

The 'Liability of Foreignness': Chinese Investment in Australia

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Abstract: In the case of Chinese investment in Australia, most of the investment is undertaken by Chinese state-owned enterprises. As a consequence, they can leverage the massive resources available to them, and thus able to bypass some of the stages implicit in the internationalization thesis. These advantages are at the same time creating a problem for Chinese investors in Australia. Their 'foreignness', and in particular, their ownership has become a liability. They invoked fear and anxiety amongst the larger population and institutional friction is real. Australian companies, its media and government (including politicians and public officials) have found the idea of a putative Chinese takeover of Australia challenging and confronting. Using the case of Chinalco's bid for Rio Tinto, I seek to show how these institutional differences and the different logics engendered are played out and its attendant effects. The paper shows that theoretically and at a practical level, the internationalization of Chinese firms is a real challenge; it also argues that both Chinese firms and their Australian hosts have lessons to learn from each other. Arguably, there are also lessons for emerging firms and their internationalization into developed markets economies.

Keywords: Chinese foreign direct investment; Australia; mining; government policy; state-owned enterprises; acquisitions; institutional theory.

1. Introduction

In recent years, there has been a shift in the distribution of wealth and power (Kupchan, 2012; Subramaniam, 2011; Zakaria, 2008; Mahbubani, 2008; Prestowitz, 2005). A rapidly globalized economy provides new emerging economies (EE) opportunities to catch up and also emerge as credible competitors (Hoskisson et. al., 2009; Cuervo-Cazurra, 2007; Sauvart et. al., 2008; Luo & Tung, 2007; Agtmael, 2007; Matthews, 2006; Amsden, 2001). The rise and (re)integration of China with the world economy ought to be seen in this context. Its transformation into an economic superpower created competitive challenges for many existing economies; at the same time it emerged as a significant source of foreign direct investment (FDI) leaving some to question whether such strategies mark a different stage of Chinese development (Buckley et. al., 2007;; UNCTAD, 2002; Cai, 1999). This has sparked concerns in some countries, and recently in Australia Chinese companies found themselves stonewalled as they seek to increase their investment stakes in Australia. In the United States, the media complained of Chinese takeovers, espionage and unfair trading and loss of control over natural resources in the event of global scarcity; poor management and governance practices; and the unsavoury human rights reputation of the Chinese government and, by extension, of its stable of state-owned companies. China now poses a "new and present danger", a "real threat" (Menges, 2005; Mosher, 2000) and headlines screamed, 'The Chinese are Coming!' Oded Shenkar has suggested that this fear is driven by "geopolitics, animosity perceptions and other 'nonrational' considerations" (Shenkar, 2006: 21). The size, magnitude and increasingly global

ambitions¹ of Chinese enterprises further add fuel to the debate (Zhang, 2003;; Shenkar, 2006; Zeng & Williamson, 2007). As Morck, Yeung and Zhao (2008) suggest, “with over a trillion dollars in foreign reserves and increasing economic clout, China can send flagship companies to acquire technologies, brands, resources and better access to international markets”.

The “sheer scale of China’s internationalization warrants analysis of its forms and motives” (Child & Rodrigues, 2005: 382), and indeed, recent studies have sought to precisely do that (Sun et. al., 2012; Globerman & Shapiro, 2009; Morck, Yeung & Zhao, 2008; Buckley et. al. 2007; Luo & Tung, 2007). Studies on Chinese outward direct investment have concentrated on greenfield and joint venture investments although of late, there has been an increased interest in China’s pace of acquisitions (Hemerling, Michaels and Michaelis, 2006). These studies suggest that Chinese firms are strategically seeking and exploiting assets in developed markets so they may learn how to compete globally and crucially acquire the technological and brand assets to support their globalization strategy (Child & Rodrigues, 2005; Alon & Macintyre, 2008; Globerman & Shapiro, 2009; Rui & Yip, 2008; Yang, 2005; Zeng & Williamson, 2007). At the same time, there is a recognition that presently Chinese firms are internationalizing quite differently compared with previous experiences (Buckley et. al., 2007; Matthews, 2006; Child & Rodrigues, 2005); they engage in OFDI (overseas foreign direct investment) to enhance their competitiveness rather than exploit an existing set of advantages. National political goals e.g. national development and national security, amongst others, are also critical in effecting the internationalization push (Nolan, 2001; Yiu et al., 2005, Morck et. al., 2008).

This paper focuses on the case of Chinalco and its bid for Rio Tinto. It seeks to interrogate media reports, public official documents to provide an in-depth analysis of the underlying discourses undergirding Australian responses to Chinese investment. Such an approach differs from previous studies on Chinese investment which predominantly used a quantitative approach based on secondary data. The approach here is exploratory and provides a fuller, richer picture as it enables us to document and explain the forces affecting Chinese investment in Australia. In the present analysis, particular attention is drawn to the Australian institutional environment and settings which affect Chinese investment in Australia. The paper pointedly notes that Chinese MNEs are affected by ‘the rules of the game’ shaping the Australian environment in which business takes place (Peng, 2003; North, 1990). The paper argues that Chinese firms seeking to internationalise into Australia need to be more aware of the institutional settings that their firms find themselves in, the formal and informal rules that constrain or drive economic activities within societies (just as the Chinese have been quick to remind foreign companies investing into China), and that these differences have a clear impact on Chinese firms seeking to internationalize in different parts of the world. These ‘rules of the game’ have to be learnt and Chinese firms will have to modify and change their own organizational practices to meet these rules.

2. FDI, institutions and the liability of foreignness

Many scholars have recognized the importance of national boundaries in the study of the organization and environment. In an early work, Lawrence and Lorsch (1967) addressed, to a limited degree, the challenges faced by MNEs, recognizing the importance of national boundaries in organizational environments. Meyer

¹ The Chinese government has publicly stated its hope to see 50 mainland Chinese firms in the FortuneGlobal 500 by 2010. As of 2007, a total of 29 companies have already achieved these goals.

and Rowan (1977) indicated that there was variance across countries in their institutional environments. Undertaking OFDI is a risky process. These challenges are compounded when firms first entering or investing in an international market have to face new business and institutional environment, and overcome political, economic, social, cultural and regulatory barriers in a foreign country to conduct business. Apart from having to develop new resources and capabilities on foreign entry, the internationalizing firm faces heightened political risks as well as the operational risks stemming from the foreignness of the new environment. These risks, which Stephen Hymer (1960/1975) terms as 'liability of being foreign' include: a. lack of information about the foreign market; b. discriminatory treatment from the host country government, buyers and suppliers; c- differential treatment from firm's home government and, d. exchange risks (Hymer, 1960/1976)². Others have built on his work e.g. Buckley and Casson (1976) associated this liability to the lack of knowledge and unfamiliarity with the business, social, political and institutional environment in the host market (see e.g. Caves, 1971; Hennart, 1982; Ghemawat, 2001)³. Despite its theoretical centrality in international business, from a conceptual and empirical point of view, this idea of 'liability being foreign' was not further developed. Instead it languished for many years 'as a taken-for-granted assumption' (Zaheer, 2002) and only in the mid-1990s, been revived and recognized for its critical import (Eden & Miller, 2004; Matsuo, 2000; Zaheer, 1995, 2002; Nachum, 2003)⁴.

