

Relationship between Transnational Corporations and Chinese State-Owned Enterprises

Gongying Jiang^{} and Hafiz Mirza[†]*

Abstract: This paper discusses transnational corporations (TNCs) in China and their relationships with Chinese state-owned enterprises (SOEs). The paper explores the theories that may be suitable to China's case, a transition economy with a huge SOE system. Empirically, this research investigates the practices of TNCs in China, the reaction of Chinese SOEs, and their relationship and collaborations. The study involves statistical analysis, and review of open questions and interview answers. The conclusions show the differences between the parties in terms of motives, location, strategy, organizational structure, dispute settlement. It also includes partner evaluation and the implications, and findings thereof.

Key words: TNCs, SOEs, influence factors, partnerships, collaborations, evaluation, relationship

1. Introduction

This is a study of the activities of overseas investors (mainly transnational corporations (TNCs)) in China, and their influences on Chinese state-owned enterprises (SOEs). The major objective of this study is to summarize the relationship between TNCs and SOEs in China, and to define the influence factors of China and SOEs, how these are to be related to TNCs' investment intention and spillover to Chinese SOEs, and what SOE reactions are.

This study spans the period from 1979, the year China started attracting foreign direct investment (FDI), to today, when it is the world's main FDI destination. Quantitatively, the majority of China's FDI inflow is from overseas Chinese, and is mainly in labour-intensive industries. However, American, European and

^{*} Gongying Jiang, PhD, Associate Professor, School of Finance, Beijing Geely University, 2403 High Building 2, 12 ZhongGuanCun South Street, Beijing 100081, China. Tel: 86-13718996617, Fax: 86-10-82107910, Email: g_jiang@hotmail.com, <http://www.bgu.edu.cn>.

[†] Hafiz Mirza, Professor of International Business, Bradford University, School of Management, Emm Lane, Bradford, West Yorkshire, BD9 4JL, United Kingdom. Tel: +44 (0)1274 234327, Fax: +44 (0)1274 235837, Email: H.R.Mirza@bradford.ac.uk, <http://www.brad.ac.uk/management>.

Japanese TNCs operating in China also have a huge role in, and an important influence on the development of China's domestic industry, market trends, and overall national economic growth. Many large TNCs are particularly strong in high-tech fields such as aircraft, computers, motor vehicles, mobile telephones, telecommunications, automated equipment, etc., and continue to play a fairly considerable role in China's development.

Another main focus of this study are China's SOEs (Buckley, Clegg and Tan, 2005:147), which are the bulk of Chinese industry. The state tends to play a dominant role in a significant numbers of MNEs from developing countries. Indeed, in China, the state is thought to exercise considerable influence (Dunning and Lundan 2008: 62). A total evaluation of the performance of Chinese SOEs can be conducted from both quantitative and qualitative perspectives. Chinese SOEs are absolutely different from those of other countries, in part because they are surrounded by very many invisible factors. As such, "any analysis of multinational operations in LDCs must address a number of key stylised factors" (Buckley and Casson, 2010:70).

While collaborations between foreign firms and Chinese SOEs include many success stories, there are also examples of failure. Therefore, this research discusses not only TNC 'entry' (Meyer, 2001: 357) into, and operation in the market, but also TNC 'exit'. The huge differences between TNCs and Chinese SOEs in terms of national and industrial development have raised many challenges in terms of operational activities in China.

2. Research questions and relevant themes

The major goal of this section is to raise overall questions and themes to frame the research. This begins with an overview of China's FDI laws and policies, including a basic understanding of TNC-SOE collaborative law and policy background.

2.1 FDI law and policy overview

Frame of Foreign Investment Laws

There are three basic laws for foreign enterprises investing in China: the Chinese-foreign Joint Ventures Law; the Chinese-foreign Cooperative Enterprise Law; and the Foreign-funded Enterprise Law. Each has its respective implementing regulations. For foreign investment limited liability companies, adapting to The Company Law; but if there are any other regulations in the above-mentioned three, adapts to them. The contracts of Chinese and foreign investors in establishing foreign investment enterprises are foreign economic contracts, bound by The Company Law of our Country.

