Graham & Wada, 2001). It is this investment that has enabled China to become the export powerhouse that it is.

FDI into China is now more than $80 billion per year. In comparison, FDI represents just $2 billion to $3 billion per year in India. This level of FDI in China shows no potential for decline. In 2000 the amount of FDI into China was only $40 billion; by 2007 the amount rose to $83 billion. In total, China has received approximately $500 billion of FDI since 1978, 10 times more than the FDI that has gone into Japan since the end of World War II in 1945.

Not surprisingly, and given the export figures cited above, almost all of this investment into China, $75 billion of the $83 billion in FDI in 2007, was in nonfinance-related sectors. In other words, firms from outside China are using the nation to manufacture products both for export

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and for sale in the expanding Chinese market itself. As such, the nation's high levels of exports and its high level of FDI are related. At present, foreign-invested enterprises produce roughly 70% of the exports from China; approximately $700 billion of Chinese exports were from foreign-invested firms in 2007 (see www.fdi.gov.cn/pub/FDI_EN/default.htm). In some domains, such as technology products, the amount of exports by foreign invested firms climbs to more than 85% of the total exported from China (Gilboy, 2004).

The Chinese model for economic development, with its heavy reliance on FDI, has great relevance in the world today, as it is increasingly being copied by other developing economies. Previously, developing economies such as Korea pursued a very different approach to FDI, with much smaller amounts of FDI allowed into the country and a greater emphasis placed on promoting domestic firms and their brands. Thus, understanding FDI into China offers insight into the broad pattern of economic and business development of a wider range of emerging economies (Tsui et al., 2004).[1]

In this paper we examine what we know about FDI in China and how to expand our knowledge of this important domain. The goal is to broaden the knowledge base for academics who teach China and form a foundation for studying FDI in China for academics who wish to explore this dynamic economy and its business environment. Specifically, we review the major research studies about FDI in China to determine the status of what we know about China today. We begin by examining some of the initial studies that investigated early foreign investments into China. Using a process framework we then examine issues related to entry decisions, value creation processes, and, ultimately, performance. The paper concludes with a discussion of the expanding area of FDI *from* China, an activity that may have great importance in the future of international business and is yet to be explored extensively.

Background of FDI into China

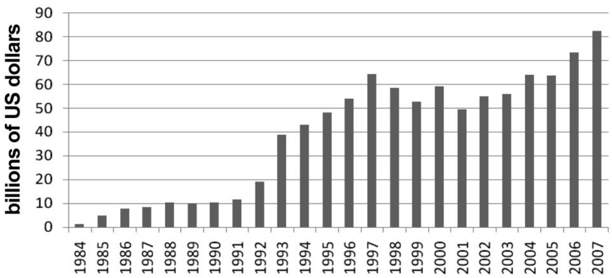
The Early Years

FDI into a nation can take many forms. The three principal forms are joint ventures, acquisition of assets in a country, and greenfield ventures in which a firm builds its own business or manufacturing facilities in a country. China historically had a number of large Sino-Soviet joint ventures that brought FDI into China following the communist takeover of the nation. However, following the collapse of the alliance between China and the Soviet Union in the 1950s, the amount of FDI into China largely dried up until 1975. During this period, political and economic turmoil consumed China. The limits on FDI came from both constraints set on such investment and a lack of desire by international firms to substantially enter the market during a time of political and economic turmoil. The chaos and economic isolation ended only when the Cultural Revolution was brought to a close in the mid-1970s.

In 1975, the new political administration established the first guidelines for FDI in China. These rules allowed only very limited types of overseas investment in compensatory trade, and joint ventures in specific areas. Joint ventures were severely restricted, with the government selecting the joint venture partner for the international firm. As a result, FDI grew very slowly, with only a trickle of such investment at first. By the 1980s that trickle had grown into a few billion dollars per year. And in the 1990s, when the government introduced greater economic liberalization, including greater flexibility in joint ventures, FDI climbed to more than $40 billion per year in the mid-'90s, and ultimately to over $80 billion per year in 2007. This growth is demonstrated in Figure 1.

[1] One should note that FDI into China often involves the building of fixed assets such as factories. Some critics argue that the nation's fixed-asset investment in areas such as roads, airports, and factories is the key driver of the country's GDP growth rather than FDI (Pomerantz, 2007). These critics argue that it does not matter whether the investment is domestic or foreign; the key concern is that investment in fixed assets has the greatest impact on the economy. It is true that fixed-asset investment constitutes nearly half of China's GDP (Barnett & Brooks, 2006). However, if we examine fixed-asset investment carefully, the contribution by foreign investment is a very significant portion of the expenditures; it is even larger than funds contributed from state budgets in 2006 (see www.stats.gov.cn/english). Further, of the total FDI each year, the proportion of investment into fixed assets increased from roughly 40% in 2003 to more than 60% in 2006. Thus, FDI appears to be the key driver of the growth momentum both for fixed assets and the overall economy (Yao & Wei, 2007).