Based on her review of the literature, Zaheer (1995) coined the highly popular term, the "liability of foreignness" (LoF). She defined it as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur" and identified four sources: a. spatial distance (i.e. costs of travel, transportation and coordination); b. company's unfamiliarity with local markets and cultures; c. costs associated with the lack of legitimacy of foreign firms in the host country and economic nationalism and, d. costs from restrictions imposed by the home country environment. Zaheer stressed the importance of considering 'a foreign firm's network position in the host country and its linkages to important actors' (Zaheer, 2002: 351), arguing that foreign firms face a 'liability' that is derived from the firms' lack of experience and knowledge about the foreign environments in which they operate. There is, as she noted, a

² There has been a debate whether the cost of doing business abroad (CDBA) and LOF are synonymous, whether one is a subset of the other, or whether one leads to the other. Or did CDBA just morph into LOF? (Luo & Mezias, 2002). Both Zaheer (2002) and Eddén and Miller (2004) have sought to provide some clarification on these twin concepts. Zaheer, for example, notes that while market-driven costs are central to CDBA, LOF relates to the subtler structural/relational and institutional costs. Structural/relational costs arise from a foreign firm's network position in the host country and its linkages to important local actors. Most likely, a local firm would incur fewer of these costs because it has better developed local networks. Institutional costs arise from institutional distance between the home and host countries, and higher the institutional distance, the lower the legitimacy of the foreign firm. Thus, LOF is different from CDBA in the sense that it focuses on the "social costs of access and acceptance" (Zaheer, 2002: 352), whereas CDBA relates to market-driven economic costs. Eden and Miller (2004), on the other hand, see LOF as a key aspect of CDBA as social costs are one of the many costs that a firm incurs while doing business abroad. These social costs arise from *unfamiliarity*, *relational*, and *discriminatory hazards* with the host institutions. Unfamiliarity costs result from a firm's lack of knowledge of, or experience in, the host country. Discrimination hazards arise from discriminatory treatment by the host government in a variety of ways ranging from discriminatory taxation to discriminatory procurement, and even the rule of law (Schmidt & Sofka, 2009).

³ As Caves (1971: 5) points out, "the foreign firm must pay dearly for what the native has acquired at no cost to the firm...or can acquire more cheaply" as a result of its knowledge of the host country.

⁴ Scholarly attention in the meantime incorporated Dunning's eclectic framework and concentrated on identifying firm-specific advantages needed to overcome the costs. As Buckley and Casson (1998: 540) noted the MNE "must possess a 'compensating advantage' in order to overcome the 'costs of foreignness.'" (see also Dunning, 1977; Hennart, 1992; Rugman, 1981). Indeed, these superior competitive advantages explain why foreign MNEs tend to perform better than domestic firms (Hymer, 1976; Buckley & Casson, 1976); the firms' superior advantages are transferred internally and used to obviate their foreignness. This debate is far from over and definitive findings have yet to be reached.

need to concentrate on the structural/relational and institutional costs of doing business abroad. The rationale behind the idea of LoF follows the basic argument that local firms operating in their home market environment benefit from a ‘home turf’ advantage. They know their business environment and the environment knows them. Foreign competitors, on the other hand find it relatively harder to fit in and thus suffer from an alien context, delays, unnecessary risks and often made more frequent mistakes (Sofka, 2006).

The key driver behind LoF, as such, is the institutional distance (cognitive, normative and regulatory)⁵ between the home country environment and host country environment, including the costs related to its access and acceptance (Kostova & Zaheer, 1999; Eden & Miller, 2004; Zaheer, 2002). In addition, as Kostova and Zaheer (1999) suggest, informal institutions based upon within-country norms, including information such as business practices and conventions, national cultures, and corporate cultures, have an effect and are probably the most difficult dimension for outsiders to learn, understand, and react to. Foreign firms may also suffer from discrimination by the consumer or the public; sometimes, even higher standards of conduct maybe imposed upon foreign firms (relative to domestic incumbents), and they can also face informal discrimination if they are perceived as outsiders (Eden & Miller, 2004)⁶. In short, institutions matter and play a critical role in shaping and determining what is socially or legally appropriate, especially because these institutions include laws, the judiciary, regulatory structures, governmental agencies, the media, etc. Politics, in particular, policy shifts in taxation and regulation are significant threats to MNEs and as such, are costs MNEs need to bear when investing abroad (Ramasamy, Yeung & Laforet, 2012).

The obstacles faced by MNEs operating abroad are at least of two types. Firstly, foreign competitors find it difficult to acquire, substitute or imitate this local knowledge because it is largely tacit and causally ambiguous (Barkema and Bell, 1996; Jensen and Szulanski, 2004). Lacking this local embeddedness, they may lack fit and integration becoming therefore less efficient and effective in their business interactions (Granovetter, 1985). Secondly, the MNE affiliate is subject to institutional pressures from both its parent and from the local environment (Kostova & Roth, 2002). Its ways of doing business may thus differ from that of local organizations, which may inhibit the interaction between the foreign affiliate and local organizations and individuals. Thus, MNE affiliates may be constrained in developing the external relations that could allow them to gain legitimacy in the local environment (Gaur, Kumar & Sarathy, 2011; Kostova & Zaheer, 1999). The more different the MNEs origins are from the context that they enter, the greater will become obstacles to attaining local legitimacy. This differential in exposure to local institutions makes it logical to apply institutional theory to analyze the link between differences in

⁵ The regulatory pillar of the institutional framework lays out the ground rules for conducting business and reflects the laws and regulations of a region or country and the extent to which these rules are effectively monitored and enforced. The cognitive pillar rests on the cognitive structures embedded in a society; that is, the widely shared social knowledge and cognitive categories (e.g. schemata and stereotypes). The normative pillar consists of beliefs, values, and norms that define expected behavior in a society. These pillars of the institutional framework are based on different types of motivation - coercive, mimetic, and normative - and differ in their degree of formalization and tacitness (Scott, 1995/2001). Eden & Miller (2004:16) interpret these three pillars as follows: the regulative defines what people are permitted or not to do, the normative pillar defines what is or is not right to do and finally the cognitive pillar can be interpreted as what can or cannot be done.

⁶ A good example of this is the case of Huawei which is seen by many governments as a ‘foreign agent’. In this theoretical frame, foreign firms have to adapt to local situations in order to ensure their survival and success in the new context (Hannan & Freeman, 1977). A MNE’s ease of adjustment depends on its familiarity and adapting to the host country’s institutional profile (Xu and Shenkar, 2002; Xu, Pan & Beamish, 2004).

business environments and MNEs' entry modes (Gaur, Kumar & Sarathy, 2011; Davis, Desai and Francis, 2000; Xu and Shenkar, 2002; Harzing, 2003). Normative and cognitive distance between an acquired business unit and the parent organization especially inhibits its ability to attain legitimacy in the local context (Kostova & Zaheer, 1999). In contrast, regulatory aspects are more formalized and thus are easier understood by MNEs, and more accepted as a cause for local adaptation. Therefore, a high normative and cognitive distance impedes the adoption of a MNE's practice and restrains the affiliate's capacity to establish legitimacy, while a high regulatory distance is likely to have a negative effect primarily on the adoption of an MNE's practices for the affiliate.

Adaptation to local institutional pressures is more challenging if facing normative and cognitive differences than with regulatory differences. While regulatory institutions are relatively transparent, norms and cognition require intensive cross-cultural communication because they are hard to comprehend, and knowledge about other cultures is often tacit (Boyacigiller, Goodman and Phillips, 2004). Empirical studies have provided evidence for LoF, showing that foreign firms often perform less well than domestic firms (De Young & Nolle, 1996; Miller & Parkhe, 2002). Because of this, foreign firms have adopted strategies to overcome their LoF, e.g. the choice of entry (Eden & Miller, 2004; Xu & Shenkar, 2002; Yiu & Makino, 2002); using intangible resources, such as R&D, patents, brands and advertising capabilities; engage in legitimacy-building strategies, such as cross-listings on foreign stock exchanges, corporate diplomacy, corporate social responsibility, bargaining with host country governments and local networking (Luo and Mezias, 2002; Eden & Molot, 2002).