Basic Forms of Foreign Direct Investment

The most common foreign direct investment are China-foreign joint ventures, China-foreign cooperative enterprises, wholly foreign-owned enterprises, and cooperative development. Other investments include compensation trade, processing and assembling, etc. China-foreign joint ventures; China-foreign cooperative enterprises; Wholly foreign-owned enterprises; Cooperative development; New investment means

Basic Chinese Policies for Attracting Foreign Investment

Industrial policies; Temporary Provisions and Master List; Encouragement Items; Regional Policies; Tax Policy Current policies to encourage foreign investment (technical development and innovation, Lighten the financial support, Encourage foreign investors to invest in the middle-and -western regions, Perfect the administration and service, Provisions on Pilot of Commercial Foreign-Investment Enterprises).

2.2 Research questions

Several main questions are raised: How do TNCs start their entry into China and choose partners? What is the nature of TNC-SOE collaboration? What are the roles and outcomes of TNC activity with SOEs in China? Relevant themes are detailed below (see Table 1).

Table 1. Relevant theme and goals

Categories	Objectives
TNC (MNC, MNE)	large, medium, and small TNCs
FDI	equity JVs, contractual JVs, wholly foreign-owned enterprises in China
Motive (Motivation)	low costs, resources, markets, and efficiency
Strategy	market entry, project, location, localization, partnership
Politics	regarding the political environment, which influences TNC entry into China
Government relations	relationships with central and local governments
Government policy	strongly influences investment decisions, i.e. encourages some industries
Social environment	can influence the attraction of foreign investment
National culture	can affect collaboration, and the nature of conflict and settlement thereof
Location	can vary depending on industry needs and strategic considerations
SOE	background, performance, reform
Labour supply	rich low-cost labour, and relatively more-skilled labour in SOEs
Selection of partner	choosing potential partners is key

Relationship between TNCs and Chinese SOEs

Control methods	not only by ownership, but also by management style and flexibility
Technology	powerful TNCs use technology in collaborations
Product quality	varies across industries, countries
Organizational structure	affects management and control
Cost	in JVs, management costs are an especially big issue
Fundraising	cash, loans, tangible assets (land, factory buildings, equipment)
Company culture	directly affects management results
Brand	reflects ownership, technological resources and level
M&A	reflects strength and investment intention
Monopoly	foreign players tend to monopolize sophisticated industries, while Chinese have large state-owned firms
Problem, conflict	various problems and conflicts occur, possibly at different stages
Dispute settlement	many formal and informal ways, affected by national culture
Success and failure	influenced by many factors
Interrelations	results of TNC-SOE collaboration

3. Analysis

3.1 Overview of objectives and concepts

The major goal of this study is to identify specific behaviours of TNCs in China and of Chinese SOEs. This includes identifying various types of TNCs in China, their FDI in the country, and the relationships between these TNCs and Chinese SOEs. It also tries to propose reasonable models, develop reliable and validly-administered questionnaires and interviews, administer a specific survey to TNCs and SOEs, and analyze and report the research results. A comprehensive summary table of this study is presented below (Table 2).

Some concepts and categories are defined. Root (1987) and Stonehouse et al. (2000) defined ‘internal factors’ as company product factors and company resource/commitment factors (which together with ‘external factors’ influence a TNC’s decision to enter a foreign market, this research demonstrates different categories. The ‘external factors’ are China’s macro-environment faced with TNCs, while the ‘internal factors’ are those of the Chinese SOEs that are influencing TNCs’ choice decision. All concepts

and categories applied in this research are clearly indicated; ‘culture’ is divided into national culture and company culture. In this thesis, as one of the macro-factors, ‘culture’ refers to ‘national culture’.

