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The Co-Evolution of Outward Foreign Direct Investment Policies and Chinese Multinational Enterprises

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1. Introduction

Policies are defined as “principle[s] or course[s] of action” (Hornby et al., 2010) that “change behavior” (L. J. Clegg, 2019) of market actors, and hence, to be distinguished from institutions which are strategic pillars that “shape behavior” (L. J. Clegg, 2019). While the policy environment of firms, for example, consisting of approval procedures or official ministerial guidance, shows dynamic characteristics, institutions (e.g., laws or customs) are relatively stable (Buckley et al., 2018).

Firms with long-term investments abroad (Multinational Enterprises, MNEs) face the dynamic policy environment both in the home country, as well as their host countries. While the International Business (IB) literature understands the role of the host country policy environment for MNEs well (e.g., Delios & Henisz, 2003a; Luo, 2001; Nguyen, Kim, & Papanastassiou, 2018), the same cannot be argued for the home country context. This leaves questions open, as to how home country policies influence firm internationalization and if local MNEs influence their home country policy environment.

The home country policy environment reveals especially strong dynamism in Emerging Markets (EMs) (Buckley et al., 2018), as politicians in EMs interfere in the economy with policies to steer market actors into directions that seem helpful in catching up with Developed Markets (c.f., Ozawa, 2014). At the same time, policies own an important role for the internationalization projects of local EM firms (Cuervo-Cazurra, Ciravegna, Melgarejo, & Lopez, 2018). Emerging Market MNEs (EMNEs) are dependent upon home country policy making in their internationalization, as they are equipped with less firm-level capabilities than Developed Market MNEs (Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2007). With the strong dynamism in their home country policy environment and the
dependence upon supportive outward foreign direct investment (OFDI) policies, EMNEs have to learn to quickly respond to the changes of policies and to benefit from the provided resources, to be able to catch up with foreign competitors (Child & Rodrigues, 2005; C. Wang, Hong, Kafouros, & Wright, 2012).

Focusing on the world’s largest EM – China (c.f., World Bank, 2020), the home country policy environment dynamism faced by MNEs is shown with 117 published policies with core focus on OFDI\(^1\) since opening up the world to its companies, in 1979 (based upon own Policy dataset). However, OFDI policymaking in China is not only defined through a top-down approach from policymakers to firms, but also receives bottom-up influence, from firms to policymakers. With the internationalization of firms from Emerging Markets increasingly being seen as a tool for home country economic development (Gammeltoft, Pradhan, & Goldstein, 2010; Morck, Yeung, & Zhao, 2008), EMNEs gain influence in the circles of policymakers via direct approaches (e.g., personal relationships - *guanxi*), as well as indirectly, with changes in OFDI leading to reactive policymaking (He & Tian, 2008; Luo, Xue, & Han, 2010; Yan, Zhu, Fan, & Kalfadellis, 2018). The direct approach has been well studied in IB (e.g., Cui, Hu, Li, & Meyer, 2018; Patnaik, 2019), however, the indirect channel of firm internationalization influence on policymaking, has so far not been analyzed empirically.

The evolution of both firm internationalization and OFDI policymaking in EMs, as I argue in this thesis, create a dynamic and interdependent co-evolutionary

\(^1\) This excludes the following OFDI related policies: policies where OFDI is one of many topics addressed in the publication (e.g., Five-Year Plans), policies where the originally published document could not be found, policies that are only published to express the support of a government organization for the publication of an already published core OFDI policy, policies with a focus on the methodology of measuring FDI, and published lists of abolished policies.
relationship, i.e., both sides (almost) simultaneously trigger reactions and amendments of the other through their behavior. I developed four research questions that each address distinct parts of the interdependent and evolving relationship and refer to different sections of the dissertation.

1.1. Research Questions

Research Question 1: Can evolution perspectives explain the interdependent co-evolution relationship between firms’ internationalization and OFDI policymaking?

In the framework of this thesis (Chapter 2), I develop a conceptual approach that outlines the co-evolution between firm behavior and policymaking, while employing a set of theories that address the development of firms, how firms are embedded into the governmental environment, and the role of firms for policymaking. The developed framework, that aims to contribute to the theoretical IB policy literature with focus on EMs, is put into perspective in Chapter 2.3, by focusing on the context of Chinese OFDI policies and firm internationalization.

Research Question 2: How do China’s OFDI supportive policies influence firm internationalization? Does the effect differ between policy types?

In Essay 1 of my dissertation, I bring together theoretical approaches from the institutional and policy literature to study the effect of OFDI policy announcements on Chinese cross-border Mergers and Acquisitions (M&A). Studying the role of home country policies from the perspective of coercion, differing between coercive and non-coercive OFDI policies, I aim to contribute to the latest efforts in the IB Policy literature to better understand the relationship between policymaking and firms in the home country.
Research Question 3: How do changes in firm internationalization, industrial catch-up, and the foreign exchange reserve level influence home country OFDI policymaking in China? Does the size of change matter for home country policymaking?

In the second Essay of this dissertation, I focus with my research question on the opposite direction of influence in Essay 1. With this second Essay, I aim to add to the literature on incremental and large changes in political-external developments on policymaking, building upon policy change literature from the political sciences. Combining both Essays 1 and 2, I aim to contribute to IB research on co-evolution by offering empirical approaches to both streams of influence, i.e., firms’ internationalization on home country policymaking and vice versa.

Research Question 4: How can IB scholars study the complexity and dynamism of EMNEs' home country policy environment systematically?

With Essays 1 and 2 of the dissertation focusing each on one side of the interdependent bidirectional relationship between firm internationalization and home country policymaking, Essay 3 contributes to IB research by theoretically developing and empirically testing a conceptual framework studying the “dynamic, non-linear and multi-directional” (Chan & Pattnaik, 2021, p. 10) system of the home country OFDI policy environment. Connecting policy literature and organizational perspectives, the developed framework allows the study of policy mixes on the policy goal and instrument level. The aim of this Essay is to provide IB scholars with a concept that can be used to empirically study MNEs’ home country policy task environment while considering the role of complexity and dynamism.
1.2. Methodology

Each of the three Essays in this dissertation has a distinct focus of analysis considering the co-evolution relationship between MNEs and home country policymakers. As a result, their methodological approaches also differ.