2.1. Emerging economies, their firms and LoF

Most of the extant literature on LoF has focused on developed economies' (DE) firms and their investments in developing economies and typically, examine the firm and ownership advantages of the firms (Gaur, Kumar & Sarathy, 2011; Miller & Parkhe, 2002; Hoskisson et. al., 2000). Of late, there is a growing interest in emerging economies and their firms internationalizing (Yeung, 1999). This research has suggested that FDI made by MNEs from emerging economies tend to agglomerate in other underdeveloped economies (Gaur, Kumar & Sarathy, 2011; Barnard, 2008; Ramamurti, 2008; Morck et. al., 2008) and their investment behaviour and characteristics differ from DE MNEs investment⁷. The research also suggest that even when they invest in developed economies, it differs because of their motives - they are trying to overcome the economies of scale prevailing in their home markets, acquire resources, exploit their experiences with labour-intensive technologies, engage in a strategy of risk diversification and reaching out to the diaspora market among others (Gaur & Kumar, 2010; Miller et. al, 2008). As such, they often start with exports (Aulakh, Kotabe & Teegan, 2000; Xu & Shenkar, 2002) and then 'springboard' to acquiring small firms or becoming supply chain partners of big firms in developed economies (Luo & Tung, 2007; Mathews, 2002, 2006; Makino et. al., 2002), thus overcoming their LoF. These contextual characteristics, argue some scholars, amplify EE MNEs' unfamiliarity hazards (Eden & Miller, 2004) and their weak embeddedness in the local environments (Gaur, Kumar & Sarathy, 2011; Johanson & Vahlne, 2009; Zaheer, 2002). These 'costs' have as Eden and Miller (2001: 1) wrote "received less attention, serving primarily to motivate research on the MNE's advantages", and are not limited to

⁷ This is not a new observation. Tolentino (1993:77) for example, pointed out the advantages of EE MNEs lay in path-dependent capabilities of product development encompassing some form of innovative capacity, albeit on different lines as compared with DE MNEs. Sanjay Lall had said much the same thing and has covered the rise of EE MNEs in an earlier work (Lall, 1983). The most significant and famous work on EE MNEs is that attributed to Wells (1983).

certain industries (see also Cuervo-Cazurra & Genc, 2008; Cuervo-Cazurra, 2007; Ghemawat, 2007; Zaheer, 2002).

The emergence of China and other emerging economies in the OFDI arena, have, however, provided cause for a rethink and some scholars have suggested that new theorizations or an overhaul of existing FDI theories are needed in order to understand and explain internationalization of firms from emerging economies (Ramasamy, Yeung & Laforet, 2012; Peng, Wang & Jiang, 2008; Buckley et. al., 2007; Matthews, 2006; Child and Rodrigues, 2005). Indeed as Peng, Wang & Jiang (2008: 938) noted, “we currently know very little about how firms from emerging economies internationalize”

Chinese companies that invest abroad are predominantly state-owned (SOEs) (Morck et al., 2008). Morck, Yeung and Liu (2008) found in 2006 that 82% of China’s non-financial outward FDI was conducted by state-owned enterprises (SOEs). Of the thirty largest companies ranked by outward FDI, all but two are state-controlled, and although most SOEs are listed on a stock exchange, the Chinese state retains majority power and appoints executives, largely from party ranks (Morck et. al., 2008)⁸. Most scholars agree that classical motivations play the key role for Chinese companies investing abroad: primarily market-seeking, resource-seeking, strategic asset-seeking, efficiency-seeking and diversification-seeking (Buckley et. al., 2007; Hong & Sun, 2006; Deng, 2004; Zhang, 2003; Wang, 2002; Cai, 1999). The need to secure access to overseas energy resources and raw materials to support China’s growth has been and continues to be a key driving force (Cheng & Ma, 2008; Morck et. al., 2008; Hong & Sun, 2006).

In the case of Chinese MNEs, a number of scholars observed that the internationalization process of Chinese firms usually address relative disadvantages, included those associated with the liability of foreignness, through the establishment of international links such as strategic alliances with local firms (Child and Rodrigues, 2005; Li, 2007). Child and Rodrigues (2005) also contended that original equipment manufacturer/joint venture (OEM/JV) contracts enable Chinese firms to become familiar with international business practices and therefore to reduce its future liability of foreignness. They further asserted that organic expansion and hiring and training their own employees helps Chinese firms to offset its liability of foreignness. Other authors pointed to personal ties and ethnic networking which is mobilized to reduce risk and to overcome the liability of foreignness (Morck et. al., 2007; Cai, 1999; Wang, 2002). The differences between institutional environments, the unfamiliarity with governance structures, bureaucratic procedures, business practices, lack of local knowledge and know-how, and the legal and regulatory frameworks that facilitate and enable business transactions create for Chinese MNEs a LoF, affecting their legitimacy, performances and also the costs of doing businesses overseas (Cai, 1999; Calhoun, 2002; Kostova & Zaheer, 1999; Zaheer & Mosakowski, 1997), and to this, the paper seeks to explore.

2.2. Reading the text, opening the “black box” and enabling the context

⁸ In recent years, the state via its domestic institutions have provided strong support to Chinese MNEs, facilitating their desire to accelerate the internationalization process and to catch up with MNEs from developed countries. Since 1986, the government has been providing all overseas Chinese enterprises tax exemption status for five years. Equipment exporting firms have been entitled to exporter’s refund of value added tax and often given a host of other preferential treatment. This is also keeping in compliance with current State’s policy on Going Global (Child & Rodrigues, 2005; Nolan, 2001). There have also been other new initiatives e.g. capital account liberalization., decentralising approval authority, from the central level to the local level, and simplified processes, including the introduction of online application procedures.

Using these lenses - institutional theory and the idea of LoF, the paper seeks to explain the case of Chinese investment in Australia. It takes its cue from Lorraine Eden's editorial "Lifting the veil on how institutions matter in IB research". In that editorial, Eden (2010: 175) wrote "Exactly how institutions matter is less clear". Indeed, it would be trite to say that we all are institutionalists in some form or another. Eden critically draws our attention to previous contributions which suggest that we need to examine the "interdependent structures and systems within a country, across dyadic pairs of countries and at the level of the international state system" (Eden, 2010: 175). This vexatious issue continues to capture our imagination but here, perhaps, one can ask, is it possible to 'open the black box' of institutions if we simply study it as mere abstractions or run a series of regression analysis? The 'how' and why' is indeed important and this paper seeks to do that. It does not argue against the case of a quantitative or 'empiricist' approach but rather seeks to try to present a case for thicker descriptions of the process studied. This Geertzian view (Geertz, 1973), I suggest allows us to better appreciate how institutions matter and how they may be mobilize, although in this paper, I focus on one particular aspect of institutional processes – the political and regulatory realm. In so doing, I do what Welch et.al., calls a form of c'contextualised explanatory' research.'. Its values as Welch et. al. (2011: 755) tells us, "lies in its different view of how to generate theories about the social world: the rejection of the regularity model of causation, skepticism towards the possibility of meaningful law-like generalizations, and **a defence of context as being an essential component of, rather than a hindrance to, explanation**" (my emphasis).

Studying Chinese investment in Australia is relatively easy if one just relies on quantitative data and impute from that data but to have a richer and thicker description of the process, especially how and why Chinese investment has been problematic and has been rejected is harder to get at. This is because the 'motives' of the individuals involved in the process cannot be clearly identified and/or articulated; this 'sense-making' (Weick, 1993, 1998) can only be deduced. As such, in examining the issue of Chinese investment in Australia, I have adopted an abductive research strategy, being a mix of deduction and induction (Dubois & Gadde, 2002) to examine the issue at hand. The purpose is theoretical development, where the empirical support of a theory is continuously assessed, or, inversely, a reality's theoretical support investigated, through the matching of theories with realities (e.g. Merriam, 1998; Yin, 2003; Eisenhardt, 1989).

The paper has an inductive starting-point, being characterized by an abstraction of empirical realities. A broad case-study approach is used and it maybe sufficient when the aim seeks to identify new concepts or challenge pre-existing views of the world (Yin, 2003; Dyer & Wilkins, 1991; Ghauri, 2004; Van Maanen, 1979). Since the study object is a fairly new phenomenon, the study is explorative; case material is used both inductively, as inspiration for new ideas or theories, and to illustrate the adopted conceptual model. Eisenhardt has likewise reminded us of the value of case studies. For her, they are "particularly well-suited to new research areas or research areas for which existing theory seems inadequate" (Eisenhardt, 1989: 548). Indeed, as this paper will show, there is no unanimity on how Chinese firms internationalise successfully in developed market economies. The paper thus contributes to a framework that is continuously tested and refined through a dialectical tension between deductive and inductive approaches. The final aim is to create a solid theoretical and empirical base at the same time as strengthening the practical validation of the research, by making the results relevant for organizations and society.

