A Tale of the Two Economic Systems:
Institutional Perspective of Chinese Outward FDI

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State-owned multinational enterprises (SOMNEs) constitute a substantial portion of Chinese outward foreign direct investment (FDI). From an institutional affiliation perspective, this paper examines the differences in the two economic systems (state-owned vs. privately owned) for engaging in outward FDI. Leveraging a sample of Chinese outward FDI projects between 2004 and 2018, we conduct analysis on FDI frequency, location choices, and FDI motives. We also consider the moderating effects of the temporal and space dimensions. The results inform us that the two economic systems are complementary in promoting outward FDI from the home country.

Keywords: state-owned enterprises (SOEs), foreign direct investment (FDI), China

INTRODUCTION

2023 marks the fortieth anniversary of the first Chinese outward foreign direct investment (FDI) project. In 1978, China instituted the "Open and Reform" policy, which marked a significant shift in the country's economic structure toward privatization and marketization. The transition from a central-controlled command economy to a market-based mixed economy engendered two parallel economic systems due to the stickiness of the dominant institution (Lin, 2004; Li, 2005; Lin, 2011). Central command economies operate based on government planning, while market-driven economies operate based on factor-driven producers of goods (supply) and informed consumption of free agents (demand). Despite being subject to the same political regime, firms within each economic system behave differently in various circumstances (Cuervo-Cazurra, Inkpen, Musacchio, and Ramaswamy, 2014). The co-existence of the two economic systems also brings dynamism to the pattern of global expansion. In this paper, we are particularly interested in exploring how state-owned enterprises (SOEs) and private firms act differently in outward FDI.

The differences between state-owned multinational enterprises (SOMNEs) and their private counterparts are attributed to their institutional affiliations at home (Anastassopoulos, Blanc, and Dussauge, 1987). SOEs regularly receive funding from central or local governments. Their executives oftentimes hold political positions in the government (Sun, Mellahi, Wright, and Xu, 2015). Therefore, stable financial support and information asymmetry privilege SOEs in business strategizing. Nevertheless, when it comes to global expansion, state ownership can be a double-edged sword (Cuervo-Cazurra and Li, 2021). While SOMNEs benefit from resourcefulness and diplomatic protection (Duanmu, 2014), the political image of

SOEs becomes a hurdle in SOMNEs' internationalization, especially if the home and host country does not share political ideology (Hong and Snell, 2021). By contrast, private firms suffer less political image issues and enjoy more political and economic freedom in internationalization. These advantages and disadvantages associated with home institutions allow us to observe different patterns between SOEs and private firms in FDI frequencies, location choices, and FDI motive. To enrich our understanding, we also take into consideration the temporal and space dimensions as moderators when examining the proposed relationships. Through this study, we integrate organizational theories (e.g., the resource-based view) and the institutional-based view to understand the different roles SOEs and private firms play in the home country's outward FDI. The findings yield implications on how multinational enterprises (MNEs), as well as outward FDI policies, should navigate the contemporary (de-)globalized world.

STATE-OWNED VS. PRIVATELY-OWNED FIRMS

SOEs, by definition, are business entities owned, at least in part, if not fully, by governments (Mazzolini, 1980) or by instrumentalities operating on governments' behalf, such as state-owned pension funds or sovereign wealth funds (Cuervo-Cazurra et al., 2014). Chinese SOEs are an important source of world outward FDI. Based on a report of the changing headquarters landscape for Fortune Global 500 companies from Ernst & Young Global in 2019, 82 of the Fortune Global 500 companies are SOMNEs headquartered in China. The Statistical Bulletin of Chinese Outward Foreign Direct Investment (2013) also reports that SOEs carry 70% of the approved outward FDI projects from China.

The key difference between state-owned and privately owned enterprises is their institutional affiliations at home. Because of their association with the government, SOEs are considered part of the home country institution and actively involved in the rule-making process. Instead of being external to the home institution as rule-followers or rule-challengers like private firms, SOEs are internal to these rules (Li, Xia, Shapiro, and Lin, 2018). Often, the head of an SOE serves an important position in the communist party or participates in the People's Congress, which represents the legislative power of the country. Under the economic strategy ideology, the creation of SOEs is justified on the basis that the SOEs' operating activities facilitate the attainment of strategic objectives deemed to be of national importance, for example, to advance energy independence goals or protect national security interests. Neo-institutional theory (e.g., Eden and Miller, 2004) argues that SOEs are carrying on the national mission of supporting long-term domestic economic growth by seeking strategic resources abroad.

SOEs follow the command economy system rules, taking funding from the affiliated government while carrying out state missions using economic tools. Nonetheless, private firms employ the market-based economic system. Political science literature once points out that SOEs were created to combat market inefficiency where a market-based economic system fails to allocate resources efficiently for goods or services desired by society (Lawson, 1994). SOEs fill in the gap when activities are not lucrative for private firms to perform. Therefore, we tend to observe SOEs and private firms located in divergent industries, with SOEs serving public goods, for instance, sanitation, education, and utilities and being in national strategic industries such as the extractive sector, energy, aviation, and telecommunications ((Aharoni, 1986).

According to the resource-based view (Barney, Wright, and Ketchen, 2001), government affiliation and institutional support are viewed as outstanding advantages of SOMNEs. SOEs have privileged access to policy information, cost-effective raw materials, and low-cost capital (Peng, Wang, and Jiang, 2008). Unlike their private counterparts, SOEs oftentimes have more resources to leverage in both domestic and international expansion and are thus more likely to become national champions (Buckley, Clegg, Cross, Liu, Voss, and Zheng, 2007; Peng, 2003).