In the first Essay, I combine national OFDI supportive policies with the firm’s cross-border M&A activities, i.e., I connect the macro with the micro-level. I developed a comprehensive dataset comprising of China’s OFDI policies for the period of 2008 to 2015 and combined it with a newly constructed dataset on Chinese cross-border M&A, both sets merging several databases to widen the sample. As the studied policies turn effective with their announcement, they directly apply to all cross-border M&A transactions following this date. To reduce the lagging period after the policy announcement to avoid endogeneity to a minimum, I worked with monthly observations instead of annual data. Studying the policy-firm relationship across time and across individual entities, and using the number of new cross-border M&A projects as the outcome variable, a count-data model is found suitable (Cameron & Trivedi, 2013). With the individual firms’ cross-border M&A revealing an excess of zeros, leads me to perform a zero-inflated Poisson regression with clustered standard errors (Greene, 2011; J. Li, Xia, Shapiro, & Lin, 2018).

In the second Essay, I again combine the micro- with the macro-level of analysis. However, in contrast to Essay 1, the outcome variable is in the second Essay not the micro, but the macro measure (the number of policies announced in a year). I extended the OFDI policy and M&A datasets of paper 1 from including 2008-2015 to cover all M&As between 1999-2019. In addition, as Essay 2 studies the trigger for OFDI policymaking, the depth of policy study has been increased to include information on the event that triggered the policy design, information on the
government organization publishing the policy, the policy sentiment, and specifications of the policy considering firm ownership types and industries. Firm internationalization is measured both with the number of cross-border M&As in a specific year and aggregated as China’s OFDI flows. With the dependent variable only changing across time, a count time series analysis is found suitable (e.g., Gray, 1973). Due to the small sample size (21 years), several adjustments and validation calculations were conducted, proofing the robustness of results (Bellocco & Algeri, 2013; Maggioni, Nelson, & Mazmanian, 2012; StataCorp, 2009).

The third Essay has a different empirical setting compared to Essays 1 and 2. Studying the complexity and dynamism of the MNEs’ home country policy task environment, the third Essay employs manual coding and computer-aided text analysis (CATA). Combining both approaches allows to create objective results and putting them into context. The employment of a dual approach of methods has been found to enhance result validity and appropriate interpretation (Gaur & Kumar, 2018; Grimmer & Stewart, 2013; Neuendorf, 2017). The datasets on OFDI policies and Chinese cross-border M&A have again been extended from previously covering 1999-2019, to 1979-2019 (M&A: 1988-2018 due to data availability). With this additional round of extension, it has been possible to study the dynamics of China’s policy task environment since the beginning of its opening-up reform. Furthermore, the information on OFDI policies has been widened with this extension, as policies have been categorized by their influence on the OFDI process and the instruments embedded in the policies have also been analyzed. With the additional information on China’s OFDI policies available, it has been possible to systematically analyze the complex and dynamic policy environment of Chinese MNEs.
Looking at the three Essay’s methodological approaches from the perspective of the overall dissertation, one sees that the different parts of the framework being analyzed also require distinct empirical approaches. Due to the complexity of the co-evolution relationship between firms and policymakers, and considering the availability of empirical methodologies, approaches that comprise all facets of the framework do not currently seem to exist. Thus, combining different levels and perspectives of the interdependent co-evolution framework, I conducted the above highlighted three individual but jointly connected analyses.

2. Framework

2.1. Theoretical Background

Following the introduction, in this Section, I aim to present the theoretical underpinning of my dissertation. Firstly, I introduce definitions of the most central constructs employed in this dissertation – MNEs and foreign direct investment (FDI), as well as institutions and policies. Secondly, I discuss theories that underlie the evolutionary concepts of firms and policies and form the co-evolutionary relationship between both sides. For my theoretical framework, I employ economic theories on change in industries and firms and political theories on change in government structures, as institutions and policies. Thirdly, I introduce the theoretical co-evolutionary concept and its use in the social sciences.
2.1.1. Underlying Theories of the Firm-Policy Co-Evolution Relationship

MNEs and Outward FDI

Starting from the multinational enterprise, Dunning and Lundan (2008, p. 3) brought forward a definition that is well received by academics, policymakers, and governments. That is,

“[a] multinational [...] enterprise is an enterprise that engages in foreign direct investment [...] and owns or [...] controls value-added activities in more than one country.”

This definition contains three subdivisions that together define foreign direct investment and, with this, distinguishes an MNE from a domestic company. Firstly, the investment abroad needs to be in value-adding activities, which is any activity along the value chain. Activities that do not add value might be those that do not help to operate a firm’s business. Secondly, the investment of the enterprise is in at least one country other than the country where its headquarters is located, i.e., any other than its home country. This investment can either be in the form of a greenfield investment (setting up subsidiaries) or a merger with or acquisition of a foreign company, including a brownfield investment (purchase of a production facility). However, the share in the foreign entity of the investing firm needs to be at least 10 % to be defined as a long-term investment and thus, to be distinguished from foreign portfolio investment.

Thirdly, gaining ownership or holding control in foreign investment. If a firm has the control (or as a form of control, gaining ownership) of an investment, it can influence decision-making in this investment. Different definitions exist for each of the three subdivisions, deviating from the above-highlighted threshold levels
However, with the definition of Dunning and Lundan (2008, p. 3) being well-accepted across different audiences, I follow their approach.