3. Australia and China: the bilateral trade and investment links

As one of the first few countries to recognize China as a major player in the international arena, the Australia-China relationship has deepened significantly since the 1970s. In the economic sphere, China has now overtaken the U.S. and Japan to become Australia's number one trading partner. According to the Australian Department of Foreign Affairs and Trade (DFAT), two-way trade with China reached A\$63.8 billion in 2007-08, a 16.5 per cent increase on 2006-07. Bilateral trade in services has expanded from A\$1.47 billion in 2000 to A\$5.2 billion in 2007. China was Australia's third largest services export market in 2007, up from 13th largest in 1995. China accounts for 14.9 per cent of Australia's merchandise export trade, worth \$26.9 billion⁹. Resources (minerals and fuels) exports account for over two thirds of its merchandise imports with Australia, where Australia is seen as a competitive and reliable supplier of a wide range of resources, necessary for China's economic growth. China is also Australia's second largest export market for Australian agricultural products with exports worth over A\$3 billion in 2007-08. Australia-China two-way investment has, however, lagged behind the trade relationship but is growing. At the end of 2006, total stock of Chinese investment was only A\$3.4 billion or one fifth of 1% of foreign investment in Australia. In 2007, China was the 17th largest investor in Australia with total investment of A\$6.2 billion. As of December 2007, foreign investment in Australia totaled A\$1.66 trillion¹⁰. 26% of this came from the US, another 25% from Britain. Other significant sources of investment were Japan, Hong Kong, the Netherlands, Singapore, Germany and Switzerland. China is well down the list. China's largest investments are in the resources sector, reflecting China's development demands. China's estimated US\$2 trillion in foreign exchange reserves and a new 'go-global' policy encouraging overseas investment are expected to result in more Chinese investment in Australia (see Table1).

3.1. Chinese investment in Australia: case of politics or economics?

The success of countries to attract FDI partly depends on the barriers and restrictions imposed on investments. During the last 15 years of strong economic growth, Australia has congratulated itself on being able to successfully ride the Chinese tiger economy. Australian policymakers frequently claim that Australian FDI policy is relatively liberal and non-discriminatory. For example in a July speech to the Australia-China Business Council, the Treasurer Wayne Swan said that 'Australia is an open, liberal nation that makes it living through trade with the rest of the world. It follows that we have an open and welcoming approach to foreign investment' (Swan, 2008)¹¹. The Prime Minister was similarly reported to adopt a non-discriminatory approach to FDI (*The Australian*, 22 August 2008). However, the true extent to which this is true has long been the subject of policy debate (Kasper, 1984; Makin, 2008).

⁹ Australia's top six merchandise exports to China in 2007-08 were iron ore (\$12.4 billion), lead, zinc, manganese and other ores (\$1.6 billion), wool (\$1.5 billion), copper ores (\$1.2 billion), crude petroleum (\$646 million) and nickel ores (\$631 million). Merchandise imports from China were valued at \$31.0 billion in 2007-08, led by clothing (\$3.5 billion), telecommunications equipment (\$2.6 billion), computers (\$2.5 billion), toys, games and sporting goods (\$1.6 billion), furniture (\$1.4 billion) and monitors, projectors and TVs (\$1.2 billion). Figures are in Australian dollars.

¹⁰ According to the ABS (2007), mining accounts for almost one quarter of all FDI in Australian industry, with the accumulated stock of foreign investment amounting to over A\$77 billion in 2006.

¹¹ Trade and relations between Asia and Australia has a long pedigree. See: Tweedie, 1994, Stephenson, 2007. Much of the friction has, however, been more apparent in the period of 'white' colonization of Australia and its subsequent history.

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A degree of xenophobia is, however, never far beneath the surface of Australia's attitude to foreign investment. This is consistent in public attitudes towards foreign direct investment and also discernable in other measures. The OECD, for example, has a regulatory restrictiveness index which aims to capture the extent of discrimination against foreign investors compared to domestic investors in any given country. According to its 2007 Index, Australia has the most restrictive foreign investment policy regime of all countries bar Iceland and Mexico (2007: 139).

Most Australians think that "the Australian government is allowing too much investment from China" (Hanson, 2011)¹². In 2008 and 2009, Australian media reports focused on the seemingly 'flurry' of Chinese raids on poor, weak Australian companies, enabling an impression of an opportunistic 'Team China' raiding prized Australian resources. For example *The Australian* on 17th February 2009 and 19th February 2009 reported, "So, those deep-pocketed poachers from China Inc have turned their acquisitive attention from Rio Tinto to an even more distressed miner" and "China has made another grab for Australian resources assets with a state-owned company announcing a A\$2.6 billion takeover offer for the struggling OZ Minerals". And even the more sedate *Financial Review* announced on 17th February 2009: "China swoops on stricken OZ Minerals". Other deals e.g. between Fortescue Metals Group and Hunan Valin Iron & Steel also added to local concerns, particularly from local unions, some local politicians and media analysts and commentators as well as the general public.

Following over a year long spate of adverse media reports on Chinese investment in Australia, the Australian government amended and introduced in February 2008 a set of new guidelines on foreign direct investment in Australia (FIRB, 2008). The new guidelines state that while proposed investments by foreign governments and their agencies would be assessed on the same basis as private sector proposals, the fact that these investors were owned or controlled by a foreign government raised '*additional factors that must also be examined*' given that '*investors with links to foreign governments may not operate solely in accordance with normal commercial considerations and may instead pursue broader political or strategic objectives that must also be examined.*'¹³

A concern with SOE is plainly evident and that they seemed to have been directed at the Chinese is also clear, as most Chinese investors have a SOE background. Peter Drysdale and Chris Findlay (2009), for example, cautioned against these restrictions. For them, they are discriminatory (as it seemed to be levelled at the Chinese), and that such a creation of a class of investments requiring special scrutiny is a departure from the norm. This heightened scrutiny of Chinese investment invariably drew some responses. Media reports suggested that Chinese investors were concerned with Australia's policy approach (*Australian* 2 July 2008, 17 September 2008). Even the influential regional *Asia Wall Street Journal* also reported that 'market watchers believe Labor has been acting to slow investment without publicly opposing Chinese investors, while it decides how to deal with the wave of Chinese-government-backed deals' (*Asia Wall Street Journal*, 7 July 2008).

¹² In its latest poll, a large majority (81%) saying they are against 'the Australian government allowing foreign companies (read China) to buy Australian farmland to grow crops or farm livestock'. This is because most of the commentaries and statements have largely focused on Chinese acquisition of Australian agri-businesses and farms. The Rural Industries Research and Development Corporation (2011: 18) found that about 11.3% of Australian agricultural land was wholly or partly owned by foreigners, of which around half had majority Australian ownership. It also found that 1% of Australia's agribusinesses were wholly or partially owned.

¹³ See Attachment A in The Australian Treasury, Summary of Australia's Foreign Investment Policy.

Chinalco's US\$19.5 billion (\$30 billion) bid for Rio Tinto in 2008 has made the choices facing the Australian government much starker. At stake is a fundamental reshaping of the definition of Australia's national interest, including what this country can – and cannot – afford to do without in terms of foreign investment, as well as marking a new point in Canberra's relationship with Beijing. The bid means that Chinalco, a 100% state-owned aluminium company would end up with 18% of Rio Tinto, two seats on its board and hold minority stakes in its key iron ore, copper and bauxite assets.

Chinese ambassador to Australia Zhang Junsai said increased investment by Chinese companies in Australia was an inevitable result of the increased trade ties between China and Australia. He also said that Australia had attracted more than \$5trillion worth of new foreign investment from Japan, South Korea, India, the US and Europe and expected that China would not be treated any differently. He noted that as Australia's number 1 trading partner and as China opens up and reformed its economy, Chinese companies are now investing globally and certainly are interested in Australia too (*Australian*, 2/7/2008). In a later speech, he suggested Chinese interest in China is based on a recognition of mutual shared interests. Nonetheless, he recognizes that there was a clear concern and anxiety over Chinese interests and investment in Australia (Zhang, 2009)¹⁴.

3.2. Chinalco: the battlelines

Most theorists claim that EE MNEs, coming from countries that are less-developed tend to invest in countries that have less well-developed institutions. They argue that these EE firms develop skills and adopt organisational structures and practices enabling them to operate in environments exhibiting weak institutional systems (Holburn & Zelner, 2010; Cuervo-Cazurra & Genc, 2008; Morck et. al, 2008). Kolstad & Wiig (2012: 33) recently wrote that Chinese foreign investment appears to favour countries which theses dysfunctional institutions. In looking at Chinese investment in Australia, I seek to explore this dimension of institutional fit; clearly Australia does not fit the mould of an underdeveloped economy or having poor, underdeveloped and weak institutions. In entering Australia and substantially increasing its exposure, Chinese investors appear to be challenging this axiom.