However, studies examining diversification among SOEs report disadvantages associated with SOEs' government and political affiliations (e.g., Pfeffer & Salancik, 2003; Sun, Mellahi, Wright, and Xu, 2015; Sun, Hu, and Hillman, 2016; also see a review of Cuervo-Cazurra and Li, 2021). Deng (2004, 2007) finds, for example, that SOEs advance home country political aims both domestically and abroad, leading to SOEs being strongly associated with nationalism. SOEs are usually more aligned with national goals, such as seeking natural resources abroad. Furthermore, the high frequency of SOEs using M&A activities with high

premiums paid in strategic asset-seeking activities abroad exacerbates the political image of SOMNEs in the host countries (Wei and Nguyen, 2017). Firms with perceived government affiliation have been subject to more political investigations and civil protests in the host countries, which add up to the operation costs of the businesses (Cooke, 2012).

HYPOTHESES DEVELOPMENT

Based on the differences between SOEs and private firms, we compare these two economic systems in terms of their FDI frequency, location choice, and FDI motives. We also take into consideration temporal and geographic contingencies, respectively, using the 2008 global financial crisis as a cut-off point and provincial disparity in market institutions.

FDI Frequency

The institution-based view is rooted in the work of Scott (1995) and North (1990), defining institutions as the "rules of the game." Firms affiliated with and operating under the umbrella of such institutions tend to enjoy the benefits brought by the rules. SOEs affiliated with the home country's government are more likely to have privileged access than private firms to resources controlled by the current regime. A collection of studies on SOEs (e.g., Chen, Li, and Hambright, 2016; He, Eden, and Hitt, 2016) show that SOEs have better access than private firms to lower interest loans from state banks, which provides funding sources to fuel FDI projects. SOEs also tend to have more relevant information exposure regarding FDI opportunities and risk management (e.g., diplomatic assistance), allowing SOEs to initiate high FDI commitment with confidence (Wang, Hong, Kafouros, and Wright, 2012; Duanmu, 2014).

Furthermore, SOEs are more likely than private firms to attract and retain a better talent pool by leveraging SOEs' high social status, relatively favorable working environment, welfare programs, and other institutionally related benefits (Cuervo-Cazurra et al., 2014). When these talents become expatriates of SOEs, they are more likely to utilize their educational experiences and networks to be resilient and sustained in the position, facilitating more FDI projects for the SOE. All these considered, SOEs are able to leverage more resources from the home society to participate in internationalization than private firms and remain a major component of China's 'centrally managed capitalism' (Lin, 2011; Child and Marinova, 2014).

H1: Chinese state-owned enterprises tend to have more FDI projects compared to their private counterparts.

Location Choice

Although government affiliation grants superior access to resources during internationalization, it also engenders political image issues for SOMNEs in the host country. The institutional-based view informs us that the perception of the affiliated institution can spill over to affect the image of the SOE in a host country. Since the political ideology of China is at odds with the majority of capitalist countries in the world, SOEs from China are perceived as less legitimate by actors in host countries (Buckley et al., 2007; Cuervo-Cazurra et al., 2014). Most host country concerns about SOEs acting as policy instruments to further the political objectives of the home country's government (Li, Cui, and Lu, 2014). Political image issue is largely owing to SOMNEs being perceived as a representative of their home country carrying state tasks such as extracting local natural resources (Sun, Mellahi, Wright, and Xu, 2015; Sun, Hu, and Hillman, 2016), acquiring strategic assets such as technologies in a host country with high premium (Deng, 2009). These activities tend to increase the hostility between local government and residents.

Nevertheless, a positive diplomatic relationship between China and its FDI host countries tends to ease the hostility against SOEs (Li, Meyer, Zhang, and Ding, 2018). In politically affinitive host countries, SOEs benefit from the consular assistance and positive image promoted by the host country government. These protective measures and the positive attitude of the host country's government lessen hostile investigations and help avoid civil protests, which likely increase the operation costs of SOEs.

H2a: *Chinese state-owned enterprises tend to choose politically affinitive countries as host countries for their FDI projects compared to their private counterparts.*

Moreover, according to the efficiency-based economic view, the state support of SOEs is understood as an inhibitor for firms to generate positive performance. On the one hand, resources offered by the state demotivate SOEs to seek better performance. For example, Zhou, Gao, and Zhao (2017) find that SOEs have more R&D spending but less innovation outputs compared to private firms. Managers from SOEs, often also hold political positions in the communism party or the local government, tend to be risk averse in terms of taking on new projects or adopting a revolutionary path of the firm development as these managers do not want to lose what they have earned if the innovation does not work out. On the other hand, state missions might distract firms from normal business routines (Shleifer and Vishny, 1994). Political tasks such as hosting infrastructure projects will cost both financial and human capital to accomplish (Ramaswamy, 2001).

Over time, private enterprises gain advantages in competence-creating activities as private enterprises have less strict political agendas. Meanwhile, private enterprises suffer more competitive and survival pressures, so they are incentivized to engage in innovative activities. Unlike SOEs, which are sheltered under government protection but also share a lot of the public service burden (Cui and Jiang, 2009; 2012), private firms that have survived the competition tend more likely to be innovative, ground-breaking, and more efficient. Therefore, when it comes to internationalization, private firms can survive better the competition in the developed countries.

H2b: *Chinese state-owned enterprises tend to choose economically less developed countries as host countries for their FDI projects compared to their private counterparts.*

FDI Motive Complexity

Dunning (1993) categorizes four basic FDI motives, namely natural resource-seeking, efficiency-seeking, market-seeking, and strategic asset-seeking. Existing International Business literature using Western non-state-owned enterprises samples assume that one FDI project is associated with only one FDI motive (Cuervo-Cazurra, Narula, and Un, 2015). Nevertheless, in reality, firms can exhibit more than one FDI motive in a single FDI project, especially when embedded in complex external environments (Luo and Rui, 2009; O'Reilly and Tushman, 2013). The host country SOMNEs operate in is intense in competition and complex in institutional uncertainty; therefore, the FDI motive of Chinese SOEs tends to be pluralistic (Greenwood, Raynard, Kodeih, Micelotta, and Lounsbury, 2011). Li, Peng, and Macaulay (2013) mention that such SOMNEs' plurality is mainly in the format of market-political ambidexterity, which specifically refers to firms' intention to manage political and market activities simultaneously.