Table 2. Summary of topics and content for entire research

Topic	Content	Method	Summary
Introduction	Raising questions; objectives; structure; contribution; limitation; assessment of the research	Epitomize this study	Research objectives: observe and analyze what macro-factors influence TNCs’ entry into China, what internal factors influence the partner choices of Chinese enterprises, and the reaction and replies of SOEs’.
Literature of theories	Theories of TNCs and FDI, and of JVs	Review of relevant literature	The theoretical literature provides the respective characteristics of TNCs, FDI, and JVs.
Literature of empirical studies	Empirical studies of TNCs, JVs, and JVs in China	Review of relevant literature	Empirical studies relate to TNCs’ international activities and influencing elements; operation with local enterprises; JVs in China; local Chinese SOEs.
Methodology	Duality method, research design, questions, hypotheses, and models	Systematic introduction to whole research methodology	Duality method and multiple measures are suitable for such a research subject of international business management.
Describe summary of survey	Tabulation of entry; of operation; and of evaluation	Tabulation, summarization, description of samples and sub-samples	Between FDI sources, industries, TNCs & SOEs, comparison and contrast of entire survey results
TNC entry into China and choice of SOE	1 question, 7 hypotheses, and 4 models are to measure TNC entry and choice of SOE	Analysis and testing of samples; sub-samples; Description of open questions and interview answers	Motives, macro-factors to entry form, Location reflects TNCs’ entry motives, different ways for TNCs-SOEs to find partners, strategy selections, control ways,etc.
Operation behaviour, performance and total evaluation	2 questions, 9 hypotheses, and 5 models to measure collaborative operation and evaluation of the two sides	Analysis, testing of samples, sub-samples; Description of review of open question and interview answers	Operation and evaluation elements, capital ways, government contacts, etc. reflect different viewpoints held by TNCs and SOEs

Relationship between TNCs and Chinese SOEs

Conclusion and further research	Conclusions, findings; implications, discussions, future research	Comprehensive discussion, conclusion	Compare the literature and study results; further implications and discussions are presented to support this study
References	217 references	Listing of references	
Appendices	50 Appendices	Text; Tabulation	

The research contributions related to the theoretical and empirical literature are in Table 3.

Table 3. Research contributions related to existing literature

Main Literature Findings	Literature Analysis
Industrial Organization Theory	Management knowledge and skills are also TNCs' important advantage
Product Life Cycle	Market-seeking type's TNCs, mature product, produce in China to reduce cost, and different FDI sources have differences.
Internalisation Theory	Internalized factors are based on TNCs' innovatory ability, systemic organization skills, marketing strategy, etc. They reflect TNCs' concern for themselves rather than overseas production environment factors. TNCs in China retain such internalized factors.
Eclectic Theory	OLI advantages are still applied in China; however, partners' corresponding factors should also be considered. SOE factors impact the OLI advantages of TNCs.
Macroeconomic Approach	The macroeconomic approach is different from the international business approach (that is, the FDI pattern of American firms). These two approaches are reflected in the activity of Japanese and American TNCs in China, respectively, and are confirmed by the study results.
Market Imperfection	Market imperfections can show TNC advantages, especially of capital, technology, and management, things that SOE partners generally lack in relative terms.
Transaction Cost Theory	TNCs in China enjoy O-advantages in terms of trade markets, brand names, superior technology, managerial competence, or the ability to supply high-quality, differentiated goods. These are used to decrease cost, and are obvious advantages for TNCs.
Game Theory	This covers location considerations and partner conditions, and should consider all related factors.
Monopoly Power	this is affected by industry and product types, and should also consider the effects of policy changes.
Inter-Firm Relationships	A number of entry elements and operational elements affect JV relationships. TNCs and SOEs have different viewpoints.