Two weeks before the election of the Rudd Federal Labor Government in Australia, BHP-Billiton made an informal takeover offer, canvassing an exchange of three of its shares for every one of Rio Tinto's pricing it at around \$US140Billion. Between them, the two companies provide about 40% of China's iron ore needs. Over the course of December 2007, there were a series of reports on a possible counter bid for Rio (*Sydney Morning Herald*, 6 December 2007). Coincidentally in December 2008, China's State development Council had approved Chinalco's request to broaden its mandate from aluminium production to diversified mining. Chinalco had earlier been summoned to a series of meeting called by the National Development and Reform Commission (NDRC) in November 2007 to discuss the BHP bid and to map out a counter-measure strategy, and with the NDRC's blessing, conducted its raid on Rio Tinto, In February 2008, Chinalco paid US\$14 billion to buy a stake in Rio. In the meantime, Rio was feeling the effects of its debt incursion after acquiring Canada's Alcan in 2007 and was desperate for funds. This was further

¹⁴ This has been widely discussed by Walker (1999) and Markus (1979). According to both authors, this is a long standing fear. Its roots are steeped in Australia's past; there is a deep and profound fear of Australia being over-run by Asians. Indeed, many of these views were centred around the Chinese. More recently, this 'anxiety' and fear is refracted through multiple concerns – Asians, immigrants, refugees, boat people and Islam. See for e.g. Jayasuriya, Walker & Gothard (2003), Hage (2002, 2000, Jupp (2002), Burke (2008) amongst others.).

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compounded by the global credit squeeze in 2008 and Chinalco announced on February 12, 2009 it would invest a further US\$19.5 billion stake in Rio for minority shareholder's status and two non-executive board positions. This move seemed opportune for Rio as it provided a much needed lifeline for the company but the long FIRB's review process prompted much disquiet amongst Rio's shareholders and the Australian public. The general Australian public had been hostile to Chinese foreign investment in Australian firms whilst Rio Tinto's investors who had been angry with the leadership of their company, preferred almost any capital-raising alternative to selling a path to control. For Chinalco, it would have diluted their earlier higher purchase price and greatly reduced the threat of any future BHP-Rio merger. In the meantime, during the long protracted review process, Rio's share prices also recovered as global commodity prices and markets improved dramatically¹⁵, and the deal with Chinalco was scuttled.

Since then, there have been a few accounts of how the Chinalco bid unraveled. In some of these accounts, the media and public mobilization of bias against the Chinese were seen as critical factors. This view has also since been semi-endorsed by China state's Council. According to David Uren (2012), the major players in staunching Chinalco's bid were led by the FIRB, Marcus Kloppe (of BHP) and the Minister of Resources, Martin Ferguson, the Prime Minister Kevin Rudd, and staff within the Treasurer's and Prime Minister's Office. According to Uren (2012: 72-77), Martin Ferguson and then Prime Minister, Kevin Rudd first raised their concerns over Chinalco's bid, then ramped up and amplified the issue of the risks around foreign investment resulting in a commissioned paper which became the new guidelines of February 2008. Uren also pointed out that the then head of the FIRB, Patrick Colmer, appeared to be hostile to Chinese investment. In a confidential US embassy cable, released by Wikileaks, Colmer was quoted as saying that the government wished "to pose new disincentives for larger-scale Chinese investments", and that the new 2008 guidelines "signaled a stricter policy aimed squarely at China's growing influence in Australia's resources sector" (Wikileaks, 2009a) The Australia government meanwhile publicly proclaimed its 'non-discriminatory' and liberal policy towards OFDI (Swan, 2008d).

At the same time, BHP led by its Chairman Don Argus and CEO, Marius Klopper, ran a campaign arguing that the Chinalco's deal if approved, would undermine the pricing and more importantly, the resource industry in Australia. It claimed that Chinalco was an arm of the Chinese government whose interest was to itself and as such, Chinalco's bid was inimical to Australia's national interest. In its submission to the government, it also painted a picture of a Team China seeking to corral Australia's resources (Uren, 2012: 95-98). The former Treasurer also supported BHP's view, and across the political divide, a majority of opposition politicians, including the Greens, and then Opposition leader, Malcolm Turnbull, opposed the Chinalco bid. Public sentiments fanned by the print media as well as radio shock-jocks were vehemently opposed to Chinalco's bid for Rio. The Chief of Staff to the Treasurer, Chris Barrett, observed that "BHP has played its cards with consummate skill" in another leaked cable posted by Wikileaks (2009b). David Uren went on to document the Australian government's stalling tactics and also the intransigence of its bureaucrats e.g. Patrick Colmer's repeated brusque attitudes towards Chinalco, culminating to a position where changing market conditions ensured Rio Tinto could forego Chinalco's cash injection. Chris Nyland and his colleagues (2011) have suggested that these tactics of mobilizing bias were an interesting turn of events in Australia and that clearly, BHP and its agents, have been instrumental in squashing the

¹⁵ Ironically, this was in part driven by China's own massive stimulus package. Indeed, the Australian Reserve Bank Governor, Glenn Stevens in a number of statements have attributed Australia's growth and economic resilience due to global commodity prices and the demand from China.

Chinalco bid. Quoting a report, they noted that Marius Klopper “told the US Consul-General he took personal credit for quashing the Chinalco bid” (Nyland et. al., 2011: 615). Nyland et al. also claimed that US officials seemed to be completely apprised of events surrounding the Chinalco project, and that Chinese firms were being discriminated against. Indeed, some of these observations were recounted by journalist John Garnaut (2009), and follow-up reports by the Sydney Morning Herald, drawing on leaked US cables released by Wikileaks confirmed this bias. Uren (2012) suggested that the Federal Government, despite its seemingly friendly-to-Asia claims, were fearful of China, Chinese ambitions both military and trade-wise.

In light of this event, Chinese responses have raised the issue of racism (Nyland et. al., 2011: 618). Xinhua News, as reported, claimed anti-Chinese ‘Cold War’ approach affecting Australian business practices. The Chinese government had also responded. China’s Ministry of Commerce (MOFCOM, 2010) while regarding Australia as a safe and very low-risk country for foreign investment sets out a number of problems in investing in Australia. They point to increasingly stringent verification and approval processes; difficulty in obtaining work permits; and the challenges for Chinese companies from the different business operating environments, laws and regulations, as well as the lack of Chinese international talent. It also notes that the Australian media is very sensitive to Chinese investment in Australia and there is often some negative news.

4. Revisiting institutionalisation: emerging economies and LoF

Morgan (2001: 1) has written that “multinational firms are social constructions... they are built out of specific national institutional contexts that shape how they internationalize.” In a sense, Morgan is invoking particularities of a firm and its attendant properties but he is also drawing our attention to the context through which firms emerge. Cuervo-Cazurra et al. (2007: 719) similarly observed that the “understanding, relationships and social capital needed for dealing with other entities and prevailing rules of behavior” constitute valuable complementary resources needed by entry-seeking MNEs for competing in a new institutional environment. EE firms tend to face disadvantages as being foreign due to their unfamiliarity with local norms and rules, discrimination from local stakeholders (government, customers, etc.), and the lack of a local business network (Eden & Miller, 2004; Johanson & Vahlne, 2009; Zaheer, 2002; Zaheer & Mosakowski, 1997). Due to these disadvantages, they incur location-specific disadvantages, making it much more difficult to realise their objectives. In accepting this view, we are in fact saying that not only is a MNE identity shaped by its history and origin but that these properties maintain their imprint and potency as the firm expands and internationalises. In the case of EE MNEs entering DE markets, their countries’ images have real effect. For example, Japan suffered for a long time in its internationalising phase; its products were seen to be inferior in quality and make and yet, today, many of the high-tech companies are Japanese. In the case of China, negative images pervades and occupies the public domain, Its record on human rights and image of an authoritarian, corrupt and communist country further added to its ‘image deficit’. This has far-reaching effects as seen in the many failed acquisitions of high-tech (and/or strategic) firms in DEs are far-reaching e.g. Huawei and 3M, and in the present case, Chinalco and Rio¹⁶.