Firstly, SOEs conform to home country regulatory frameworks and conduct business in the fields that meet policy requirements. A good example would be Chinese SOEs operate in the industries that are emphasized in the country's Five-Year Plan announced at the National People's Congress as the economic focus for the upcoming period (Dacin, Goodstein, & Scott, 2002; Zhang, Zhou, & Ebbers, 2011). However, the increasing disadvantages of stateness, such as the political image issue of SOEs, compel SOMNEs to seek balance between pursuing political goals and conducting commercial activities in a host country. Simply relying on government bail-out will not achieve long-term survival in a foreign location, let alone that diplomatic relationship is dynamic and ever-changing. Hence, SOEs tend to develop political-market ambidexterity in internationalization, such as building infrastructures for a state project while attempting to connect to new customers or sales networks in the host country.

Additionally, with the prevalence of privatization in China, SOEs are urged to be self-sufficient financially. For long-term survival, SOMNEs are also motivated to engage in activities that comply with market rules in the host country. While FDI activities that are aligned with the home country's national economic and political needs (e.g., asset-seeking FDIs) still appear disproportionally high in SOEs, commercial activities such as market-seeking FDIs observe an upward trend (Song, Wang, and Cavusgil, 2015). Thus, it follows that SOEs function as one mechanism by which the state advances its political and

diplomatic objectives (Li, Cui, & Lu, 2014), yet it also simultaneously pursues traditional commercial goals (e.g., market-seeking or efficiency-seeking) leveraging its existing competitive advantages same as a for-profit enterprise.

Lastly, ambidextrous strategies demand resources and capabilities to handle divergent goals at the same time (Luo and Rui, 2009; Pache and Santos, 2010). Although some private businesses might desire such ambidexterity in internationalization, they might not be able to afford it. SOEs, compared to private firms, are still at advantages in terms of seeking national support such as financial assistance and information acquisition (Cuervo-Cazurra et al., 2014). Owing to the formal authority mentioned above, which facilitates SOEs to benefit from the institutional fields, SOEs have better social capital or relational networks than private firms. Oliver and Montgomery (2008) called this a high level of "reach centrality," which denotes access to a large number of field members through a limited number of intermediaries. This is consistent with Beckman's (2006) finding that the diversity and commonality of top management team members' prior organizational affiliations are positively associated with organizational ambidexterity. With better social capital, SOEs are able to leverage more resources than private firms in society, especially those informal channels. Therefore, we argue that SOEs tend to have more resources to fulfill their ambitious orientation of pursuing divergent objectives at the same time.

H3: Chinese state-owned enterprises are more likely to engage in ambidextrous FDI motives in a host country than their private counterparts.

Temporal Dimension Contingency

China's economic development since 1978, "Open and Reform," has experienced several milestones. Research on China's economic development (e.g., Buckley, Cross, Tan, Xin, and Voss, 2008) categorizes the period before the 2008 global financial crisis into three: 1978-1991 (testing the water), 1992-1998 (finding the steppingstone), and 1999-2007 (go-global). Although the first outward FDI project recorded by the Ministry of Commerce was in 1983, the surge of Chinese outward FDI did not take place until 2008, according to the Statistical Bulletin of Chinese Outward Foreign Direct Investment (2013). Such surge is largely attributed to rapid and aggressive merger and acquisition deals in North America, taking over corporations that are on the verge of bankruptcy.

Before 2008, more than half of the outward FDI firms from China were SOEs. Although SOEs remain an important contributor to outward FDI after 2008, private enterprises have gained increasing significance. Instead of offering privileges only to SOEs, the government approval process for outward FDI has gained efficiency for all firms. More importantly, we see the emergence of large private firms from China, such as Haier, Lenovo, and Geely, active in market-seeking and knowledge-seeking activities in advanced economies. Hence,

H4a: "Year 2008" negatively moderates the relationship between state ownership and FDI project count, such that SOMNEs slow down in increasing FDI projects while private firms pick up the speed.

Furthermore, the 2008 global financial crisis has engendered a large quantity of company insolvency in North America, allowing opportunities for firms from emerging markets such as China and India to acquire strategic assets. China has a large amount of foreign reserves accumulated from exports and a big volume of personal savings from citizens' consumption habits (Morck, Yeung, and Zhao, 2008). China is using these reserves and savings to buy out foreign bankrupting businesses as a quick catching up to the developed countries in terms of technology and managerial know-how. More and more Chinese outward FDI projects have targeted OECD countries for knowledge-seeking FDIs. Since asset acquisition and technology improvement are listed in the national economic development plan, SOEs are encouraged to take advantage of these opportunities. Because strategic asset-seeking FDIs are mainly located in economically advanced countries with market-based economic systems, SOEs are compelled to play more market rules and adopt more business or market-oriented FDI projects. The ongoing SOE privatization process in China has also facilitated such changes. Therefore,

H4b: *"The year 2008" negatively moderates the relationship between state ownership and FDI projects located in politically affinitive host countries, such that the tendency of SOMNEs locating in politically affinitive host countries decreases after 2008.*

H4c: *"The year 2008" negatively moderates the relationship between state ownership and FDI projects located in economically less developed host countries, such that the tendency of SOMNEs investing in economically developed host countries increases after 2008.*

H4d: *"Year 2008" negatively moderates the relationship between state ownership and FDI motive ambidexterity, such that SOMNEs have gradually switched to less political-market ambidexterity but focus more on market-oriented motives.*

Space Dimension Contingency

Besides the changes with the temporal dimension, disparities among Chinese provinces in terms of pro-market institutions also play a role in the internationalization of firms from the two divergent economic systems.

The 1978 "Open and Reform" policy divided China into the East and the West for market institution development. While the East becomes the testing ground for a market economy and has open policies regarding international trade and inward FDI. After 40 years of development, the provinces in the East are well-developed economically. Some of them, such as Shanghai and Shenzhen, have even caught up with developed countries in terms of GDP per capita. More importantly, these regions from the East are more mature in pro-market institutions, allowing them to host a market-based economy.