Firm Embeddedness into the Governmental Environment

Relationship between Institutions and Policies

In this thesis, I define a firm’s home country governmental environment to be consisting of the state’s authorities shaping institutions and policies. I follow the established standard in the IB policy literature (L. J. Clegg, 2019) and understand institutions as strategic pillars, such as customs, systems, or laws, providing the market’s course and policies as a “plan of action” (Hornby et al., 2010) to turn the institutional structure into action. Due to the relationship between institutions and policies, institutions determine the place, time, and speed of policy implementation (Greif, 2006, p. 380; Lowi, 1985). From the political perspective, institutions and policies can be embedded into the principal-agent framework, institutions on the level of principals, i.e., those persons involved in institutional development, and policies on the lower level of agents, i.e., those persons under the power of the principal, involved in policymaking (e.g., Holburn & Van den Bergh, 2000, p. 55; Woolley, 1994) and policy execution (Kettl, 2006). The control of the power of institution-shapers above policymakers and with this, the integrated pressure of institutions on policies is well discussed in policy science (Krause, 2013).

Institutional and Policy Pressures on Firm Internationalization

Governmental decision-makers steer firm activities, for example, cross-border investments, through institutions and policies. The institutionalism literature discusses that a country’s institutional framework consists of three pillars - regulative, normative, and cultural-cognitive (Scott, 2014) – or, as defined by North (1990), formal and informal institutions. Each of these pillars is equipped with
different isomorphic pressures (DiMaggio & Powell, 1983), considering the activities of firms.

The regulative pillar comprises rules, laws, and sanctions (Scott, 2014), which include obligations concerning the market players’ behavior, precision in the definition of the regulative measures, and the delegation of power to executive authorities. Governmental decision-makers try to use these approaches actively to steer the market actors into behavior patterns that are of use for keeping the economy on its growth track. The second form is the normative pillar. It highlights the aims that the government pursues (Scott, 2014) and pressures firms to follow through with a system of values and legitimacy expectations. Finally, the cultural-cognitive pillar builds upon routines and belief systems concerning how things are done (Scott, 2014). Institutional pressures established through the behavior of other market players lead firms to confirm and follow. The three pillars combined form institutions as “rules of the game,” whereby the market actors are seen as merely adapting to changes in their governmental environment (North, 1990, 2005).

Similar to the institutional literature, political scientists studying policy changes (Cushman, 1937, 1941; as cited in Lowi, 1972) distinguish between different forms of policies - those being more formal (coercive) and those being less formal in nature (non-coercive). Both exert different levels of pressure (Lawrence & Suddaby, 2006) on firm behavior. With policies being embedded into the institutional framework, their pressures on firms show similar characteristics.

**Development of Firms**

*Evolutionary Economics*

In the classical economic approach (e.g., Friedman, 1966), the assumption holds that markets operate at or close to equilibrium, with market players being rational
decision-makers. Compared to that, evolutionary economists (e.g., Helfat, 2018; Nelson, 2018) argue that the economy and with that market participants continuously and path dependently change, leading firms not to be able in most cases to maximize their profits. Following Simon (1957, p. 198), evolutionary economists assume that firm decision-makers’ pool of information is not complete due to the changing nature of the firm environment and its complexity, leaving the firms with a level of bounded rationality in their decision-making process. In addition, as systems continuously develop at an inconsistent pace, changes might be faster than the information flows down to the individual firms. These mismatches lead firms to not being able to operate as profit maximizers (Nelson & Winter, 1982, pp. 10, 25, 31).

According to evolutionary economists, the continuous path-dependent evolution of firms is present in all industries and due to the trial-and-error approach embedded in technical, organizational, and institutional innovation processes of firms (Helfat, 2018; Nelson, 2018). However, while firms might develop new technologies and gain an advantage on their competitors, this advantage fades away as others in the same industry learn in the medium- to long run. Industry structures develop along with the evolution of firm experimentation and learning, where the capabilities of managers (e.g., to develop new technologies that go beyond the existing), company strategies, and luck determines its extent (Nelson, 2018). With other firms in the industry learning and catching-up, continuous innovation becomes paramount for the survival of the firm (Schumpeter, 1934). However, if a company is able to develop competitive advantages through innovation depends upon its implemented routines and the aggregated capabilities of the firm, which again depend upon the
skills of its employees (Nelson & Winter, 1982). This combination of elements then also determines the different paths of the firms in an industry.

Routines are defined in evolutionary economics as those behaviors which regularly re-occur within a firm without changes in their form (Nelson & Winter, 1982, p. 14). Thus, they require no specific skills once they are learned (Nelson, 2018). They build the foundation of a firm’s strategic route (Helfat, 2018). For firms, this means that they can also develop routines of a strategic response to changes in their environment. However, it is the skills of individuals and hence, on the aggregated level, the capabilities of a firm that allows routines to be combined and turned into results. Thus, routines and capabilities and their evolution are closely linked with one another and jointly build the operational foundation of the firm’s behavior (Helfat, 2018; Nelson & Winter, 1982).

However, only those firms that possess the necessary strategies and dynamic capabilities to adapt to changes in their economic and political environment, as well as possess competitive advantages to survive the natural selection process of their environment, are able to evolve at their location across time. The market selection process might, for example, exist through an increasing level of industry concentration, which forces firms to adjust their current strategies. By critical reflection upon their current capabilities and routines, and if necessary, enhancing those, firms might be able to overcome the new situation (e.g., Dosi & Nelson, 1994; Murmann, 2003; Nelson & Winter, 1982), with the enhanced capabilities and routines forming their new set of competitive advantages (Barney, 1991).

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2 Nelson and Winter (1982, p. 14) see routines to have the same role for firms as genes have for living organisms studied with biological evolutionary theory.
Competitive Advantage

From the perspective of competitive strategies (Porter, 1980, 1990), a firm’s advantage depends next to the level of competition present in its industry, also upon the unique management skills and the work ethic of its employees, as well as the firm’s positioning within the domestic industry, and the process of steady improvement, among others. Another perspective of the strategic conflict literature (e.g., Shapiro, 1989) highlights the industrial competition structure and the level of effectiveness in operating the firm to be of utmost importance for creating competitive advantages. This literature discusses the effectiveness, especially in terms of investment decisions, cost structures, and the quality of information that it possesses to a more considerable extent than its competitors, with which the firm can distinguish itself from its competitors. The third approach to firms’ competitive advantages is from the literature of the resource-based view (e.g., Penrose, 1959). Scholars of the resource-based view argue that a firm’s unique competencies, i.e., those that are valuable, rare, difficult to imitate, and difficult to substitute by competitors (Barney, 1991), are the core driver for creating competitive advantages.