¹⁶ There is in another setting, of course the example of Arcelor and Mittal Steel (which has an Indian management). In 2006, the governments of France and Luxembourg initially opposed the takeover of the steel firm Arcelor by Mittal Steel. They were more amenable to a Russian takeover (Goldstein, 2008).

This contextual factor is important, and here, we need to examine how Western theories on internationalization have overlooked the active role played by the state and neglected the institutional or contextual perspective in the internationalization of Asian firms (Yeung, 1999). The active state was necessitated by the underdevelopment of indigenous entrepreneurship and the capital wielded by the state. In many such economies, the state assumed the role of entrepreneurship by actively opening up overseas business opportunities and setting up institutional frameworks e.g. the provision of finance, tax incentives, training, for firms to tap, amongst other programs and policies to transform their economies. Mathews has cogently shown how latecomers may have accrued some competitive advantage enabling them to leapfrog these stylised rites of passage (Mathews, 2002; Luo & Tung, 2007). In such a context, a number of questions arise: are state owned-enterprises government controlled enterprises? And do these types of investment deliver benefits to host countries (Globerman & Shapiro, 2009; Chang & Xu, 2008)?

In relation to the second, the response has to be contextual i.e. spillover benefits depends on where on stands e.g. it may be direct via productivity gains from investments by foreign-owned firms in the host country (Caves, 1974; Blomstrom, Koko & Zejan, 2000; Slangen & Hennart, 2007; Globerman & Shapiro, 2009) These benefits could also include the diffusion of innovation introduced, greater competition and the improvement of skills and expertise of local employees as well as higher standards for product quality and management (Chang & Xu, 2008). In reviewing studies on the efficacy of acquisitions vs greenfield investments, Globerman and Shapiro (2009: 169) recently observed that there is no available and consistent evidence backing up either view.

5. Ownership and control: contending problematique?

Of greater concern than benefits is the issue of control. In free market capitalist economies, control is clearly constrained by the market, especially where international involvement is large (Peng, 2000). In most economies, there is active government involvement in business via ownership or through the regulatory framework. Thomsen and Pedersen (2000), for example noted that state-ownership is prevalent in many developed markets such as Austria (34%), Finland (28%), France (36%), Italy (38%), Norway (39%) and Spain (27% of the largest 100 companies). In the case of China, about a third of the shares of listed companies are held by individual investors or private shareholders and the rest is held by the state and other statutory entities. Two main concerns have been articulated – ownership and 'unfair' capital cost advantage.

In relation to the first point, there is the question of market and the idea of agency. In 'western' liberal market economies, because of agency being granted to managers of the firms, they can pursue rational economic actions benefiting the shareholders. State ownership, on the other hand evokes an image of 'faceless' bureaucrats responding to political dictates rather than rational economic decisions. Particular concerns have been raised about conflict of interests because Chinese investors or other SOEs could also be the buyer for the resources generated by the target firms. Because all Chinese SOEs are closely linked through state ownership, Chinese investors could be captive of state pressure and less likely to practice market principles in their business operations e.g. over supply and pricing, potentially affecting shareholders' interests as well as Australia's national interests via taxes and royalties as there is no real incentive to enact decisions that will increase and maximize the value of the firm. The Chinese forays into Australia, however, showed that far from being well-coordinated actions, Chinese state-owned companies

can be internally competitive and operate beyond the central government's powers of orchestration. Perhaps this is most evident in the case of Minmentals' move on OzMinerals just as the very sensitive Chinalco-Rio deal hits the public spotlight and arouses sensitivities amongst segments of the Australian media and engendered controversies amongst politicians and the general public.¹⁷

Other research seems to validate this point: the pursuit of profits is transforming China's SOEs and their hierarchies of power. In their survey of 296 companies, Woo and Zhang (2006), argue that their analysis shows that since 1980, 'business potential' and the primacy of commercial interests are and have been the major criteria driving Chinese investments overseas¹⁸. Li (2007) pointed out that Chinese companies listing overseas seek not only to raise equity but also to afford protection to stock ownership for their senior management team (Hong & Sun, 2006). There is, as far as can be deduced from the evidence of SOEs' performances that they have performed well (Young & Lu, 1998). Indeed, leaders of SOEs now survive in a world of market forces and are judged on their ability to turn in profits, and hence, operations are left to corporate executives as long as they maintain profits (Thornton, 2008; Woetzel, 2008)¹⁹.

Following from this, there are those who argued that Chinese companies have an 'unfair' capital and market cost advantage as they are subsidized by the Chinese state and do not as such need to finance their investments at market costs. Whilst it is true that Chinese banks offer easier access to loans to SOEs, such argument of predator behavior fails to recognize that such investments' acquisitions are one-time transactions and is therefore, difficult to apply. Moreover, such Chinese transactions often involve greater assets sale value to domestic shareholders, as can be seen in the offer to buy Chinalco's bid to buy Rio, making such predatory behavior arguments more difficult to sustain. Arguably then, that far from being a liability, such Chinese investment could bring about greater capital injection, links to rapidly growing markets and of course, access to the substantial Chinese markets, including greater equity capital and credit.

Control is, as we have argued not static but clearly changing by the day²⁰. Moreover, state control is a rather common phenomenon as I have shown. Should that, however, disqualify SOEs from investing or have the right to acquire foreign assets? At the same time, often what looks like political control can sometimes be the other way around. While the Chinese state picked Chinalco as its global champion to

¹⁷ Incidentally, it was announced on 16th March 2009 that the FIRB would extend deliberations on Chinalco's foreign investment application by 90 days. Ironically, Rio is already 76 percent foreign-owned, headquartered in London and listed on the London Stock Exchange. If Chinalco wasn't a Chinese company then arguably there would be no public outrage. BHP, the 'big Australian' is also substantially foreign-owned.

¹⁸ Globerman and Shapiro (2009) reported on a survey of motives of Chinese companies undertaking outward FDI. According to their findings, the most significant motive was seeking new markets (56%). Securing resources rated 20% whilst obtaining technology and brands was a close third at 16%. As such, they concluded that concerns expressed about outward FDI from China leading to dominant ownership of critical natural resources on the part of Chinese State Owned Enterprises (SOEs) seem unrealistic based upon the apparent relative unimportance of the "securing resources" motive (Globerman and Shapiro, 2009: 173).

¹⁹ Many big Chinese companies are listed on foreign stock exchanges and as such, most are only partly owned by the Chinese government.

²⁰ Perhaps the best example of this is evident in the recent financial and credit crisis. Governments now regulate and seek to control the credit and financial markets to offset any impending economic crisis. This can also be seen in different parts of the world e.g. witness the problems of Chinese investors in the Indonesian electricity industry or the Chinese oil companies on price control or Singaporean companies in the Australian telecommunication and housing markets?. Decisions are made all the time despite their putative state-ownership but the more important question is do they make that in a static or a dynamic circumstance?

chase the vague and unattainable goal of ensuring 'resource security', it is equally true that Chinalco had co-opted the Chinese government into endorsing its own ambitions to become a diversified global miner. In the case of Chinese investment in Australia, the political fallout is real and while Australians may feel 'relieved', the 'reality' and importance of China, notwithstanding Australia's politicians²¹, remains writ large for Australia and its continual prosperity. Indeed, the political, economic and legal environment in Australia e.g. the legal and bureaucratic rules and legislations surrounding foreign investment, the regulatory bodies, market practices, the media, and prevailing institutional settings have dominated, influenced and affected Chinese foreign investment in Australia.

6. Conclusion

In 2000, the United Nations reported that some 80% of FDI occurs in OECD countries via mergers and acquisitions (UNCTAD, 2000). It is not surprising that Chinese companies are pursuing the same route. So far in 2009, Chinese companies are only second to German ones in terms of overseas acquisitions with a total of US\$21.8 billion invested. Cross-border M&As account for 90% of the overall acquisition by Chinese companies as compared to 10% in the last quarter of 2008. Most deals focused on the resource sector, accounting for 97% of the total value. 90% went to Australia (Dealogic). According to the Ministry of Commerce (MOC) and SAFE, China's direct overseas investments stood at US\$52.1 billion in 2008. Of that amount 60% was steered towards resources of which 7% went to Australia.