Nevertheless, in the West, government agencies still control most business entities, following a command-economy-like system. Consequently, the support of market institutions such as private equity crowdfunding, the efficiency of the product market and labor market, and the maturity of the intermediate markets are less developed in the western part of China. Even with more policy support (e.g., One Belt One Road Initiative) and the resources migration from the East provinces, the disparities in economic performance and the development of pro-market institutions between the East and the West are considerably large. Such disparities influence the prevalence and patterns of SOEs participating in internationalization.

In the eastern provinces, more firms are owned privately as the market-based economic system is promoted. The East also has more international connections through inward FDI, international trade, international licensing agreements and so forth. Private firms are less sheltered by national government protection, and they are more exposed to foreign competition and FDI spillovers (Chang and Xu, 2008; Zhang, Li, and Li, 2014). The private enterprises thus have accumulated capabilities in the market economy system. Nevertheless, SOEs in the East appear to lack efficiency compared to private firms and gradually become peripheral in the market-based economy at home. The FDI escapism view (e.g., Kottaridi, Giakoulas, and Manolopoulos, 2019; Osabuohien-Irabor and Drapkin, 2022; Witt and Lewin, 2007) informs us that when the domestic environment is no longer conducive to the company's further development, the company tends to diversify to fields or regions where their capabilities can sustain. Further leveraging policy support and diplomatic information, SOEs from the East are more eager than private enterprises to shift their overcapacity overseas.

H5a: *The level of pro-market institutions in a province positively moderates the relationship between state ownership and FDI project count, such that, in provinces with high marketization, SOMNEs contribute more than private enterprises in generating FDI projects.*

The institutional-based view points out that the legitimacy of a firm in a local environment determines the level of resources and, thus, capabilities it can acquire (e.g., Kostova and Zaheer, 1999). In the East, where a market-based economy is prevalent, SOEs are perceived as less legitimate. This is largely because SOEs take actions in accordance with home government policies and execute state missions in their

business operations, causing the market-based actors to perceive SOEs' actions to be less "desirable, proper, & appropriate (Suchman, 1995: 574)." While SOEs are squeezed out from local competitions to seek opportunities abroad, they leverage government pollical connections to locate in politically affinitive host countries and less so to economically advanced locations as SOEs are generally short of proprietary capabilities that are needed to survive the intense competition.

H5b: *The level of pro-market institutions in a province positively moderates the relationship between state ownership and FDI projects located in politically affinitive host countries, such that, in provinces with pro-market institutions, the tendency of SOMNEs locating in politically affinitive host countries increases.*

H5c: *The level of pro-market institutions in a province positively moderates the relationship between state ownership and FDI projects located in economically less developed host countries, such that, in provinces with pro-market institutions, the tendency of SOMNEs investing in economically less developed host countries increases.*

Since SOMNEs from the East have difficulties thriving domestic competition and receive significant support from the state for internationalization, their FDI activities combine both political and commercial aims and thus, the likelihood of ambidexterity in global expansion increases. Duanmu (2014) argues that incoming SOMNEs from politically affinitive states are expected to carry out civil projects helping with infrastructure and social welfare, which are out of political missions. SOEs from centrally planned economies tend to be more acceptable in government-led market economies, in which state ownership is understood as a macroeconomic readjustment and control, especially when there is a market failure. Similarly, host countries that receive political-oriented or civil projects from the SOMNEs tend to perceive the SOMNEs as being benevolent as these SOMNEs provide job opportunities and have knowledge spillover to local agents; hence, the political-market ambidexterity is further encouraged (Cuervo-Cazurra et al., 2014; Meyer, Ding, Li, and Zhang, 2014).

H5d: *The level of pro-market institutions in a province positively moderates the relationship between state ownership and FDI motive ambidexterity, such that SOMNEs from a province with pro-market institutions are more likely to be political-market ambidextrous in FDI projects.*

METHOD

Sample Selection

Empirical evidence of this study is from the "outward FDI project list" published by the Ministry of Commerce. This database allows us to access information about FDI project count, host country selection, home province, and FDI activities, allowing us to test the hypotheses. The firm ownership information is merged from the Annual Report of Industrial Enterprise Statistics (ARIES), published by the Statistical Bureau of China. After merging the ARIES and OFDI project list based on parent firm names with a fuzzy match algorithm in R that helps identify different versions and typos in firm names, we generate 6827 matched parent firms between the ARIES and OFDI directory. We then eliminate tax haven cases such as Hong Kong, Macau, Taiwan, Bermuda, British Virgin Islands, Luxembourg, etc., which is a common practice in FDI studies (e.g., Sutherland and Anderson, 2015; Shi, Sun, Yan, and Zhu, 2017) because investment in a tax haven is largely foreign portfolio investment and does not involve an actual operation. In addition, we only include parent firms that are not majorly foreign-owned because the scope of the study is Chinese MNEs, where Chinese counterparts should have majority ownership and control. This ultimate owner approach is documented in early-on FDI statistics work (e.g., Cantwell, 1992). The final sample contains 2735 Chinese parent firms from 2004 to 2018.

Variables

The first dependent variable of the study is the *FDI project count* of a multinational company in a given year. More FDI projects usually indicate the MNE has more commitment to FDI. Several prior studies (e.g., Xia, Ma, Lu, and Yiu, 2014; Lu, Li, Wu, and Huang, 2018; and Li, Xia, Shapiro, and Lin, 2018) have used the same measure to represent the FDI frequency of a particular firm.