Figure 1
FDI in China, 1984–2007



Source: China Ministry of Commerce and China Statistical Yearbook (various years).

Greater Liberalization

The trends in Figure 1 can be explained by greater economic liberalization, discussed above, as well as by the fact that repatriation of profits by foreign investors became easier. The foreign exchange controls made the transfer of profits back to home countries in the early days of economic reform very difficult. The current regulations on repatriation are fairly nonrestrictive: Overseas investors are allowed to repatriate before-tax profits by means of intercompany charges, such as royalty fees, management fees, and service fees. The Chinese government allows investors to remit profits, dividends, and bonuses directly through commercial banks. The Chinese currency (RMB) is still nonconvertible, posing some difficulties that may not be faced in other markets. However, investors can receive their fair share of investment in the nation.

Another factor in China's ability to attract FDI includes new rules governing FDI. Initially, investments into China could come only through joint ventures. But now foreign firms can invest directly into China using wholly owned foreign firms. These wholly owned foreign firms may come through acquisitions or greenfield efforts. As a result of this new openness, joint ventures are no longer the major type of FDI into China (see Table 1).

Sources of FDI

Surprisingly, a high percentage of the FDI in China does not flow from the West. The greatest sources of FDI into China historically were the overseas Chinese communities in Taiwan, Hong Kong, Macau, and Singapore (Tsang, 2002). The relative impact of these regions is less today than it was in the late 1990s, but they still remain a significant source of FDI. This interesting issue will be examined in greater detail later in the paper.

Location of FDI

As Table 2 shows, FDI into China is not evenly distributed. Historically, FDI has concentrated in the more developed coastal areas of China, specifically in the Special Economic Zones[2] in these areas. In particular, FDI has had its greatest concentration in three major locations: Jiangsu, Guangdong, and Shanghai. Jiangsu is the province to the north of Shanghai; Guangdong is the province that borders Hong Kong in the south of China.

By way of illustration, Guangdong in 1997 was the largest center of FDI in the country (29% of the country's FDI), but today that has declined to 18% of the nation's FDI. In contrast, Zhejiang, Jiangsu, and Shanghai today have the largest inflow of FDI. Zhejiang is the province to the south of Shanghai; Zhejiang, Jiangsu, and Shanghai form the Yangtze River Delta. The total FDI in this region is now 40% of the national total; the FDI in Zhejiang and Jiangsu has grown more than 350% over the last 10 years. Thus, investments have shifted from Guangdong in the south to other coastal provinces around Shanghai. Moreover, the spread of FDI in China today is beyond the coastal provinces. Liaoning province in the northeast of China, for instance, has seen its FDI grow 150% in 10 years; the national growth in FDI in this same 10-year period was 126%. The 10 western provinces, the least developed in China, have nearly doubled their FDI in the last 10 years, from $32.7 billion to $69.6 billion, representing a stable 4% of the country's total FDI, the same share as Beijing and Tianjin. Although the growth in the western provinces is not as phenomenal as

[2] The Chinese government did not introduce economic liberalization uniformly across the nation. Instead it established Special Economic Zones in very limited areas initially. One of the first ones, in Shenzhen in Guangdong Province in the south of China, was chosen in part since it was remote enough that if the economic liberalization experiment failed it could be isolated from the nation's notice easily.

Table 1
Different Patterns of FDI in China (nonfinance sector)

		Number of Projects	Contract Amount (billions of dollars)	Amount Realized (billions of dollars)
Equity joint venture	2000	8,378	19.6	14.3
	2002	10,380	18.5	15.0
	2006	10,223	32.9	14.4
	2007	7,649	n/a	15.6
Contractual joint venture	2000	1,757	8.1	6.6
	2002	1,595	62.2	5.1
	2006	1,036	8.1	1.9
	2007	641	n/a	14.1
Wholly foreign owned	2000	12,196	34.3	19.3
	2002	22,173	57.3	31.7
	2006	30,164	151.6	46.3
	2007	29,542	n/a	57.3
Others	2000	16	3.1	0.5
	2002	183	0.8	0.9
	2006	50	1.2	4.2
	2007	38	n/a	4.9
Total	2000	22,347	62.3	40.7
	2002	34,171	82.8	52.7
	2006	41,473	198.2	67.1
	2007	37,871	n/a	74.8

Source: China Ministry of Commerce and China Statistical Yearbook (various years).

that in the coastal regions, these provinces nevertheless receive a sizable sum of investments.