Dynamic Capabilities

To be able to maintain its position in the industry and enhance its competitive advantage, firms need to possess dynamic capabilities. Dynamic capabilities have been defined by Teece, Pisano, and Shuen (1997) as “the firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments.” Without the dynamic characteristics in its capabilities, as well as competencies comprising the process of “learning, unlearning, or relearning” (Lewin & Volberda, 1999), strong internal motivation for change, and chance (Nelson & Winter, 1982, p. 4), firms might not be able to adjust their existing
capabilities to changes in the firm environment. The firm’s adjustment options are thereby dependent upon its dynamic capabilities, routines, beliefs, and the evaluation of the current situation (Geels, 2014; Winter, 2017).

Absorptive Capacity

However, a firm needs to possess the ability to perceive, process, and apply the information of its surrounding before it can react to its changes based upon the elements described above (Cohen & Levinthal, 1989). This ability was termed by Cohen and Levinthal (1989) as “absorptive capacity.” Like other capabilities, also the absorptive capacities of a firm can be developed through routines of learning. The firm evolves through the development of its absorptive capacities by gaining and assimilating external information, learning from the experiences of others. However, as each firm’s set of capabilities is unique, its development follows a try-and-error strategy as a combination of internal development and external learning (Cohen & Levinthal, 1989).

Role of Firms for Policymaking

It is not only the firms that adjust to changes in their (institutional and policy) environment, but firms can, to some extent, also exercise influence (Lundan, 2012). The power of firms to trigger policy change differs based upon the available firm capacities, nonmarket capabilities, and the company’s importance for the economic development of the country. Also, institutions and policies in the operating country constrain the ability of firms to develop nonmarket capabilities (Mellahi, Frynas, Sun, & Siegel, 2016). However, as Mellahi et al. (2016) argue, with institutional entrepreneurship firms might be able to shape established institutions and employ new ones to develop their nonmarket capabilities. This is especially so in environments of flux and institutional voids (Khanna & Palepu, 1997), where
approaches of institutional entrepreneurship find fruitful ground to be tested and implemented (Cantwell, Dunning, & Lundan, 2010; Mbalyohere, Lawton, Booijhawon, & Viney, 2017). As with the firm internal development of capabilities, through experimentation, allowing the company to adapt to a changing external environment (Nelson, 2018), also with the firm’s aim to shape its external environment, an approach of experimentation is followed (Cantwell et al., 2010). This likewise applies to the MNEs’ approach to institutional entrepreneurship, which is defined as the “activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or transform existing ones” (Maguire, Hardy, & Lawrence, 2004, p. 657). In other words, institutions shall be shaped into forms where the firm sees itself to be able and willing to change – potentially entering into a dynamic co-evolution relationship between firm strategy and government strategy (Cantwell et al., 2010; Greenwood & Hinings, 1996; Lewin & Volberda, 1999). Besides the focus of institutional entrepreneurship being on shaping institutions, policies are also embedded into this approach (c.f., Bakir & Jarvis, 2017, 2018). Most researchers studying institutional entrepreneurship have focused on nonmarket activities of firms (Boddewyn, 2003) that shape institutions and policies. However, firms possess also market channels of policy influence (e.g., Funk & Hirschman, 2017; Yeh, Wu, & Hsiao, 2021) through (political unfavorable) international market activities (Pacewicz, 2013; Woods, 2006) and structural developments in the industry (see for example, Essay 2 of this thesis).

In the subsequent two sub-sections, I focus on the channels available for firms to influence policymaking. Afterward, I discuss the process of policy adaptation to the change in firm behavior.
Nonmarket Approaches

As part of the approach to influence their environment, firms get involved in corporate political activities (CPA) and actively influence governmental decision-makers that possess the power to shape institutions and policies (Geels, 2014; Lundan, 2011; White, Boddewyn, Rajwani, & Hemphill, 2018). Channels of CPA might differ from the established political system and country, taking forms of corruption, lobbying, campaign contributions, or former politicians’ employment (e.g., Cui et al., 2018; Patnaik, 2019). If companies successfully take advantage of CPA, their approach might develop into a benchmark for others, as they learn from the successful approaches (Rajwani & Liedong, 2015).

Another form of firms’ nonmarket influence on policy decision-makers is indirect in nature by employing corporate social responsibility strategies (Mellahi et al., 2016). With firms cooperating with non-governmental organization, business associations, or government organizations, they might be able to actively influence the setting of new industry standards (Cantwell et al., 2010). Besides, firms might also develop their own standards without the collaboration of nonprofit organizations, which might over time turn into an industrial benchmark (Mellahi et al., 2016).

Market Influence

In addition to the nonmarket channels of firm influence on the governmental environment, with the reorientation of the firm’s modus operandi and thus, a change in their strategy to take advantage of opportunities in foreign markets (e.g., choice of location, change in time and scope of internationalization), policymakers might adjust their established framework (Geels, 2014). With the development of firms in size and agglomeration of know-how, they become an essential factor for economic
growth, especially for governments of developing countries. With the growing reliance upon these firms, governments observe the firm developments more closely and react to them through adjustments of policies and institutions (Funk & Hirschman, 2017; Pacewicz, 2013; Woods, 2006).

**Policy Change Process**

Like managers in firms, policy decision-makers in the government adapt to internal and external changes to achieve economic growth, leading to a continuously changing environment (Kingdon, 2013; Nelson & Winter, 1982; Streeck & Thelen, 2005b). With checks on the governmental system’s stability and efficiency, institutions and policies are part of a thorough review routine. Both institutions and policies eventually develop within a path-dependent learning and adaptation process (Kingdon, 2013, p. 227; Nelson & Winter, 1982, p. 376) that is partially driven endogenously (Cantwell et al., 2010) with political entrepreneurs\(^3\) playing a decisive role (Bakir & Jarvis, 2017). As a result, policymakers are not free in their ways forward when facing critical decisions but bound to previous policy paths (Kay, 2006, p. 13; Knox-Hayes, 2012). However, this process differs with the political systems of countries.