The dependent variables reflecting location choices are (1) *political affinity* between home and a host country and (2) the *GDP per capita* of a host country. We measure the political affinity between China and the host country by the affinity of the two countries' votes in the United Nations (UN) General Assembly the year before the subsidiary's establishment. The data on the affinity of UN votes are from Strezhnev and Voeten (2013). It is measured by 1 - 2d/d_max, where d is the sum of metric distances between votes by two members in a given year, and d_max is the largest possible metric distance for those votes (Signorino and Ritter, 1999). This measure uses two categories of the vote data (1 = ''yes'' or approval for an issue; 2 = ''no'' or disapproval for an issue) and ranges from -1 (least similar interests) to 1 (most similar interests). The UN General Assembly demonstrates the public stance on major global issues, including military, security, social, political, and economic concerns (Voeten, 2000), for example, the support (or not) of Russian military activities in Ukraine. Countries voting similarly are expected to have a good relationship and act cooperatively because they share similar views and understanding on world major issues (Gartzke, 1998). Affinity in UN votes has been frequently used to capture interstate political relations in political science and international strategy research (e.g., Duanmu, 2014; Knill, Lee, and Mauck, 2012; Li, Meyer, Zhang, and Ding, 2018). The higher score indicates a better political affinity between the two nations.

We adopt the host country's GDP per capita measure adjusted by purchasing price parity from the World Development Indicators. GDP per capita provides information on a country's output and income per person. The higher the GDP per capita, the higher the economic prosperity and purchasing power of an individual in this country. Higher GDP per capita also indicates that this country's market is more competitive. Since local consumers can afford higher prices, they are also more demanding on product quality, convenience, and after-sales services.

FDI motive complexity is compiled from FDI activities in the host country. Ambidextrous FDI motives include both commercial FDI and institutional FDI at the same time in one FDI project. Commercial-only FDI refers to projects driven by market-seeking and/or efficiency-seeking motives. Institutional-only FDI refers to projects driven by natural resource-seeking FDI and/or infrastructure building motives. Typical examples of ambidexterity are natural resource-seeking and efficiency-seeking FDI (e.g., conducting mining activities and processing primary products right after), infrastructure building, and market-seeking FDI (e.g., building a telecom base station and selling carrier services locally).

The independent variable *state ownership* is a continuous measure, reflecting the percentage of a firm's equity controlled by government or public entities. Of note, government entities refer to any level of government, including central, provincial, municipal and township. Additionally, state ownership also includes ownership by public entities such as the Sovereign Wealth Fund and the People's Commune. This variable operation has been used in previous studies (e.g., Duanmu, 2014; Li et al., 2018; Meyer, Ding, Li, and Zhang, 2018) to reflect the comprehensiveness of assets controlled by authorities.

As the data spans from 2004 to 2018, we control for a particular event, the 2008 global financial crisis. A dummy variable is employed for this purpose, the value being 1 if the OFDI project is in or after 2008 and 0 if the project is before 2008.

To capture subnational level market institutions, we use the *marketization* index, drawing on information from the National Economic Research Institute Marketization Index. This index measures the institutional development of a province and determines whether a province is state-oriented or market-oriented (Fan, Wang, & Zhu, 2011). The marketization index is a composite measure of five dimensions: (1) the extent to which the market dominates the allocation of economic resources; (2) the extent to which a province reduces burdens of taxes and fees for farmers; (3) the extent to which the government limits its interference in firms; (4) the extent to which the government reduces extra-tax burdens for firms; and (5) the extent to which government agencies reduce their employment.

We control for firm size (log of average number of employees), firm age, internationalization experience proxied by prior OFDI attempts, profit ratio (profit/total revenue), host country inward FDI ratio (net FDI inflows/GDP), and industry dummies (energy, food, textile, furniture, equipment, and chemistry) for industry-fixed effects.

Model Estimation

The dependent variable FDI count suggests using the Poisson model or negative binomial. The negative binomial model is more appropriate as the FDI project count is clustered at one since many MNEs only have one project in the same year for a particular host country. Therefore, to test H1 and the moderating effects, a negative binomial model is employed. For H2a and H2b, the dependent variable is continuous and follows a normal distribution. Therefore, an ordinary least square regression model is applied. The logit model is used for testing H3 and its moderating effects, in which the dependent variable FDI motive (ambidexterity) is binary 0 or 1. We, therefore, use the logit model to configure the likelihood of ambidexterity.

RESULTS AND FINDINGS

Summary Statistics

Table 1 shares the summary statistics for all the variables in different scenarios. We intend to use this table to get an initial understanding of the proposed relationship in the hypotheses section. The count data is recorded in each cell with the quotient in parentheses. The quotient analysis is frequently used to identify the change in relative weight, with a number greater than 1 indicating the weight has increased (Yeheskel and Shenkar, 2009; Alhowaish, Alsharikh, Alasmail, and Alghamdi, 2015). The formula we adopt for the quotient analysis is $Q = \dfrac{\frac{c_{i1}}{\sum_{i1} c_{i1}}}{\frac{c_{i2}}{\sum_{i2} c_{i2}}}$. The numerator is the percentage of item i in scenario one, while the denominator is the percentage of item i in scenario two. For example, to calculate SOE's quotient in terms of the number of FDI projects before 2008, our numerator is 538 / (538+491) = 0.523, the percentage of SOE's FDI projects in the total number of FDI projects before 2008. The denominator is 1974 / (1974+1168) = 0.628, the percentage of SOE's FDI projects in the total number of FDI projects for the entire period. Therefore, the value of Q is 0.523 / 0.628 = 0.833.

Our sample contains 1641 FDI projects by SOEs. The percentage of SOEs in total FDI firms, in terms of number of firms, is 1641 / (1641+ 1094) = 0.6. We use this percentage of 0.6 as a baseline to analyze our hypotheses. The values in the parentheses above 1 indicate that the percentage of SOEs in that scenario is larger than 0.6, making SOE the relatively dominant party in making foreign investments compared to private firms in that scenario. According to Table 1, SOEs are more likely than private firms to have more FDI projects (H1). SOEs tend to have more investment in political affinitive (H2a) and less developed host countries (H2b) and are more likely to engage in ambidexterity in internationalization (H3). We conduct supplementary analysis for FDI motives in the last two rows in which SOEs exhibit more FDI projects than private firms in both market-oriented and political-oriented activities, echoing the ambidexterity argument.