What is the significance of these trends? One insight from these trends is that the presence of FDI provides a measure of relative property rights security in a given region, as regional and city governments typically must establish a means to protect private firms in the nation's socialist legal system prior to the investment. FDI introduced into a region that previously had limited numbers of private firms can be a catalyst for change. Thus, FDI in Jiangsu has a bigger impact than FDI in Zhejiang, because Jiangsu historically had an ownership bias against domestic private enterprises (Huang, 2007). Similarly, as it is difficult for private firms to obtain state or bank financing (banks in China are controlled by the state), private entrepreneurs are more prone to source capital from foreign firms (Huang, 2006). Thus, the impact of FDI will likely only grow as it becomes more widely distributed in China.

The prominent role of Guangdong province in FDI raises another interesting issue. Some critics of FDI flows to China argue that a sizable proportion of FDI is not foreign at all. Taxes on the mainland are high, but Hong Kong, as a special administrative region of China, has its own tax laws, and the taxes are much lower. As a result, some money went from mainland China to Hong Kong and then returned home in the guise of overseas investment, which qualifies for tax breaks not available to domestic investors (Brainard & Fenby, 2007). This type of FDI is referred to as "round-tripping" (*Businessline*, 2007). If we take a look at FDI from 2003 to 2006 (see Table 3), we see that the amount from Hong Kong and tax havens (the Cayman Islands and the British Virgin Islands) is not small (ranging from 45.6% in 2003 to 53% in

Table 2
FDI in China by Provinces 1997–2006 (in US$ billion)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Largest FDI locations*										
Beijing	32.0	32.6	39.3	40.2	42.9	45.5	46.3	53.2	60.7	69.7
Tianjin	22.2	23.7	29.4	33.1	34.1	36.5	41.6	47.0	56.8	68.6
Liaoning	37.9	42.8	43.1	65.5	63.8	66.4	73.5	67.9	81.5	94.5
Shanghai	86.8	91.8	90.7	98.5	112.7	128.0	150.8	172.2	200.7	225.5
Jiangsu	69.2	71.7	72.9	75.0	92.0	125.5	150.0	217.0	265.7	324.3
Zhejiang	27.1	27.7	27.5	29.3	34.1	43.2	61.2	83.4	101.9	125.7
Fujian	47.4	47.9	49.4	47.1	51.3	59.4	66.1	68.9	75.3	87.8
Shandong	42.9	39.3	38.1	38.9	42.5	47.1	59.7	69.4	78.6	88.5
Guangdong	217.1	221.7	215.2	216.5	221.8	236.4	241.3	261.0	288.9	314.3
10 western provinces**	32.7	34.3	36.4	36.9	40.2	44.1	49.7	53.7	59.7	69.6
Total (whole country)***	753.4	774.2	778.6	824.7	875.0	981.9	1117.4	1311.2	1464.0	1707.6

* All are above US$50 billion in 2006.
** 10 western provinces include Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shannxi, Gansu, Qinghai, Ningxia, and Xinjiang.
*** The country total included 12 other inland and coastal provinces not listed above.

2006). However, there is no empirical evidence that investments from Hong Kong and tax havens originate from mainland Chinese companies. Whether round-tripping is widespread or not is now a moot point, given that the Chinese central government has recently approved the abolishment of a preferential tax rate for foreign investments. The uniform rate effective in 2008 should eliminate most benefits of round-tripping.

Research to Date on FDI and China

Since researchers have recognized that FDI is one of the dominant characteristics of the Chinese economy, the examination of FDI has become the largest single academic research topic on China. For example, a review of the 15 leading management journals from 1993 to 2006 reveals that more than 40% of articles on China—a total of 172 articles—concern FDI. (A discussion of the journals examined and how they were selected appears in the appendix.)

Two distinct stages of research can be seen. The early stage is the years 1993 to 1997, when the focus was more on describing and understanding what was then a new phenomenon: FDI into China. The second stage, 1998 to 2006, finds researchers looking at more complex issues that pull on greater theoretical foundations and seeking to generate richer insights.

These two stages of the research are generalizations about the work that has been done on FDI in China. There are always pieces of research that occurred much earlier or much later than the general trends.

As stated above, the initial research was typically descriptive. Similarly, following a process perspective one can see that the second stage of FDI concerned the establishment and management of foreign investments. This second stage of research involved three basic issues that connect to each other: entry decisions, the process of value creation, and, ultimately, performance. Figure 2 provides a graphical representation of the issues. This process framework is drawn from and is consistent with the discussion of international business research conducted by others (Buckley & Lessard, 2005; Dunning, 1995; Peng, 2004). We provide greater detail below on the various streams of this research that occurred in both periods.