In democratic countries, the government regularly holds elections for the subsequent legislative periods. Thus, voters might choose a new leadership that follows different political agendas and, as a consequence thereof, might follow more extensive changes to institutions and policies (Kingdon, 2013; Streeck &

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\(^3\) As highlighted by Mintrom and Norman (2009), policy entrepreneurs can be any person involved in the policymaking process who is strong in convincing others, independent from their political rank. They are defined as being “advocates who are willing to invest their resources-time, energy, reputation, money-to promote a position in return for anticipated future gain in the form of material, purposive, or solidary benefits” (Kingdon, 2013, p. 179).
Thelen, 2005b). In authoritarianism, this pressure for change might be much less, if at all, coming from the population. In the context of authoritarianism, the governmental environment undergoes a continuous change (Huang, 2008), as ideas of individual politicians and authorities who participate in the bargaining process of policymaking conflict. Thus, power struggles within the political circle might lead to more adjustments of institutions and policies, next to influences of international policymakers (Duckett, 2018; W. Li & Weible, 2019; Mertha, 2009).

In addition to pressures from within the political circle or pressures from the population, governments, irrespective of the political system, also need to adapt to changes in contexts that are often not in their hands, however, affect the stability of its economy (Nohrstedt & Weible, 2010), e.g., the global financial crises of 2007-2008. However, the path dependence of policymaking also defines its limits in flexibility for adaptation. Nevertheless, as the points made above have shown, both institutions and policies are part of an evolution process.

2.1.2. Co-Evolution Research

Co-evolution research has been introduced into science by the ecology scholars Ehrlich and Raven (1964), studying the interdependent evolutionary relationship between individual organisms that share a mutual habitat. Since being brought forward, the co-evolution understanding developed to become one of the leading theoretical approaches in the natural sciences (Nelson & Winter, 1982, p. 10), where it has been studied from the micro (intra-molecular) to the macro (inter-species) levels (Carmona, Fitzpatrick, & Johnson, 2015; Schamp, 2010).

With its bidirectional and multi-level characteristics, the theoretical co-evolution construct also gained the interest of scholars in other research areas. In economics, for example, researchers of economic geography (e.g., Gong & Hassink, 2019; Ter
Wal & Boschma, 2011) and industrial economics (Nelson, 1995) with interest in the evolution process study co-evolution from an aggregated (macro) perspective of groups of firms. Evolutionary economic geographers (e.g., Fritsch, Kudic, & Pyka, 2019; Gong & Hassink, 2019; Lazzeretti & Capone, 2017; Ter Wal & Boschma, 2011) work with the co-evolution framework to approach questions as to how firms’ capabilities co-evolve with other firms within clusters, industries or networks, and the institutional environment at different levels (regional to supranational). Evolutionary industrial economists (Nelson, 1995) study the co-evolution relationship between firm/industry structures, technology innovation, and supportive institutions. With their aggregated macro perspectives, both works of literature study firms from the outcome perspective (e.g., the level of a developed strategy or a group of firms with similar characteristics) and only in exceptional contexts consider individual firms (e.g., studying the co-evolution between selected firms and universities; Fatas-Villafranca, Sanchez-Choliz, & Jarne, 2007). The individual firm is seen as not possessing the power to influence and thus create a co-evolution relationship with its political and economic environment (e.g., Schamp, 2010).

More micro than the economics perspective of firm co-evolution is the position of strategy and organization research. Organization scholars study co-evolution as a non-linear and historical process of mutual influence and adaptation with a core focus on firm processes and strategies (Levinthal & Myatt, 1994; Lewin & Volberda, 1999; Tan & Tan, 2005). In particular, scholars of the organization and strategy field study co-evolution relationships on the firm internal level. Researchers focus on intra-firm processes (Burgelman, 1994, 2007; Madhok & Liu, 2006), with a core focus on the co-evolution between a firm’s strategy or
capabilities and its political and economic environment (J. Baum & Singh, 1994; Lewin, Long, & Carroll, 1999; McKelvey, 1997).

IB co-evolution literature considers both the macro and micro-firm perspectives to co-evolution and studies them in a cross-border context (Cantwell et al., 2010; Lundan, 2011; Madhok & Phene, 2001; Yan et al., 2018). Studies of IB scholars show that MNEs and their environment co-evolve across time, whereby both systems continuously develop themselves and adapt to changes in the other (Cantwell et al., 2010; Yan et al., 2018). From the IB perspective, co-evolution research has the potential to contribute to both policymaking and firm strategy development, being the connector of both spheres since its inception (Cantwell et al., 2010). Furthermore, with many more firms nowadays operating in a cross-border context, the international perspective, as naturally embedded in IB research, gains importance for policymaking.

Most IB scholars studying co-evolution relationships of MNEs and their political and economic environment thereby either follow a holistic and conceptional approach (e.g., Cantwell et al., 2010) or focus on the firm’s host country (institutional) environments (e.g., García-Cabrera & Durán-Herrera, 2016; W. Li & Hendrischke, 2020; Luo, Zhang, & Bu, 2019; McGaughey, Kumaraswamy, & Liesch, 2016). Only a few scholars focus on the activities of MNEs and the interactive and interdependent co-evolution relationship with their home country’s political environment, comprising institutions and policies (Chan & Pattnaik, 2021; Cuervo-Cazurra, 2015; X. Liu, Yang, Li, & Liu, 2021). Developing home countries with their particularly prominent existence of co-evolutionary processes among policies and firms and between policies and market actors (Cantwell et al., 2010), might for IB scholars be an especially promising context to enhance current
(theoretical) understandings in this field, merging theories of different research areas. The IB research area, in particular, is designed for such an interdisciplinary approach as it consists of multi-level research, from individuals to the macroeconomic level, and already maintains conjunctions with other disciplines that could be extended upon.