The Australia-China economic relationship is set to be further bolstered by greater flows of Chinese investment to Australia. In the short term, these flows will likely be an escalation of the type recently seen in the natural resources sector that have been prompted by the Chinese government's Go Abroad policy. Such investment would receive a further boost if a Free Trade Agreement (FTA) was signed between the two countries; in the longer term, more flows can be expected in the form of portfolio investment as developments such as the State Investment Company and QDII make their mark. The potential for future growth is vast. Direct capital markets in China remain under-developed and Chinese individuals currently have in excess of \$US2 trillion sitting in bank account savings deposits earning negative real rates of interest (*Wall Street Journal*, 27/06/2007). As China's capital account continues to open, it can be expected that some will seek out higher returns abroad. The strong trade ties and stable political relationship between Australia and China positions Australia well to become a significant beneficiary of this liberalization process.

Chinese interest in Australia's assets is growing as Australian companies need financial investment to survive and to grow their businesses. The case of Chinalco has enormous strategic implications for both countries (and arguably for the larger putative 'west'). For Chinalco, itself, the transaction can enable it to become China's first global champion, fundamentally reshaping the world mining industry. For Beijing, it is part of a geopolitical strategy to secure the natural resources China needs to underwrite its rise as a new economic power. For example, in 1997, China's trial national champions had profits totaling only three per cent of the top 100 companies in the Fortune 500; by 2008, this had risen to around 40 per cent. China

²¹ The Australian Senate (its Upper House) announced on 18th March 2009 that it would hold its own inquiry into the deal. Nothing substantive, however came out from that inquiry. Senator Barnaby Joyce, a vocal critic of Chinese investment in Australia, whether it be in mining or agriculture and other economic sectors within Australia see China as an issue as it is both a communist country and also it seeks to 'own the wealth of Australia' (Cai, 2009).

continues to grow whilst other developed economies reeled from the effects of the global financial crisis and shrink. China's growth and march has only just begun. For Australia, the issues of state-ownership of investment, competitiveness in markets and political or security matters are issues that are not appropriately dealt with through additional restrictions and tests on Chinese or other foreign investment proposals. Particularly challenging is the notion of 'national interest'. It is rather an expansive idea but its *telos* presupposes a type of political loyalty which is only inherent in domestically owned companies, despite the fact that domestic-domicile companies are often 'foreign-owned', and in the case of mining giants like BHP and Rio, this is certainly true. It presupposes that Chinese companies are driven by some nefarious political objectives, acting as agents of the Chinese state seeking to subvert and damage the economic and national interest of countries like Australia, the United States or just 'western' industrialized economies. Globerman and Shapiro commenting on this was impelled to comment that 'the extent to which such concerns warrant giving 'special treatment' to acquisitions by Chinese companies is less obvious...(and is simply unanswerable upon available evidence' (Globerman & Shapiro, 2009: 174). However, this does not imply that individual acquisitions cannot raise market power-related issues. In this paper, I have sought to examine this issue with respect to the Rio-Chinalco case and cannot find any compelling unique cause for concern or the evidence to back up such market power claims. Moreover, the Australian government through its residual powers in the FIRB, can both bar foreign investment as well as having the ability and power to set restrictions and performance requirements for FDI in virtually all sectors of the Australian economy. Additionally, acquisitions of Australian firms by Chinese companies also need to comply with domestic regulators' requirements such as the Australian Stock Exchange, which impose stringent reporting mechanisms for all foreign acquirers to ensure that compliance is mandatory. Invariably, Chinese companies not only have to be more market-oriented but also comply with prevailing Australian standards, practices and principles on transparency and corporate governance.

Globerman and Shapiro in their concluding remarks, argue that 'it seems feckless on the part of US policymakers to stigmatize Chinese investment in the United States based upon imprecise and likely exaggerated estimates of the relevant costs and risks of that investment' (Globerman & Shapiro, 2009: 180) is equally true for Australia. There is no real informed debate on such investments and populist and reactionary impulses have dominated any discussion of Chinese investment into Australia. Huang and Austin (2011: 27) found that despite the concern over Chinese investment in Australia, this has only crept to 1.8% of total FDI in Australia and remains still way down the ladder. Chinese managers and policymakers, it appears, need to do more to effect greater transparency and articulate their business case more forcefully, including the benefits arising from such investments. This is not ever going to be easy giving the history of anti-foreign investment and even, anti-Asian sentiment in Australia²². Chinese firms have grown rapidly and increasingly play a critical role in international operations and investment. Their international expansion, as this paper and other research has shown, involves as much for the search for new resources to underpin new strategic options, as well as the need to exploit existing resources. They access and leverage these resources to overcome barriers²³, and through repeated applications of linkage

²² This anti-Asian sentiment is evident going back to the 19th century which saw the Australian government introducing its White Australia policy. It is also manifested in various contemporary debates on immigration e.g. the Geoffrey Blainey debate on Asian immigration in the 1980s and the Pauline Hanson phenomenon in late twentieth century Australia via the popularity and relative success of the One Nation political party. More recently, there have been concerns expressed by both the Indian and Chinese governments over violence to both Chinese and Indian nationals.

²³ This is contrary to traditional resource-based view (Barney, 1991) which is applied to delay entry by competitors.

and leverage processes, these firms learn to perform their operations more effectively e.g. acquisition and management transfer and accelerating international expansion. Indeed, as recent research readily show, these late-comers are now forcing the pace of change and growth through their linkages, leverage and learning capacities²⁴ e.g. finance, customers and interconnectivity of a globalised economy (Mathews, 2006) and reconfiguring international business practices and thinking. Nonetheless, China's MNCs still lack the capabilities 'of firms with FSAs (firm specific advantages)...in comparison to Western MNEs in the world's top 500' (Rugman & Li, 2007: 79). The present paper has also shown, that business and economic action is still spatially and location-bound and circumscribed and that these business and political interactions are affected by laws, regulations, practices and norms evolved from and institutionalized in networks of relationships in society (including political and social relationships) and across space e.g. the role of the media and institutional and other shareholders voting in the UK and also in Australia on the Chinalco bid. While there have been significant economic, business and market reforms in China, Chinese businesses and their representatives still suffer from negative perceptions, particularly in terms of their ownership and historical legacy, from the liability of foreignness. Chinese managers seeking to internationalize their operations in Australia have to (re)learn the lessons of managing not only the formal and regulative institutions but also critically develop appropriate strategies to meld with the cognitive and normative institutional practices within Australia. Chinese firms investing in Australia should primarily establish and obtain legitimacy firstly within the Australian community and then build up their social resources, networks and work to accommodate the local environment and then achieve their organizational purpose. The Chinese would have to learn to manage and finesse their relationships with Australia (and the west); they have to prosecute their case more effectively²⁵. This requires both an understanding and the capacity and ability to deal effectively with Australia's (and other 'western' host countries) institutions, space²⁶ and culture (Aulakh et al., 2000; Peng and Heath, 1996; Uhlenbruck et al., 2003). Finally, Chinese MNCs continue to suffer the 'affect' of 'foreign-ness', as their institutions and practices seemed to clash with the institutional settings of its host country, Australia, mitigating against its success, as evident in the present case study. What I have done in this paper is to 'go against the grain', and seek to 'open up the black box' surrounding institutions, provide an explanation (and hopefully, understanding) of the context through which institutions work in Australia and how these effects impact on the Chinese and their own institutions, or what Henisz and Swaminathan (2008: 539) have pointed to: : the interdependent structures and systems within a country, across dyadic pairs and at the level of the international state system".

²⁴ These strategies of linkage and leverage are a consequence of the interconnected character of global economy which also enables leveraging off existing connections e.g. finance and customers.

²⁵ The Australian-Chinese Business Council in a report claims that trade between the two countries generated an equivalent of almost AUD13,500 per Australian household in 2010-2011; imports and exports further contributed an equivalent of AUD5100 and 8370 respectively). This increase in 'household wealth' is highly significant and represents an increase of 93% since 2006-2007 (ACBC, 2012).