Stage 1: Understanding Joint Ventures in China

The first stage of China FDI research took place from 1993 to 1997 and sought to establish very basic characteristics of FDI and specifically joint ventures (JV) in China. The focus in these articles was more on describing the FDI phenomenon than on explaining the causes and effects of

Table 3
FDI Actually Utilized by Countries or Regions 2003–2006 (in US$ billion)

	2003	2004	2005	2006
Total FDI	53.5	60.6	60.3	63.0
Hong Kong	17.7	18.9	17.9	20.2
Japan	5.1	5.5	6.5	4.6
Singapore	2.1	2.0	2.2	2.3
Korea	4.5	6.2	5.2	3.9
Taiwan	3.4	3.1	2,2	2.1
United Kingdom	0.7	0.8	1.0	0.7
Germany	0.9	1.1	1.5	2.0
Netherlands	0.7	0.8	1.0	0.8
United States	4.2	3.9	3.1	2.9
Cayman Islands	0.9	2.0	1.9	2.1
British Virgin Islands	5.8	6.7	9.0	11.2

Note: Only major countries and regions are listed, not all investing countries.

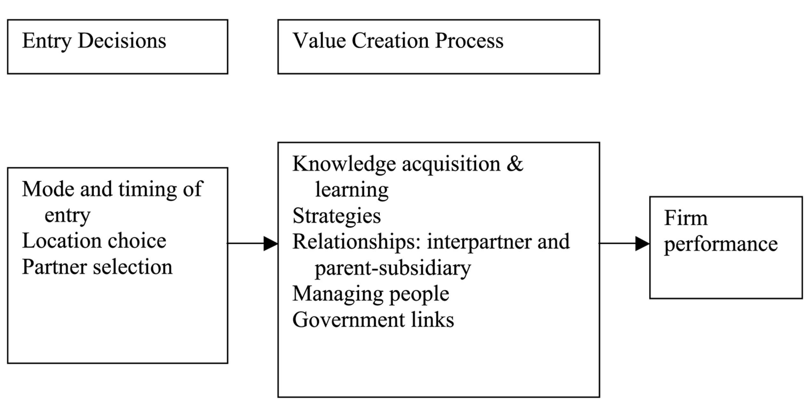
FDI. Thus, most of the studies during this time were on the "what" and "how" of FDI in China. All of this initial research focused on joint ventures and did not discuss issues such as greenfield ventures. One stream of research in this stage looked at how country of origin affected joint ventures. For example, one study examined how Japanese and United States joint ventures differed in China in such areas as scope of operations, location, and capital contributions (Pan, 1997). While this research appeared in a leading management journal (*Strategic Management Journal*), the research was less theoretically driven than descriptive. Other research has similarly sought to establish the idea that home countries matter. For instance, several home country factors, such as sociocultural distance, economic risks, and industry-related factors, were shown to be important (Hu & Chen, 1993), as were location and internalization factors (Pan, 1996). The ideas of these studies are very similar in that ventures from different nations would vary from each other (Luo, 1998b). For example, although these authors had different perspectives they ultimately mostly established that firms from different nations had different joint venture structures and/or other characteristics (Child & Markoczy, 1993).

As we mentioned above, the research in this period tended to describe the joint ventures rather than build a theoretical basis for studying them. While this approach is not necessarily surprising, one should note that this work appeared approximately five to seven years after the explosion of FDI into China. It took longer than we expected for researchers to develop an understanding of FDI into China. It is worth noting, however, that one of the few studies of China's outward FDI occurred in this period. The research was a very descriptive study of how five Chinese state-owned enterprises invested in overseas manufacturing facilities (Young, Huang, & McDermott, 1996). As will be discussed later, outward FDI from China remains an underexamined topic.

Stage 2: Entry Decisions in the FDI/JV

The second stage of research, published between 1998 and 2006, provided deeper understanding of the choices made about FDI into China, although FDI in China remains almost solely fo-

Figure 2
Typical FDI Process



cused on the perspective of joint ventures. This stage can be characterized by three main areas of interest: the entry decision, managing the venture for value, and performance. We will look at each individually.

Entry Decision

Approximately 25% of the research published between 1998 and 2006 looked at the entry decision. There were three process domains in this research: mode and timing of entry, partner selection, and location selection.

Mode and Timing of Entry

A key aspect of FDI is determining how to enter a market. For instance, we know that the size of a multinational enterprise affects the choice of JV versus other forms of entry (Pan & Li, 2000), and it has been found that the unique Chinese context creates a hierarchical model of entry modes (Pan & Tse, 2000). Specifically, the modes of entry are arranged in a hierarchical order—first choosing to have an equity versus nonequity mode of entry, then selecting joint venture or wholly owned or contractual ventures within each mode. Managers consider only a few critical factors at each level of the hierarchy, and they consider different factors at different levels. Timing is also a key entry decision, with firms that enter the market earlier obtaining a performance benefit (Pan, Li, & Tse, 1999) and a competitive advantage (Luo, 1998c, 1999).

Partner Selection

Initially firms could enter the China market only through a joint venture. As mentioned earlier, a firm was not initially free to select its partner in the joint venture; instead, the Chinese government assigned a partner. Once firms were allowed to choose their partners, criteria for partner selection became a major concern in the research (Luo, 1998a). The criteria included some typical to a joint venture in any location, such as ability to help meet strategic goals (Dong & Glaister, 2006). However, a number of criteria were found only in the Chinese environment, although they are perhaps also relevant in other emerging economies, such as social ties among the parties (Wong & Ellis, 2002).