While all three research fields - economics, IB, and organization research - study the co-evolution relationships of firms, they have different perspectives in their research on whom the firm co-evolves with, as highlighted above.

2.2. Conceptual Framework

With different theoretical research strings of the MNE-policymaking relationship being introduced in Chapter 2.1, the following conceptual co-evolution framework brings these together. As highlighted earlier, different fields of the social sciences, for example, industrial economics and economic geography, IB, and organizational studies have adapted the biological co-evolution framework from Ehrlich and Raven (1964) into their work, with the firm as the locus of their research. However, while they cover a wide range of perspectives on the firm, it is only in the IB research field where the multinational enterprise is at the center of scholars’ interest.

As presented in Figure 2.1, I connect and examine two theoretical contexts in the conceptual framework of my dissertation. First, the theoretical approaches of the firm that outline if the MNE is able to react, process, and adapt to internal and external changes, as well as ways that allow the firm to influence its environment. Second, theoretical constructs that then explain the options that policymakers possess to react and assimilate to changes in the market, the way policy change is implemented in the political system, and how policymakers can use policies to steer market behavior. With the prior sub-sections highlighting both sides of the
interdependent and interactively evolving relationship of adaptation and influence, I argue for an existing co-evolution relationship between them, i.e., between firm internationalization and their home country government’s OFDI policymaking. Figure 2.1 highlights how the different parts of this thesis mainly relate to the framework.

The three individual Essays study the relationship between Chinese MNEs and home country OFDI policymaking from different angles, jointly outlining their co-evolution relationship. The first Essay studies the policy pressures of coercive- and non-coercive OFDI policy change on firm internationalization, connecting to the first theoretical construct outlined above. The second Essay relates to the other theoretical context from above, by analyzing reactive OFDI policymaking, as a response to changes on the firm, industry, and macroeconomic level in the home economy. The third Essay develops a conceptual framework for IB research, studying the OFDI policy environment in the home country of the MNE from a dynamic and multidimensional perspective, which is empirically tested employing CATA and human coding of policy text. This again adds to the second theoretical stream highlighted above. In all three Essays, I conduct analyses across time to cover the evolution characteristics of the relationship being studied (c.f., Tan & Tan, 2005).
Figure 2.1: Conceptual framework
2.3. Chinese OFDI Policies and Firm Internationalization

Having introduced the theoretical envelope of my cumulative dissertation, in this Section, I provide the empirical background. I study both the influence of OFDI policies on firm internationalization and the role of firm internationalization on the change of OFDI policies, with a geographical focus on China. Focusing on a single-economy, I do not face the issue of differing national policy environments (Keister & Zhang, 2009; OECD, 2019a) and can study the specific country context in more depth. This is of importance, as OFDI policy environments are complex, being often embedded into macro policy systems, with many areas still not well understood from an IB perspective, e.g., the role of policy (instrument) dynamism and complexity or the effect of different policy instruments on cross-border investments.

China is the largest EM (c.f., World Bank, 2020) and one of the world’s four largest OFDI sources (c.f., UNCTAD, 2020b). Thus, while the Chinese context is certainly unique, due to the country’s economic size and scope of policy interventions, it nevertheless shows a resemblance to other EMs as they are also shifting from being mainly host countries to becoming an important source of FDI (Lattemann, Alon, Spigarelli, & Marinova, 2017; c.f., UNCTAD, 2020b), and actively intervene in the cross-border business of their firms, to catch-up with industrialized markets (Caseiro & Masiero, 2014; Sauvant, Economou, Gal, Lim, & Wilinski, 2014). Since 1979, the Chinese government is already actively steering the cross-border activities of its firms (MOFCOM, 2018), publishing at least 167 OFDI-centric policies, as the constructed policy database of this thesis reveals (Utesch-Xiong, 2021b). This defines the country as one of the world’s most active OFDI policymakers (c.f., OECD, 2019a). Hence, being able to understand China’s home country policy environment is not only interesting due to the nation’s active market
interference, but also because of its economic size and significant role for global OFDI flows, which shows China’s importance for the world economy. Moreover, insights from China might help us to understand EMs in general more thoroughly from a theoretical perspective.

In the following part, I descriptively introduce China’s OFDI policy development and the evolution of Chinese firm internationalization. To follow, I bring both perspectives together and review the literature on the co-evolution between Chinese OFDI Policies and Firm Internationalization.

2.3.1. Evolution of OFDI Policies

China’s OFDI policies, as policies per se, underlie a continuous process of change (Nelson & Winter, 1982, p. 371; Essay 3 of this dissertation). Starting with the publication of the 15 Measures on Economic Reform on August 13, 1979 (Ministry of Commerce (MOFCOM), 2018), China’s policymakers began a long and stepwise evolutionary process, allowing its firms to invest abroad (e.g., Luo et al., 2010; Voss, Buckley, & Cross, 2008). The outward-looking policy approach offset the Chinese central government’s decision from July 1979 to slowly open up for inward foreign inward direct investment (IFDI; MOFCOM, 2018). With increasing IFDI and the creation of foreign exchange earnings, the government was also able to allow its domestic firms to invest abroad. However, still under tight government control. As a result, until the end of 2019, China’s policymakers enacted at least 167 policies (based on the author's own compilation; see Utesch-Xiong, 2021b) with main focus on OFDI, as Figure 2.2 shows.