²⁶ This is most evident in many of the problems Chinese companies encountered in their businesses in Western Australia. Many such projects have huge over-run costs and been stalled e.g. the Weld Range iron ore mining project (and in particular, the Oakajee port and rail project) in Western Australia

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Table 1. Australia's total trade by trading partner (per cent)

| | China | Japan | USA | UK | S'pore | ROK | NZ | Thailand | Germany | India | ROW |
|------|-------|-------|------|-----|--------|-----|-----|----------|---------|-------|------|
| 1990 | 2.6 | 22.6 | 17.6 | 5.2 | 3.5 | 4.2 | 4.7 | 1.1 | 4.4 | 0.9 | 33.1 |
| 1991 | 3.1 | 22.8 | 16.7 | 4.6 | 4.1 | 4.5 | 4.7 | 1.2 | 3.9 | 0.9 | 33.3 |
| 1992 | 3.7 | 21.8 | 15.4 | 4.9 | 4.5 | 4.5 | 5.0 | 1.6 | 3.8 | 1.0 | 33.9 |
| 1993 | 4.2 | 22.0 | 14.6 | 5.1 | 3.9 | 5.0 | 5.4 | 1.6 | 3.6 | 1.1 | 33.6 |
| 1994 | 4.7 | 21.1 | 14.7 | 4.8 | 4.1 | 4.9 | 5.8 | 1.7 | 3.9 | 1.0 | 33.3 |
| 1995 | 4.7 | 19.1 | 14.3 | 4.8 | 4.2 | 5.6 | 6.0 | 1.8 | 4.2 | 1.1 | 34.1 |
| 1996 | 5.1 | 16.6 | 14.8 | 5.0 | 3.8 | 6.2 | 6.0 | 1.8 | 3.7 | 1.2 | 35.9 |
| 1997 | 5.2 | 16.8 | 14.6 | 4.6 | 3.8 | 5.8 | 5.9 | 1.8 | 3.4 | 1.4 | 36.8 |
| 1998 | 5.2 | 16.5 | 16.2 | 5.7 | 3.2 | 5.5 | 5.1 | 1.6 | 3.9 | 1.5 | 35.6 |
| 1999 | 5.7 | 16.1 | 15.7 | 4.9 | 4.4 | 5.4 | 5.7 | 2.11.9 | 3.8 | 1.2 | 35.3 |
| 2000 | 6.6 | 16.3 | 15.0 | 4.7 | 4.2 | 6.1 | 4.9 | 2.1 | 3.2 | 1.1 | 35.8 |
| 2001 | 7.4 | 16.2 | 13.9 | 4.8 | 3.9 | 5.9 | 5.0 | 2.1 | 3.4 | 1.3 | 36.1 |
| 2002 | 8.6 | 15.3 | 14.0 | 4.6 | 3.7 | 6.0 | 5.2 | 2.3 | 3.6 | 1.4 | 35.2 |
| 2003 | 9.8 | 15.1 | 12.6 | 5.4 | 3.3 | 5.4 | 5.5 | 2.5 | 3.9 | 1.8 | 34.6 |
| 2004 | 11.2 | 15.0 | 11.6 | 4.2 | 3.6 | 5.4 | 5.4 | 2.6 | 3.7 | 2.5 | 34.7 |
| 2005 | 12.7 | 15.5 | 10.4 | 3.8 | 4.3 | 5.5 | 4.9 | 3.0 | 3.4 | 2.8 | 33.8 |
| 2006 | 13.5 | 14.6 | 10.2 | 4.2 | 4.5 | 5.7 | 4.2 | 3.1 | 3.1 | 3.0 | 33.9 |
| 2007 | 14.8 | 14.0 | 9.5 | 4.2 | 4.1 | 5.4 | 4.4 | 3.5 | 3.1 | 3.0 | 33.9 |

Table 2. Chinese investment in Australia, 1991-2006 (\$ millions)

| Year | Foreign Direct Investment | Portfolio Investment | Other Investment | Total |
|------|---------------------------|----------------------|------------------|-------|
| 1991 | 11 | 574 | n.a | 585 |
| 1992 | 29 | 453 | n.a | 482 |
| 1993 | -28 | 859 | n.a | 831 |
| 1994 | 84 | 275 | n.a | 359 |
| 1995 | -33 | -875 | n.a | -907 |
| 1996 | -196 | n.p | n.a | 1058 |
| 1997 | 44 | 1 | 1103 | 1148 |
| 1998 | 31 | 1 | 245 | 277 |
| 1999 | -21 | 1 | 813 | 795 |
| 2000 | 6 | 2 | n.p | 58 |
| 2001 | -21 | -2 | -112 | -126 |
| 2002 | 12 | n.p | -433 | -370 |
| 2003 | n.p | n.p | 174 | 218 |

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|------|-----|-----|------|------|
| 2004 | -80 | n.p | -693 | -601 |
| 2005 | -58 | n.p | -280 | 28 |
| 2006 | 306 | n.p | 666 | 1280 |

Table 3. Chinese investment in Australia as approved by the FIRB, 1992-2007(A\$million)

| Year | Number | Agriculture forestry & fisheries | Manu- facturing | Mineral exploration & resource processing | Real estate | Services and Tourism | Total |
|---------|--------|--|--------------------|--|-------------|----------------------------|-------|
| 1993-4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1994-5 | 927 | 0 | 1 | 42 | 426 | 52 | 522 |
| 1995-6 | 267 | 0 | 6 | 52 | 137 | 31 | 225 |
| 1996-7 | 102 | 10 | 3 | 5 | 176 | 17 | 210 |
| 1997-8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1998-9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1999-00 | 259 | 35 | 5 | 450 | 21 | 10 | 720 |
| 2000-1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2001-2 | 237 | 0 | 47 | 20 | 234 | 10 | 311 |
| 2002-3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2003-4 | 170 | 0 | 2 | 971 | 121 | 5 | 1,100 |
| 2004-5 | 206 | 2 | 0 | 39 | 181 | 42 | 264 |
| 2005-6 | 437 | 0 | 223 | 6,758 | 279 | 0 | 7,259 |
| 2006-7 | 874 | 15 | 700 | 1,203 | 712 | 11 | 2,640 |

Table 4. Biggest Chinese acquisitions since 2005

| Value | Company/Project | Buyer | Date |
|--------------------|---------------------------------------|----------------------|----------------|
| \$US11.4 bn | Rio Tinto & operations* | Chinalco | Feb 09 |
| \$US5.15bn | Rio Tinto's Hamersley Iron | Chinalco | Feb 09 |
| \$US4.1bn | Rio Tinto Ltd | Chinalco | Feb 09 |
| \$US1.2bn | Rio Tinto's Weipa Bauxite | Chinalco | Feb 09 |
| \$US500m | Rio Tinto's Yarwun Aluminium | Chinalco | Feb 09 |
| \$US450m | Rio Tinto's Boyne Smelters | Chinalco | Feb 09 |
| \$US2.09bn | OZ Minerals* | China Minmetals | Feb 09 |
| \$US1.36bn | Midwest Corp | Sinosteel | Dec07 |
| \$US1.22 bn | Linc Energy's Emerald Teresa project* | Xinwen Mining | Sep 08 |
| \$US373m | Cape Lambert iron ore project | China Metallurgical | Feb 08 |
| \$US261m | NSW coal exploration licences | China Shenhua Energy | Aug 08 |
| \$US142m | Gindalbie Metals | Anshan Iron & Steel | Jun 07, Nov08* |

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| | | | |
|-----------|-------------------------------------|-------------------------------|--------|
| \$US95.9m | Macarthur Coal | CITIC Australia Coal | Jul 07 |
| \$US92.5m | Mt. Gibson's Extension Hill project | Shougang Holdings | Jun 05 |
| \$US83m | Macarthur Minerals' arm | Internickel Minmentals Mining | Dec 08 |

Source: The Australian, February 21-22 2009

About the Author

Loong Wong worked and taught at various universities in Australia and Europe. He currently teaches and coordinates the Chinese business and international business program at Murdoch University in Australia. He has written and published on labor relations, corporate governance and corporate social responsibility, and has an active interest in postcolonial and postmodern approaches to management. Some of his research can be found in the Journal of Contemporary Asia, Prometheus, Asian Business and Management, Chinese Management Studies and the International Journal of Cross-Cultural Management. He has also worked in industry, having served as the general manager of one of Asia's top 500 companies.

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