Location Selection

Another fundamental process domain in joint venture is where the venture should locate (Chadee, Qiu, & Rose, 2003). The results found in China on this critical question again challenge conventional wisdom from mature markets. For example, Wu and Strange (2000) found that joint ventures performed best when they located their operations close to the government regulatory authorities rather than focusing on cost and infrastructure considerations. This highlights the fact that the role of government in China, and perhaps in most emerging economies, remains strong and is a far greater factor in joint venture success than it is in mature economies.

Managing the Venture for Value Creation

A second area of investigation of FDI in China was how to maximize the value creation of the joint ventures. Approximately 33% of the 1998–2006 studies (more than 50 articles) focused on value creation. This research recognized that creating value through FDI depends on a complex combination of process domains. The key five process domains identified in the research are knowledge acquisition, strategies, relationships, managing people, and government links.

Knowledge Acquisition

One of the key process domains in joint ventures in China is knowledge acquisition about the nation (Si & Bruton, 2005). This recognition leads to the study of the management of knowledge and how to encourage learning in the FDI process (e.g., Hong, Snell, & Easterby-Smith, 2006). Several strong theoretical works in this domain have moved our understanding forward. For example, trust between partners aids in the development of knowledge (Li, 2005), and cultural understanding facilitates learning (Buckley, Clegg, & Tan, 2006). This research has also highlighted differences in the goals of the Chinese and Western partners. The Western partner may seek to gain knowledge about China, but the Chinese partner wants to gain knowledge about Western business practices (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). Thus, learning and capability development occur in both the source and recipient networks (Zhao, Anand, & Mitchell, 2005). As a result, we know that both knowledge inflow and knowledge outflow are important to the joint venture. The work on knowledge has in fact started to move beyond joint ventures to look at other types of FDI. For example, Andersson, Björkman, and Forsgren (2005) looked at other types of investment into China and how these subsidiaries were able to obtain knowledge through networking in China.

Strategies

The relationship between strategy (functional and corporate) and performance is another aspect of value creation. These studies found that all kinds of functional strategies have different but positive impacts on firm performance, such as human resources (Gong, Shenkar, Luo, & Nyaw, 2005), sourcing (Kotabe & Zhao, 2002), production network (Brookfield & Liu, 2005), and technology (Allred & Swan, 2004). Much of the research in this domain has incorporated the unique institutional elements of a transitional economy into the analysis, with particular reference to relationships and technology in the Chinese context. At the corporate level, related diversification had a positive impact on joint venture performance as well (Luo, 2002c), which is consistent with mature Western economies.

Interpartner and Parent-Subsidiary Relationships

As stressed earlier, most of the FDI examinations in the China research done between 1998 and 2006 have been of joint ventures. As a result, the structure of the joint venture, particularly interpartner relationships and how they influence the management of the joint venture, is a major process domain in explaining the creation of value; approximately 12% of the articles published on FDI examined this topic. A key decision examined in this research is the selection of the joint venture's control systems. For example, Child and Yan (1999) found that the nature of the control varied based on the nature of the equity contributed by the different parties. One finding from this line of study in China is that better performing joint ventures allowed the joint venture to become more independent over time (Luo, Shenkar, & Nyaw, 2001; Zhang & Li, 2001). Different types of control systems also have effects on knowledge creation (Andersson et al., 2005), localization (Taylor, 1999), and standardization (Samiee, Jeong, Pae, & Tai, 2003). Thus, the design of control systems has strong strategic implications in Chinese joint ventures.

Another key concern in this process domain in mature markets is how partners develop their contracts and the governance between the parties (Luo, 2002a, 2002b). While this is a widely examined topic in mature economies, unfortunately not much work has been done in this area in the Chinese context. Among the limited research conducted, Yan and Duan (2003) found that interpartner fit is crucial for joint venture performance.

Managing People

Another key process domain in value creation found in the studies from 1998 through 2006 is how people are managed in foreign-invested firms, particularly joint ventures; approximately 18% of the articles examined this topic. As one may expect (as these are international joint ventures), the issue of expatriates and localization was the focus of earlier studies. Wong and Law (1999) developed a three-stage model of localization of foreign firms; Walsh, Wang, and Xin (1999) explored the different perceptions of local and foreign managers. However, overall, the early topics examined were very straightforward. For example, Selmer (2000) examined which expatriates adjusted better to work in China. He found that French expatriates did not adjust as well as those from Britain and the United States.

Recently, organizational behavior topics with greater depth have been studied, including leadership (Chen & Tjosvold, 2006), conflict and justice (Chen, Choi, & Chi, 2002; Li & Hambrick, 2005; Wong, Ngo, & Wong, 2006), trust (Li, Zhou, Lam, & Tse, 2006; Wong, Ngo, & Wong, 2003), teamwork (Goodall & Roberts, 2003), change schemas (Lau, Tse, & Zhou, 2002), and strategic HRM (Takeuchi, Wakabayashi, &

Chen, 2003). It is also obvious from these studies that some Western assumptions about people and management methods are not applicable in the Chinese context, due to both cultural and institutional differences.