Local Firm and Partnership	SOE internal factors relate to policy, local conditions, industrial situation, and a lot of operational elements.
Motives and Reasons	TNCs engage in China seeking new markets lower costs, resources, etc.. Their motives are affected by their own advantages, local conditions, and related elements.
Strategies	TNCs' and SOEs' project, partnership, localization, and M&A strategies gain analyses. Project strategies are affected by motives, industrial characteristics, and market demands. Both parties have different considerations. Localization is with the conditions, and is affected by other considerations. M&A strategy is affected by policy, capital, goals, etc.
Environmental Factors	Macro-environmental factors and SOE internal factors gain analyses. Foreign direct investors from different countries have different viewpoints, and TNCs and SOEs also have different viewpoints.
Location Consideration	City site selection and operation distribution can reflect industrial demand characteristics, partner factors, strategy consideration, entry timing, and TNCs' advantages.
Organizational Control; Structure	Organizational structure covers management rights, company culture, human resource management, and collaborative outcomes.
Scale and Profits	Priority of scale and profits reflect a firm's motives, strategy, industrial goals, and other operational elements.
Capital; Technology	TNCs and SOEs have different relationships to capital: SOEs count on bank loans, and this causes a lot of trouble. Technology and equipment, and R&D relate to cost, digestion, and strategy.
Disputes; Settlements	Disputes and barriers are from macro-factors and internal SOE factors. Settlements are mainly informal in nature.
Evaluation	TNCs and SOEs have different forms of evaluation. The evaluation content is of partners, of collaboration, of FDI roles, and of inter-relationships.
FDI Roles	The FDI roles of TNCs and SOEs gain analyses. Mainly, enhanced ability of SOEs in terms of technological innovation, management, and competitiveness.
TNC-SOE Relations	10 important relationships are analyzed; different viewpoints between TNCs and SOEs.

3.2 Data and analytical techniques

The acquisition, manipulation, and testing of data are very important in this research. The data have been manipulated by the following multiple-dimension forms:

- By different FDI sources in China – mainly US, European, and Japanese TNCs
- By different industries – 27 industries
- By two major research objectives – TNCs and SOEs
- By the different objectives of different sources' – US TNCs and their SOE partners, European TNCs and their SOE partners, Japanese TNCs and their SOE partners

- By the TNCs and SOEs of different industries
- The data were subjected to vertical and horizontal comparison and contrasted in all appropriate ways.

There are a total of over 700 options and sub-questions in the 150 responses, to make total treatment data about 53,000, adding all open question answers and interview results, 77 from the foreign side and another 73 from the Chinese side. The responses are divided by source and industry. The data are manipulated in the SPSS statistical system. Several analytical techniques are used: (1) discrete MDA, (2) factor analysis, (3) comparison of means, (4) one-sample tests, (5) non-parametric tests, (6) frequency distribution, (7) graphs method, and (8) linear regression.

3.3 Analysis of fitness and relevant aspects

The entire study presents 16 research hypotheses and 9 models. The test, analysis, and fitness situation are summarized in Table 4. Its main content analysis includes:

- TNC Entry into China: Starting point, Basic situation, Motives, Macro-environmental factors, Site distribution of TNCs' activities
- Choice of Chinese SOEs: Ways of accessing and choosing SOE partners, First entry forms for TNCs and SOEs, TNC strategies, Internal environment conditions of SOEs, Control methods nm
- Collaborative Operations: Priority of scale and efficiency; Market share situation, Capital utilization methods, Use of technology, Organizational structure, Contacts and communications with government, Problems and barriers; Settlement of disputes, M&A
- Total Evaluation: Evaluations of collaborative operations; Evaluations of partners, Roles of TNC investment in SOE improvement, Relationships between TNCs and SOEs
- Conclusion on Other Elements: Flexibility of TNC access to China and choice of SOE, Operating number, Forms of ownership in TNC and SOE operation, TNCs' different advantages in operation, Intention to set up new operation; Strategy adjustment, Brands and trademarks used in the market, Situation and change of shareholding, Management cost control and quality control system, Total evaluation and suggestions, Keys to success, Reasons for failure, Issues and comments