In terms of the time dimension, SOEs have consistently shown more investments after 2008 and from western provinces for H1 and H2a. However, such a pattern varies in H2b and H3. For the space dimension moderator, private firms in East regions are more capable than private firms in the West and SOEs in the East, where the marketization index score is higher. Therefore, private firms from the East are more capable of handling more market-oriented activities in the host country.

TABLE 1
SUMMARY STATISTICS

	State-owned multinational enterprises		Privately-owned multinational enterprises	
Number of firms	1641		1094	
	Before 2008	After 2008	Before 2008	After 2008
	476 (0.845)	1165 (**1.081**)	463 (**1.233**)	631 (0.878)
	West Provinces	East Provinces	West Provinces	East Provinces
	396 (**1.211**)	1245 (0.947)	149 (0.683)	945 (**1.079**)
Number of FDI projects (H1)	1974 (**1.047**)		1168 (0.93)	
	Before 2008	After 2008	Before 2008	After 2008
	538 (0.833)	1436 (**1.082**)	491 (**1.283**)	677 (0.861)
	West Provinces	East Provinces	West Provinces	East Provinces
	480 (**1.151**)	1494 (0.96)	184 (0.745)	984 (**1.067**)
Number of FDI projects in politically unstable countries (H2a)	805 (**1.025**)		445 (0.957)	
	Before 2008	After 2008	Before 2008	After 2008
	255 (0.869)	550 (**1.119**)	212 (**1.220**)	233 (0.800)
	West Provinces	East Provinces	West Provinces	East Provinces
	242 (**1.154**)	563 (0.979)	92 (0.740)	353 (**1.036**)
Number of FDI projects in developed countries (H2b)	870 (0.970)		558 (**1.050**)	
	Before 2008	After 2008	Before 2008	After 2008
	208 (0.784)	662 (**1.048**)	214 (**1.363**)	344 (0.919)
	West Provinces	East Provinces	West Provinces	East Provinces
	164 (**1.150**)	706 (0.936)	63 (0.746)	495 (**1.108**)
Number of firms with ambidextrous motive (H3)	44 (**1.183**)		18 (0.726)	
	Before 2008	After 2008	Before 2008	After 2008
	6 (**1.429**)	38 (**1.152**)	1 (0.357)	17 (0.773)
	West Provinces	East Provinces	West Provinces	East Provinces
	8 (**1.481**)	36 (**1.132**)	1 (0.278)	17 (0.802)
Number of firms with political-oriented motive (H3 supplementary)	135 (**1.160**)		59 (0.760)	
	Before 2008	After 2008	Before 2008	After 2008
	21 (**1.167**)	114 (**1.159**)	9 (0.75)	50 (0.762)
	West Provinces	East Provinces	West Provinces	East Provinces
	26 (**1.238**)	109 (**1.143**)	9 (0.643)	50 (0.786)
Number of firms with market-oriented motive (H3 supplementary)	1312 (**1.009**)		856 (0.987)	
	Before 2008	After 2008	Before 2008	After 2008
	385 (0.822)	927 (**1.114**)	396 (**1.268**)	460 (0.829)
	West Provinces	East Provinces	West Provinces	East Provinces
	294 (**1.201**)	1018 (0.578)	114 (0.699)	742 (**1.054**)

Regression Analysis

TABLE 2
NEGATIVE BINOMIAL REGRESSION ON FDI PROJECT COUNT

DV: FDI project count	Baseline Model 1	Model 1a (H1 Main)	Model 1b	Model 1c (H4a)	Model 1d (H5a)
Stateownership		0.121**	0.089*	0.053	-0.459**
		(0.048)	(0.048)	(0.079)	(0.220)
Year_2008			0.054	0.031	0.051
			(0.047)	(0.062)	(0.048)
Marketization			-0.035***	-0.035***	-0.062**
			(0.011)	(0.011)	(0.016)
Stateownership x Year_2008				0.057	
				(0.098)	
Stateownership x Marketization					0.061***
					(0.024)
Log(firm_size)	0.004	-0.001	-0.003	-0.003	-0.002
	(0.009)	(0.011)	(0.011)	(0.011)	(0.011)
Firm age	-0.000	-0.000	-0.000	-0.000	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
PriorOFDIattempts	-0.001	-0.002	-0.001	-0.002	-0.002
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Profit ratio	0.167*	0.147	0.132	0.141	0.128
	(0.090)	(0.152)	(0.153)	(0.152)	(0.153)
Host_ifdi/GDP	-0.002	-0.002	-0.002	-0.002	-0.002
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Constant	0.130	0.084	0.361***	0.376***	0.599***
	(0.080)	(0.089)	(0.136)	(0.139)	(0.162)
Log-L	-3066.66	-2601.62	-2595.34	-2595.16	-2592.06
N (Obs)	2535	2163	2162	2162	2162
LR χ²	21.34	21.22	31.54	31.88	38.10
P-value (LR χ²)	**	**	***	***	***
Pseudo R²	0.003	0.004	0.006	0.006	0.007

Notes: * $P < 0.1$, **$P < 0.05$, *** $P < 0.01$

Table 2 shows the results of the FDI project count using negative binomial regression. Baseline model 1 presents the results with only control variables. Model 1b includes the independent variable and the two moderators before interaction terms are added. Model 1c reports the interaction term between state ownership and Year_2008, while model 1d presents the interaction term between state ownership and province-level marketization index. In model 1a, the coefficient of state ownership is positive and significant with p value less than 0.05, indicating that firms with state ownership tend to have more FDI projects abroad. Therefore, H1 is supported.

Model 1b and model 1c indicate that no significance is found for the first moderator, the year 2008, suggesting that firms' number of FDI projects does not significantly vary before or after the global financial crisis in our sample. Hence, we did not find support for H4a.