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4 I.e., the Chinese State Council as the highest policymaking organ and its sub-bodies.
From the first years of China’s OFDI policies until today, not only the dynamics of policies changed – from less frequent policy announcements to periods with many new policies but also the type of policies being enacted changed. Between 1979 and 2001, only 35 policies with a core focus on OFDI were announced and enunciated by Chinese government authorities. Most of China’s OFDI policies focus on foreign exchange control and the examination and approval procedures that state-owned enterprises (SOEs) need to go through when investing abroad. With the announcement of the Going Global policy (zou chu qu) in the 10th national five-year plan (2001-2005) and the accession to the World Trade Organization, both in 2001, the dynamics in OFDI policy announcements shifted. In parallel evolutionary processes, the OFDI of Chinese firms and Chinese OFDI policies increased significantly in number (c.f., Blanchard, 2019; Luo et al., 2010; Voss et al., 2008; B. Wang & Gao, 2018). Not only were more policies implemented, but next to foreign exchange control and examination and approval procedures, also policies on OFDI inspection and evaluation, as well as OFDI guidance mechanisms, were introduced. Especially the OFDI policies on foreign exchange control, inspection and evaluation, and examination and approval, reveal that policy change is not a one-time event but a path-dependent process stretching over time.

This continuous reflection upon and amendment of previous policymaking decisions reflects the level of importance for countries under centralized governance to keep market developments under control (Caseiro & Masiero, 2014; Luo et al., 2010; Xue & Han, 2010). With developments in the OFDI behavior of its firms, the Chinese government is pressured to study the effect of this market development on the home country's economic stability (c.f., Buckley, Clegg, Cross, & Voss, 2010; Sauvant, Maschek, & McAllister, 2010). Should the government feel
that the market development needs political steering, policymakers can make corresponding adjustments to keep OFDI within the “appropriate” range for the Chinese economic development path (Si, 2014). The policy reaction to changes in the OFDI behavior is also shown through the changes in OFDI policy sentiment (positive; negative) along with developments of foreign exchange reserves. Thus, policymakers need to look outside of the political environment for deciding upon new changes for policies (Streeck & Thelen, 2005b) that support economic growth.

2.3.2. Evolution of Firm Internationalization

The share of Chinese firms’ OFDI on global FDI flows increased from almost zero (0.2 %) in 1982 - just three years after Chinese firms were allowed to invest abroad, to an all-time high of 14.5 % in 2018 (UNCTAD, 2020b). While the peak in Chinese OFDI flows (and cross-border M&As) was reached in 2016, due to lower worldwide FDI flows in the following two years, China’s share even further increased in 2018 (UNCTAD, 2020b). Chinese firms were able to benefit from a relatively well-protected financial market at home and themselves not being global players by the time of the global financial crisis in 2008/9. With weakened competitors elsewhere, especially medium-sized firms in developed economies, Chinese firms started to invest abroad to a larger extent, reaching global OFDI shares at a minimum of 3.3 % since 2008 (UNCTAD, 2020b). The period of 2008 to 2018 covers 1,728 cross-border M&A projects out of a total of 1,964 deals, since 1988, as Figure 2.2 shows. Before 2008, China’s global OFDI share has only been on average at 0.7 % (UNCTAD, 2020b). Focusing on cross-border M&As, one can gain insights into the different internationalization developments by firm ownership types (greenfield data was not available to the author), as highlighted in Figure 2.2.
While between 1979 to 2002, only SOEs were allowed to internationalize (Buckley et al., 2007), i.e., those owned or controlled by the provincial government (local-SOEs, LSOEs), the central government’s Ministries and sovereign wealth fund (other SOEs), as well as those under the supervision of the government’s organ for its largest SOEs (central SOEs; CSOEs) - the State-owned Assets Supervision and Administration Commission (SASAC), private-owned enterprises (POEs) quickly picked up (Lattemann, Alon, Chang, Fetscherin, & Mcintyre, 2012) in their number of cross-border M&A starting from 2003. On average, POEs hold a share of 52 % of China’s total cross-border M&A (2003-2018), and from 2012 onwards, POE’s share was larger than the total of all SOEs. While for any SOE type, the annual maximum number of cross-border M&A reached 39 (LSOE, in 2016), for POEs, it was 218 (in 2016). However, for all ownership types, cross-border M&A went down after the record year in 2016.

### 2.3.3. Co-evolution between OFDI Policies and Firm Internationalization

So far, co-evolution research on the interdependent relationship of MNEs and governments has mainly taken place in the host country (e.g., W. Li & Hendrischke,
However, in this dissertation, I argue that also in the home country context of the MNE the co-evolution relationship is pronounced (see also, Jiang, Gong, Wang, & Kimble, 2016; X. Liu et al., 2021). The interdependent relationship might even be more prominent in the home country than with the host government, as government actions are less exogenous to the core of the firm’s network. As highlighted before, the home countries of EMs, and especially China, shifted in their role for FDI from merely being host countries to develop into important sources (c.f., UNCTAD, 2020b), while actively steering the OFDI behavior of their firms (Caseiro & Masiero, 2014; Sauvant et al., 2014). However, focusing on China, home country OFDI policies also reveal that their design and announcement are often triggered by political-external developments in the market, such as a sharp increase in OFDI. In 2017, for example, the State Council of China published a directive on Further Directing and Regulating the Direction of Overseas Investments to control the large OFDI flows and direct firm internationalization into important areas for home country economic growth. In addition, large Chinese corporations participate in events where their voices are heard by government officials (Yan et al., 2018) and submit public comments on policy drafts (e.g., through MOFCOM’s Call for Comments to Revise the Statistical System for Foreign Direct Investment, in 2012). Both channels of firms influencing the home government, either directly or indirectly, are part of the home country’s interdependent co-evolution relationship in EMs.

It is also highlighted in the IB literature (P. Deng, 2013; Tan & Tan, 2005; Yan et al., 2018) that the home country co-evolution relationship between firms and their home governments exists in emerging countries with centralized political power, such as China. This relationship can even be assumed to be more intensive than in
democratic countries due to the firms’ interconnectedness with the domestic government (Jiang et al., 2016; Meyer & Lu, 2005; Shi, Markóczy, & Stan, 2014). In China, a strong interdependent network comprising of the (central) government, regulated industries, and enterprises with a (partly) ownership of the state exists (Boisot & Child, 1996). From the early aim (in the 1970s) of China’s central government to build a “national team” of state-owned-enterprises, i.e., to go abroad, turn into global industrial leaders and strengthen the home economy (Nolan, 2002, pp. 2, 18), to a recently updated call on the same matter - however now including POEs (e.g., through the Made in China 2025 strategy), reforms are established to support enterprises’ OFDI to reach set targets of the home economy. This centrally planned reform adjusting environment with a strong interaction between the government and Chinese enterprises seems to be a fruitful field for co-evolutionary theory.