Table 4. Hypotheses and models fitness, tests and analysis

Hypotheses; Models	Methodologies	Variables	Tests; Fitness
H1: Motives Model 3	One-Sample T-Test; Graphs (Line); One Way ANOVA; Model 3	5 selectable motives and ‘other’ One Way to each macro- factor	TNCs from different origins have different motives to enter China; Model 3 also supports this result.
H2: Macro-factors Model 1 Model 2	Linear Regression - Models 1 and 2	5 ordinal scale variables, 10 macro- factors, ‘Entry Form’ as independent variable	H2 is partially supported by linear regression results of Model 1, but Model 2 supports H2. For example, TNCs do not think the first entry form is influenced by China macro-environmental changes.
H3: Location selection Model 3	Bivariate Correlations; Linear Regression - Model 3	11 factors to ‘Location Selection’ as dependent variable related to choice of partners	Selection of location has significant correlation with choice of SOE partner. Location choice is one of the critical elements for TNC decision, reflects important considerations of many TNCs.
H4a: Ways of access Model 3	T-Test (One Samples Test) Linear Regression - Model 3	‘Ways’ as dependent variable; independent variables ‘Motives’ and ‘Areas’	Linear regression results of Model 3 support H4a: TNCs from different origins have different ways to find SOE partners
H4b: Entry form Models 1	Linear Regression - Model 1	‘Entry Form’ relates to all environmental factors	H4b is supported by linear regression results of Model 1, i.e. TNCs-SOEs think that SOE factors influence the form of TNC entry
H5: Strategies	Frequency, Graphs (Pie)	5 aspects of strategies; total 19 sub-questions	Graph methods support H5: TNC Strategies are diversified and flexible when they operate in China
H6a: SOE factors H6b: Firm-level factors Models 2	Non-parametric Tests; Linear Regression - Model 2	‘Entry Form’ relates to all SOE factors; select SOEs; Model 6: choice of SOEs	H6 is confirmed and supported: The main reasons for TNCs’ choice of collaborators are quite different. They have at least two main considerations (choosing SOEs; types)
H7: Control methods Model 4	T-Test; Linear Regression - Model 4	Many factors are compared to ‘Control Ways’	TNCs viewpoints, some (but not all) relevant operational factors influence control methods; but not SOE
H8*: Priority of scale and efficiency Model 5,	H8-H13: Factor Analysis; Non- parametric Tests;	A set of observed variables of	Linear regression supports the idea that priority of scale, efficiency, and expectation of ROI are different for TNCs and SOEs;

Relationship between TNCs and Chinese SOEs

Models 4 to 7	Linear Regression	correlations.	market share situation is supported by descriptive analysis
H9a: Fundraising Model 4	Factor analysis and correlation analysis	Nominal variable	Different methods of capital utilization strongly influence operational results
H9b: Machinery and equipment Technology, R&D	Factor analysis	7 choices in nominal variable	In the collaboration, the choice of whose equipment and machinery to use relates to cost, technology, and parts localization. R&D increases.
H10: Organizational structure	Factor analysis	4 nominal variable choices	The organizational structure affects the two sides' operational activities.
H11: Government contacts	Factor analysis; Means and graphs	Interpretable responses (nominal scale); Nominal variable	Government contacts are important in the operation. TNCs have agreements and connections with central and local governments and/or with relevant government sectors.
H12: Problems and barriers Dispute settlement Model 6, Model 7	Factor analysis; Linear regression	Interpretable responses (nominal scale); Nominal variable	Problems and barriers seriously affect the outcomes of collaboration between TNCs and SOEs, and the influences may be different for both. Dispute settlements are also different.
H13: M&A	Factor analysis; Graphs support	interpretable responses; Ordinal scale; Nominal variable	M&A is one of the important activities for TNC-SOE development; reflects existing SOE situation and some issues.
H14a: Easiness-difficulty H14b: Several evaluation elements Model 8	Linear Regression - Models 6 and 8; One Way ANOVA;	Easiness-difficulty relates to many factors. Dependent variable to independent variable	Linear regression results of Model 8 support H14a: TNCs and SOEs evaluate the benefits and outcomes of collaborative operations differently. H14b has various test results.
H15: Role (Evaluation of FDI) Models 7 and 9	Factor Analysis; One Way ANOVA; Linear Regression	Many factors are compared to 'Role'	TNC investment and operation with SOEs plays an important role in the improvement and development of Chinese enterprises
H16: Relationships with SOEs	Discrete MDA Analysis	Grouping variable relates to some independents	Discrete MDA result supports H16: The interrelations between TNCs and SOEs have many possibilities, i.e. mutual benefits

Notes: *H8-H13 are operation elements; 24 variables from TNC responses and 22 variables from SOE responses.