Model 1b suggests that the effect of provincial marketization on FDI project count is negative and significant, indicating that domestic pro-market institutions decrease the likelihood of capital escape abroad. According to model 1d, the interaction term of state ownership and marketization is significant, approving H5a, such that SOEs are squeezed out under the pro-market institutions.

TABLE 3
OLS REGRESSION ON FDI LOCATION CHOICE (POLITICAL AFFINITY)

DV: FDI location choice	Baseline Model 2	Model 2a (H2a Main)	Model 2b	Model 2c (H4b)	Model 2d (H5b)
Stateownership		0.108**	0.081*	0.093**	0.109
		(0.044)	(0.045)	(0.070)	(0.203)
Year_2008			0.039	0.047	0.038
			(0.043)	(0.055)	(0.043)
Marketization			-0.040***	-0.040***	-0.049***
			(0.010)	(0.010)	(0.014)
Stateownership x Year_2008				-0.020	
				(0.088)	
Stateownership x Marketization					0.021
					(0.022)
Log(firm_size)	0.013	0.011	0.008	0.008	0.013
	(0.008)	(0.010)	(0.010)	(0.010)	(0.010)
Firm age	0.000	0.000	0.000	0.001	0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)
PriorOFDIattempts	0.010***	0.009**	0.008**	0.008**	0.008**
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Profit ratio	-0.349***	-0.350**	-0.321**	-0.359***	-0.330**
	(0.085)	(0.137)	(0.138)	(0.137)	(0.137)
Host_ifdi/GDP	-0.025***	-0.025***	-0.025***	-0.025***	-0.025***
	(0.003)	(0.003)	(0.029)	(0.003)	(0.003)
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Constant	0.102	0.163**	0.262**	0.256**	0.342**
	(0.073)	(0.081)	(0.124)	(0.125)	(0.150)
N (Obs)	2511	2142	2141	2141	2141
F Value	13.19	9.76	10.21	9.53	9.59
P-value (F)	***	***	***	***	***
Adjusted R²	0.046	0.043	0.057	0.056	0.057

Notes: * $P < 0.1$, **$P < 0.05$, *** $P < 0.01$

Table 3 shows the results on FDI location political affinity, in particular, using OLS regression. Baseline model 2 presents the results with only control variables. Model 2b includes the independent variable and the two moderators before interaction terms are added. Model 2c reports the interaction term between state ownership and Year_2008, while model 2d presents the interaction term between state ownership and province-level marketization index. In model 2a, the coefficient of state ownership is positive and significant with p value less than 0.05, indicating that firms with state ownership tend to invest in politically affinitive host countries. Therefore, H2a is supported.

Model 2b and model 2c indicate that no significance is found for the first moderator, the year 2008, suggesting that the level of host country political affinity does not significantly vary before or after the global financial crisis in our sample. Hence, we did not find support for H4b.

Model 2b suggests that the effect of provincial marketization on host country selection in terms of political affinity is positive and significant, indicating that firms coming from provinces with strong support for market institutions tend not to choose politically affinitive host countries as FDI destinations. Nevertheless, no significant moderating effects are identified in model 2d. Therefore, H5b is not supported.

TABLE 4
OLS REGRESSION ON FDI LOCATION CHOICE (HOST COUNTRY GDP PER CAPITA)

DV: FDI location choice	Baseline Model 3	Model 3a (H2b Main)	Model 3b	Model 3c (H4c)	Model 3d (H5c)
Stateownership		-0.213***	-0.136*	-0.038	0.205
		(0.081)	(0.082)	(0.129)	(0.373)
Year_2008			0.196**	0.258**	0.197**
			(0.079)	(0.101)	(0.079)
Marketization			0.112***	0.112***	0.128***
			(0.019)	(0.019)	(0.026)
Stateownership x Year_2008				-0.159	
				(0.162)	
Stateownership x marketization					-0.038**
					(0.040)
Log(firm_size)	-0.000	0.004	-0.006	0.005	-0.005
	(0.015)	(0.018)	(0.018)	(0.018)	(0.018)
Firm age	-0.005	-0.005	-0.006	-0.004	-0.005
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
PriorOFDIattempts	-0.024***	-0.025***	-0.022***	-0.025***	-0.034***
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Profit ratio	0.673***	0.661***	0.469*	0.670***	0.481*
	(0.158)	(0.254)	(0.253)	(0.254)	(0.253)
Host_ifdi/GDP	0.001	0.004	0.002***	0.004	0.003
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Constant	9.562***	9.680***	8.380***	8.344***	8.237***
	(0.136)	(0.151)	(0.228)	(0.231)	(0.276)
N (Obs)	2534	2162	2161	2161	2161
F Value	6.42	4.91	10.85	10.19	10.19
P-value (F)	***	***	***	***	***
Adjusted R²	0.021	0.020	0.060	0.060	0.060

Notes: * $P < 0.1$, **$P < 0.05$, *** $P < 0.01$

Table 4 shows the results of FDI location choice in terms of the host country's economic development status using OLS regression. Baseline model 3 presents the results with only control variables. Model 3b includes the independent variable and the two moderators before interaction terms are added. Model 3c reports the interaction term between state ownership and Year_2008, while model 3d presents the interaction term between state ownership and province-level marketization index. In model 3a, the coefficient of state ownership is negative and significant with p p-value less than 0.01, indicating that firms with state ownership tend to have fewer FDI projects in economically developed host countries. Therefore, H2b is supported.

Model 3b finds the positive and significant impact of Year_2008 on firms' number of FDI projects in advanced economies, verifying our initial prediction that firms are more likely to take advantage of

bankrupt assets in developed nations. The average GDP per capita of host countries increased after 2008. However, the significant impact of the Year 2008 did not last in model 3c, making H4c not supported.

Model 3b suggests that the effect of provincial marketization on FDI project count is positive and significant, indicating that domestic good institutions increase the likelihood of firms investing in developed nations. According to model 3d, the interaction term of state ownership and marketization is also significant with the expected sign, verifying that SOEs from pro-market provinces where the business environment is more conducive to private businesses are less likely to survive intense market competition and thus located in less developed regions. Hence, H5c is supported.