Government Links

The last process domain in value creation is government links. In China, the role of the government is a central factor in the institutional environment (Peng, 2000). As a result, a number of studies have focused on firm-government relationships and how they affect contracts and performance outcomes (Luo, 2005; Peng, 2000). The investigation of a government-government joint project includes the examination of the Suzhou Industrial Park (Inkpen & Pien, 2006); this novel article provides a qualitative analysis of the impact of the alliance between the Singapore and Chinese governments. The role of the government in China clearly differs from the role of government in mature Western markets. This role is in fact one of the defining characteristics of emerging economies.

Ten years after the work of Young et al. (1996) there has been only one other study on China's outward FDI. Liu, Buck, and Shu (2005) used macro country-level data to examine China's surging outward FDI. However, there is still no firm-level outward FDI study during the period of this review.

Performance

The final area of investigation was performance. Studies examining firm performance (mostly joint venture performance) are very diverse. Besides those strategy-firm performance studies discussed above, most of the other studies examined ownership (e.g., Park, Li, & Tse, 2006; Xu, Pan, Wu, & Yim, 2006). The articles that have examined joint venture and performance have drawn extensively on solid theory bases, including resource-based theory and agency theory. This theory foundation gives us more confidence in the findings. The research has also drawn extensively on institutional theory, which has proven very useful in analyzing international settings (Hoskisson, Eden, Lau, & Wright, 2000). As researchers come to the realization that China may generate results that differ from those of mature economies, a theoretical foundation like institutional theory can be helpful in explaining these results (Bruton & Lau, 2008). This approach allows us to build up the knowledge base of managing joint ventures for value creation in emerging economies.

Shortcomings in the Current Research That Need to be Addressed

While our understanding of FDI into China has expanded significantly, there remain many problems in research in this domain. Without accurate and timely information from reliable studies about this new economy, our knowledge base of managing in the new global economy is very limited. Some of these research problems include a lag in what we research in China, an absence of investigation into different forms of FDI, a focus on Western FDI rather than the dominant source of FDI into China (Overseas Chinese), a lack of in-depth examination of FDI, and a lack of examination of the trend of outward FDI by Chinese firms. We will look at each problem individually.

Lag in Research

As discussed above, while FDI in China was rising dramatically in the early 1990s, research on the topic did not expand until the late 1990s (see the table in the appendix). In fact, a consistent pattern of research on FDI did not appear until recent years. Even given the time it takes for an article to be reviewed and published, there would appear to be at least a five-year lag in the examination of FDI in China by academics. In this new economy, five years in China is a lifetime, as evidenced by the increase in trade, economic activity, and international relations. The speed of change in China is much faster than anything similar in the mature economies of the world. This speed of change implies that the most current publications in academic journals may reflect phenomena that are already outdated.

To illustrate, consider that one of China's wealthiest cities, Shenzhen, today has more than 10 million people, but 30 years ago it was little more than a village. Similarly, China has moved from being one of the world's poorest nations to being one of the world's largest economies. If our objective is to understand the latest developments in FDI and management issues in China, our academic research needs to disseminate knowledge about China in a more timely manner. Otherwise, the relevance and validity of the study can be questioned.

If we cannot change the way we research and publish in mainstream management and international business journals, we as academics have to look for innovative ways to acquire and disseminate knowledge about China, and more broadly Asia, as well as the rest of the world in general. Otherwise, we will be able to tell only dated stories to our audience.

Different Forms of FDI

Academics' lag in the examination of FDI extends beyond timing, however. As Table 1 indicates, the nature of FDI into China today has shifted from joint ventures to other forms of ownership. However, to date, almost all research on Chinese FDI continues to focus on joint ventures. There were early efforts to understand why companies pursued a particular entry strategy (i.e., why firms chose joint ventures rather than other forms of FDI), but attempts to examine in depth the other forms of FDI are limited. Other than a few studies that examined investments in firms through venture capital (e.g., Bruton & Ahlstrom, 2003) or other means, in general the understanding of the different forms of FDI in China, such as mergers and acquisitions, cooperative ventures, and wholly owned greenfield ventures, remains largely underdeveloped.

There are other reasons for this dearth of research beyond a simple lack of recognition that other forms of FDI occur. A joint venture almost always includes a government-related entity in China, and government involvement generally results in the availability of data. On the other hand, a greenfield venture or a merger/acquisition does not generate nearly as much public data. Researchers of FDI in China have developed skills and understanding about joint venture data. Now is the time to generate similar understanding and access to data for other types of FDI.