4. Conclusions

This research has reached many conclusions and findings based on the literature review. Several of the literature review's most important implications can help in interpreting the conclusions, and contribute definitively to the further explanation of the findings.

TNCs and SOEs have different conditions for collaboration with one another. As TNCs' Chinese-side partners are mostly SOEs, understanding the cooperative relationship between the two is good for both sides. TNCs from different origins and backgrounds have different motives for entering China. SOEs' factors influence the form of TNC entry. The two sides have similar viewpoints on factors such as form of entry, and different ones on factors such as control methods, prioritization of scale and benefits, problems, barriers and dispute settlement, ease and difficulty, etc.

Positioning Technology and Market: TNCs have the advantage in terms of technology, while China has the advantage in terms of markets. According to the competitive advantage theory, these advantages can be exchanged when under equal-value conditions. However, while the entry of technology takes time, a poorly-equipped market can be quickly lost, leading to loss of profits and loss of some industries. Employment: Generally speaking, TNC FDI is good for local employment. However, in China, SOEs are still a main producing part of the economy, so TNC-SOE JVs can employ some former SOE workers, but others may be laid off. Conditions of Localization: A lack of high-quality localization can only weaken production ability and lower brand quality. Strong-Strong combinations are good ways. TNCs have agreements and connections with central and local governments, and/or relevant government sectors; while the cultural differences are not the largest barriers.

Other implications and findings: Cultural positioning, Internal connections, Features and behaviour, Learning, Appropriateness of questionnaires, Double answers to sensitive questions Further studies include changes to and development of the cooperation of the two parties', and how the so-called "going out strategy" of Chinese SOEs is influenced by TNC-SOE collaboration.

References

- Buckley, Peter J., Jeremy Clegg, Hui Tan (2005). *Reform and Restructuring in a Chinese State-owned Enterprise: Sinotrans in the 1990s*. [J], Management International Review, 2005, 45(2): 147-172.
- Buckley, Peter J., Mark Casson (2010). *The Multinational Enterprise Revisited: The Essential Buckley and Casson*. [M], New York, USA, Palgrave Macmillan, 2010: 68-74.
- Dunning, John H., Sarianna M. Lundan (2008). *Multinational Enterprises and the Global Economy, Second Edition*. [M], Cheltenham, UK, Edward Elgar, 2008: 61-62.
- Meyer, Klaus.E. (2001). *Institutions, Transaction Costs, and Entry Mode Choice in Eastern Europe*. [J], Journal of International Business Studies, 2001, 32(2):357-367.

Acknowledgements

The author would like to express my wholehearted thanks to all the people who have given me great help in this research work. First of all, I would like to express my deepest gratitude to my supervisor, Professor Hafiz Mirza, and my thesis examiner, Professor Jeremy Clegg, who provided me with helpful suggestions.

About the Authors

Dr. Gongying Jiang is an Associate Professor at Beijing Geely University School of Finance. She obtained a PhD degree at the University of Bradford School of Management in the United Kingdom, and a Master's degree in economics at Iwate University Faculty of Humanities and Social Sciences in Japan. Professor Hafiz Mirza is currently in International Business Management at the University of Bradford School of Management in the United Kingdom. He is currently working at the United Nations for the World Investment Report.

Contact Information

Gongying Jiang, Associate Professor, School of Finance, Beijing Geely University, 2403 High Building 2, 12 ZhongGuanCun South Street, Beijing 100081, China Tel & Fax: 86-10-8210 7910, 137 1899 6617, Email: g_jiang@hotmail.com, website: www.bgu.edu.cn.