TABLE 5
LOGIT REGRESSION ON FDI MOTIVE (AMBIDEXTERITY)

DV: FDI motive	Baseline Model 4	Model 4a (H3 Main)	Model 4b	Model 4c (H4d)	Model 4e (H5d)
Stateownership		0.684*	0.632**	0.703	-2.638***
		(0.355)	(0.354)	(0.448)	(0.997)
Year_2008			1.468***	1.230***	0.916***
			(0.468)	(0.337)	(0.232)
Marketization			0.005	-0.026	-0.158**
			(0.085)	(0.048)	(0.066)
Stateownership x Year_2008				-0.836*	
				(0.499)	
Stateownership x Marketization					0.291***
					(0.106)
Log(firm_size)	0.036	0.058	0.044	0.057	0.054
	(0.069)	(0.085)	(0.094)	(0.086)	(0.094)
Firm age	-0.011	-0.015	-0.019	-0.015	-0.019
	(0.019)	(0.020)	(0.020)	(0.020)	(0.020)
PriorOFDIattempts	0.007	0.003	0.002	0.003	0.013
	(0.023)	(0.025)	(0.024)	(0.026)	(0.024)
Profit ratio	1.255**	2.892***	2.450***	2.870***	2.398***
	(0.505)	(0.773)	(0.795)	(0.783)	(0.808)
Host_ifdi/GDP	-0.005	0.003	-0.001	0.003	-0.001
	(0.0252)	(0.024)	(0.024)	(0.024)	(0.024)
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Constant	-3.010***	-3.713***	-4.650***	-4.047***	-4.722***
	(0.503)	(0.606)	(1.048)	(0.642)	(0.738)
Log-L	-252.94	-208.87	-202.42	-202.39	-201.44
N (Obs)	2446	2000	2000	2000	2000
LR χ²	20.32	27.72	41.60	40.58	42.56
P-value (LR χ²)	**	***	***	***	***
Pseudo R²	0.039	0.062	0.091	0.091	0.096

Notes: * $P < 0.1$, **$P < 0.05$, *** $P < 0.01$

Table 5 shows the results on FDI motive complexity using the logit model. Baseline model 4 presents the results with only control variables. Model 4b includes the independent variable and the two moderators before interaction terms are added. Model 4c reports the interaction term between state ownership and Year_2008, while model 4d presents the interaction term between state ownership and province-level marketization index. In model 4a, the coefficient of state ownership is positive and significant with p value

less than 0.1, indicating that firms with state ownership tend to have more FDI projects with market-political ambidexterity. Therefore, H3 is supported.

Model 4b finds a positive and significant impact of Year_2008 on firms' ambidexterity, suggesting that after 2008, firms, regardless of ownership structure, are more likely to engage in ambidexterity. We also find the significant impact of the Year 2008 negatively moderating the relationship between state ownership and ambidexterity, making H4d supported. The negative and significant moderating effect indicates that SOEs are less likely to be ambidextrous after 2008 but have a more focused FDI motive.

Model 4d suggests that the interaction term of state ownership and marketization is positive and significant, verifying that SOEs from pro-market provinces where the business environment is more conducive to private businesses are more likely to remain ambidextrous. Hence, H5d is supported.

DISCUSSIONS

Results Overview

TABLE 6
RESULTS OVERVIEW

	FDI project count	Location_political	Location_economic	FDI motive
Main effects	H1 √	H2a √	H2b √	H3 √
Moderating effect_Year 2008	H4a ✕	H4b ✕	H4c ✕	H4d √
Moderating effect_Marketization	H5a √	H5b ✕	H5c √	H5d √

All of our main effects are supported based on Table 6, suggesting that SOEs are more resourceful in conducting outward FDI than private businesses. When it comes to location choices and FDI motive, SOEs and private firms are complementary to each other, such that SOEs tend to target politically affinitive but economically less developed host countries, while private businesses prefer advanced economies with less political affinity. Additionally, private businesses focus on market-oriented motives, but SOEs attend to market-political ambidexterity.

In terms of the contingency introduced by the time dimension, the 2008 global financial crisis did not have an impact on FDI count nor location choice regarding political affinity. Nevertheless, the year 2008 increased businesses' interest in targeting advanced economies. SOEs also became more focused on market-oriented motives after 2008.

The moderating effect of marketization is largely supported. In provinces where pro-market institutions are strong, SOEs become peripheral in domestic competition and get squeezed out to seek opportunities abroad. We, therefore, observe SOEs become more aggressive in conducting FDI when the home province improves pro-market institutions. Moreover, coming from provinces with pro-market institutions, SOEs tend more likely to locate FDI projects in political affinity but less economically advanced host countries while conducting more ambidextrous FDIs. In other words, coming from a home province where market institutions are more developed, ambidexterity becomes a more important strategy in SOEs' global expansion.

Policy Implications

This research extends the current understanding of how institutions can affect economic activities in the context of an emerging market's internationalization. In particular, the transition from a command-based economy to a market-based economy has created both opportunities and dilemmas for firms with institutional affiliations. While state ownership offers privileges to firms at home, such privilege can become a burden in internationalization and when the home regions start pro-market reform. Nevertheless,

many SOEs are resilient when facing dynamism in the external environment by leveraging home country political affinity and market-political ambidexterity in the host country.

Limitations

This study uses one country sample to discuss the economic transition and the behaviors of firms during the transition. While we have selected a representative country, future studies can expand our hypotheses testing to other regions of the world. In addition, FDI is a very rich concept. Due to data limitations, we could not exhaust all aspects of FDI activities.

CONCLUSIONS

This research examines the role firms from the two parallel economic systems play in an emerging and transitioning economy's outward expansion. Our findings show that private enterprises and state-owned enterprises take on different responsibilities in promoting the home country's outward FDI. This study also reveals the mechanism and process of how state-owned enterprises evolve and become resilient to the external dynamism in global economic trends and home region institutional change.

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