Various Sources of FDI

As noted earlier, large amounts of the joint venture FDI money that is invested into China comes from Taiwan, Hong Kong, and Singapore. The cultural connections between these regions and the mainland remain strong. This investment typically occurs in regions where the dialect or kinship connection is the strongest (Child, Chung, & Davies, 2003). Thus, Hong Kong investment has been the greatest in the south, in Guangdong province, while Taiwanese investment has occurred immediately across the strait in Fujian province and parts of Zhejiang province.

However, most FDI research remains focused on firms from mature economies of the West or Japan. Initially researchers picked a random sample of joint ventures in a given area. Nevertheless, over time the sample selection became more sophisticated. The result was that ultimately the researcher would pick specific joint ventures from one nation, such as the United States. While this methodology is an improvement over the selection of a sample of joint ventures from a range of nations, it still ignores the fact that the largest percentage of FDI into China is from Overseas Chinese. Despite a few efforts to understand the unique aspects of such FDI, such as studies by Child, Chung, and Davies (2003), Li, Lam, and Qian (2001), Tsang (2002), and Wong and Ellis (2002), an understanding of this distinct type of FDI remains underdeveloped. This lack of examination has seriously limited our full command of FDI in China.

Depth of Examination

Most researchers to date have relied on large databases to examine FDI in China. They use secondary panel data or contract out data collection because of the limitation on field research by non-Chinese nationals inside China. The result is that most often the questions asked are based on what is known in mature markets of the West, using proxies and established scales from mature Western economies. Most researchers have used these proxies and scales without grounding their research in an understanding of China. In fact, there are surprisingly few qualitative studies that might establish such a fundamental understanding of China. In one qualitative study of China, Peng (2000) examined government relations and joint ventures in three well-known cases. The article does an excellent job of grounded theory development, which allows for better and in-depth understanding of FDI issues. Thus, more first-hand data and qualitative analyses are needed to advance FDI research in the future.

Outward FDI from China

In discussing FDI and China, one realizes that investment flows not only into China but also from China. The global investments of Chinese firms in finances, energy, and manufacturing sectors are increasing. Chinese firms invested more than $5 billion in FDI in 2004 (China Outward FDI Report, 2004) and this amount increased to $45 billion in 2007 (with $19 billion in nonfinancial sectors).[3] This increase ultimately resulted in China becoming one of the world's five largest sources of FDI during 2004–2007 (UNCTAD, 2004). It is expected that this level of investment will increase. Lenovo's recent acquisition of IBM's PC business is a great example of the influences of Chinese firms in the global market. Thus, the level of FDI from China in the future will be one of the factors shaping world business.

However, to date, only two articles in the period we reviewed touched on FDI *from* China. Beyond a few recent research articles such as those by Buckley et al. (2007) and Yiu, Lau, and Bruton (2007), there has been little effort to understand this phenomenon. In fact, only Yiu et al. (2007) to date have used firm-level data to investigate this issue.

While the international strategies of Asian multinationals are gaining increasing recognition (Collinson & Rugman, 2007), the outward investment by Chinese firms is a rich area of potential research yet to be examined extensively. For example, Chinese FDI has the potential to allow knowledge to be brought back to the Chinese parent firms, which can transform these firms in their local environment. As was noted earlier, Chinese firms often pursued joint ventures as a way to learn from foreign partners. However, many international firms now feel confident enough in China to have wholly owned enterprises. The transfer of knowledge to the Chinese firms will likely be reduced as the level of joint ventures is reduced. Thus, there is likely a need for Chinese firms to go out of the country or find other means to gain that knowledge. Lenovo's acquisition of the PC division of IBM, mentioned above, is a prime example of such learning. But to date, it is not understood how Chinese firms may seek to learn differently than those in the West in such FDI or if they are successful in such efforts. There is an urgent need to understand both the process and outcome of the internationalization strategies of Chinese firms. Chinese firms may have other motives for their FDI. For example, most Chinese firms still do original equipment manufacturing (OEM). OEMs rely on the party they contract to for research and development and product design. As a result, Chinese firms typically do not develop their own brands. However, the benefits are far greater for those firms that do develop such brands. For example, the manufacturer that produces the Barbie doll, which retails for $10, earns less than 35 cents per doll. The bulk of the value goes to firms that develop the concept and brand. We are starting to see Chinese firms showing interest in becoming brand "owners." Recently, for example, the largest Chinese piano manufacturer, Pearl River Piano Group, successfully acquired the German firm Ritmuller to help it learn to develop a brand. Chinese firms' efforts at brand development, therefore, represent a new and interesting aspect of FDI that should be examined.

Discussion and Conclusion

There is now a broad understanding of FDI, particularly joint ventures, in China. This understanding includes key entry mode-related FDI decisions, such as firm processes and behaviors that lead to joint venture performance, interpartner concerns, and managing people in these firms. However, beyond these broad issues, a number of areas of examination into joint ventures in China remain. Researchers need to know the fac-

[3] See www.fdi.gov.cn/pub/FDI_EN/default.htm.

tors that lead to success and failure in managing both joint ventures and foreign investments in China, and we should go beyond understanding entry mode-related decisions.

Prior research has tended to rely on traditional theoretical foundations from the West. However, today the application of new theories in China research is beginning to occur. For example, social identity theory is rich and insightful theory that has recently been applied to examine local senior executives of subsidiaries (Zhang, George, & Chan, 2006). New theoretical foundations will expand the richness of our understanding of China in the future.

As noted earlier, China today is a model for many of the emerging economies of the world. Overall, there is an absence of investigation of such economies (Bruton, Ahlstrom, & Obloj, 2008). There is, therefore, a strong need to examine economies outside of China and examine the similarities and differences that exist between these economies. Some of the issues for future examination include:

1. How do investment partners relate to each other, especially among multiple foreign partners? What kind of governance system do we have in joint ventures, besides the control mechanisms? Many studies in the literature employ the agency perspective in studying governance. As China has a very different set of cultural values, the predictions from an agency perspective may not work in the same manner as in mature economies of the West. It is very possible that the governance system in China would be very different from those in other emerging economies, and it needs some other theoretical explanations.
2. How do foreign partners influence joint venture (or subsidiary) behavior, beyond knowledge transfer? As China is both a potential market and a manufacturing platform, the FDI into China may take different forms based on what the motivation is.
3. Are there liabilities of foreignness in Chinese joint ventures? Is China more receptive to foreign investments than other economies, and if so, how is this affected by the country's cultural and institutional background? In addition, if we follow institutional and cultural theoretical perspectives, what differences can we expect in China relative to other emerging economies or mature economies? It is also theoretically interesting to tease out more clearly whether there are other economic considerations at work that make Chinese firms less sensitive to cultural effects. Ultimately, this question leads in turn to the examination of whether domestic firms (private and state-owned firms) will converge with foreign-invested firms. How far can foreign investments influence domestic firms? More rigorous theoretical and empirical work in China should inform us about this debate.
4. Are there more similarities among emerging economies, or is China truly unique?
5. Are there any real differences in managing people in joint ventures versus other forms of ownership? How about managing people in other FDI ventures? Is this unique to the Chinese culture?

The role of China in the world economy will continue to grow. The nation's economic impact, however, may be very different than what it is widely perceived to be. Today the nation thrives not so much because of a strong domestic industry but because of very high levels of FDI. The quality, theoretical foundation, and methodological development in the research on this FDI have grown dynamically over time. However, as we have discussed here, there remain numerous holes in the domain that scholars need to fill. This paper will help academics both better discuss this critical topic in the classroom and generate more and better research on this topic.

Appendix

Academic Journals Examined

We selected journals regarded as high quality in management and international business research. We initially reviewed the lists of *Financial Times* and the University of Texas-Dallas (UTD). We also reviewed the work of Lockett et al. (2006) and Trieschmann et al. (2000), who examined research productivity of business schools. We selected four journals that are on all four lists, *Academy of Management Journal*, *Academy of Management Review*, *Administrative Sci-*

ence Quarterly, and *Strategic Management Journal*, and two other journals that were on three of the four lists, *Journal of International Business Studies* and *Organization Science*. All six of these journals have similar impact factors, according to the Social Science Citation Index (SSCI). In addition, the leading management journal in Europe, the *Journal of Management Studies*, was also reviewed because it is the most cited journal other than American journals.

However, to reflect the rich management domain, leading journals in major subfields of management (*Journal of Applied Psychology*, *Journal of Business Venturing*, and *Entrepreneurship Theory & Practice*) were also included. They also have high SSCI impact factors. Two other journals that have a high profile in the management domain were included: the *Journal of Management* and the *Journal of Business Research*. In addition, quality journals that publish Asia-focused articles were also included in our examination: *Asia Pacific Journal of Management*, *International Business Review*, *Journal of World Business*, *Journal of International Management*, and *Management International Review*.

The result was a total of 17 journals examined. The authors examined these journals from 1993 to 2006. We did not identify any studies about FDI in China in *Academy of Management Review* and *Entrepreneurship Theory & Practice* during this period. Thus, the final list has 15 journals. The *Journal of International Business Studies* and *Journal of World Business* had the most articles about FDI in China (31 and 25 respectively), while *Administrative Science Quarterly* and *Journal of Applied Psychology* had only one each. We classified the years 1993 to 1997 as the early stage because there were only 17 studies in these first five years. The second stage in this research evolution occurred from 1998 to 2006. The following table lists the number of FDI studies identified by year:

Year	Number of Studies	Year	Number of Studies
1993	4	2000	7
1994	1	2001	19
1995	1	2002	30
1996	5	2003	16
1997	6	2004	8
1998	13	2005	21
1999	20	2006	21

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