Tan and Tan (2005) argue in this context that Chinese MNEs try to take benefit of the existing institutional and policy structures – showing characteristics of systemic voids. However, these two authors also highlight that MNEs try to convince policymakers to look away, more than attempting to shape the home government environment to their advantage. While in China’s highly institutionalized setting, the level of a firm’s institutional entrepreneurship activities largely depends upon the degree to which the government allows it to take place (Child, Lu, & Tsai, 2007), firms still try to take influence by visiting ministries, inviting highly-ranked party members to their headquarters and also submit their viewpoint on policies (Jiang et al., 2016). With an eye on the firms’ level of global competitiveness and China’s industrial development, home country policymakers, however, also formulate new policies that steer the internationalization activities of its firms (Child & Rodrigues,
2005; P. Deng, 2013; Luo et al., 2010; Yan et al., 2018). Research by Si (2014) reveals an existing co-evolution relationship between Chinese MNEs and OFDI policymakers. The author argues that in the continuous interdependent relationship between firm internationalization and the home government, in China, both sides review the current situation of changes in the policy and market environment and react accordingly (Si, 2014). Policymakers screen the internationalization behavior of Chinese firms and make changes to the behavior of the MNEs as well as the assumed impact on the home economy. The MNEs themselves also change their OFDI behavior with home country policy changes (Si, 2014; Yan et al., 2018).
3. Essays

3.1. Statement of Authorship and Publication

1. Essay:


Published in the International Journal of Emerging Markets:


2. Essay:


An earlier version of this Essay has been published as a working paper with the State and University Library Bremen:


3. Essay:

Co-authored Essay with Dr. Gunnar Leymann of the University of Bremen.

Dr. Gunnar Leymann contributed the conceptual framework section and commented on the other parts of the Essay.

Mr. Utesch-Xiong wrote the introduction, developed the dataset, chose the method applied, conducted the empirical analysis, and formulated the results, discussion, propositions, as well as the conclusion.

This Essay is not yet published.

I, Sarianna M. Lundan, supervisor of this thesis, confirm that the above information is correct.

Sarianna M. Lundan
3.2. Essay 1: China’s OFDI Policy Announcements & Cross-Border M&A

3.2.1. Introduction

The Chinese government aims to develop successful MNEs and shift the competitive advantage of the economy towards sectors that it finds to be of strategic importance (Buckley et al., 2018; Gammeltoft et al., 2010; S. Li, Su, Liu, Lepech, & Wang, 2020; Nem Singh & Ovadia, 2018), whereby the financial crisis helped China to gain a stronger hold in the world economy. Weakened developed countries gave Chinese MNEs the chance to acquire struggling firms abroad and gain lacking knowledge (Jiang et al., 2016). The FDI openness of host countries was also existent in some economies, which later turned towards a more restrictive stance, once Chinese OFDI increased (c.f., U.S. Department of the Treasury, 2020). Often, as in the European Union (EU) or the United States (U.S.), rules for screening inward FDI were laid out in times where South-North investment took place to a lesser extent and hence, they were not prepared for state-backed or subsidies benefiting investments (Hanemann & Huotari, 2015; Tingley, Xu, Chilton, & Milner, 2015). As a result of this unpreparedness, as well as the support of home country policies, Chinese firms were able to take advantage of the situation.

With the vast number of changes to China’s OFDI policies, and with that the large-scale internationalization of Chinese MNEs (Luo et al., 2010), also IB research studying home country policies increased (e.g., Angulo-Ruiz, Pergelova, & Wei, 2019; V. Z. Chen, Li, & Hambright, 2016; Gao Yan, 2021). However, I find that three areas of OFDI policy research require extensions: Firstly, despite the recent shift in the focus of IB research, the level of analysis is often on institutions rather than policies (Hong, Wang, & Kafouros, 2015; F. Li & Ding, 2017). However, the
study of policy influence can hardly be explained by only using institutional theory, and explaining the role of policy on market actors is also the task of IB policy scholars (L. J. Clegg, 2019). In addition, I realized that when IB research distinguishes between OFDI policies, it does so only based on the direction of policy influence, i.e., supporting or restraining (e.g., J. Lu, Liu, Wright, & Filatotchev, 2014; Yang & Stoltenberg, 2014), without taking into consideration different types of policies (e.g., coercive and non-coercive; (Cushman, 1937, 1941; as cited in Lowi, 1972). However, contrasting characteristics of policies might lead to different pressures on cross-border M&A (c.f., Rottig & de Oliveira, 2019), which cannot be controlled when merely distinguishing between supportive and restraining policies. A final observation is that IB research on OFDI policies often covers only one specific policy or its change across time (e.g., J. Lu et al., 2014; C. Wang, Hong, Kafouros, & Wright, 2012). Current studies do not compare policies or even policies of different types across time. Therefore, the IB scholarship is not able to define the role of home country supportive policies on cross-border M&A on a broader level.

I aim to address these issues in my Essay by stating the following research question: How do OFDI supportive policy types differ in their effect on cross-border M&A? Thereby, I will follow the calls to shed more light on the differences between the types of OFDI supportive home government inventions (J. Lu et al., 2014), calls for research on EMNE responses to OFDI related policies (Luo et al., 2010) and more IB policy research (Buckley et al., 2018). I will merge the theoretical approaches from the policy change literature (e.g., Béland, 2007; Lowi, 1985; Streeck & Thelen, 2005a) with institutional theory (DiMaggio & Powell, 1983; Scott, 2014), due to the (long-term) interrelationship between changes in policies and institutions. In
combining both theory streams, I will expand the IB policy literature and introduce a theoretical avenue for future policy research, below the institutional level. I will distinguish OFDI supportive policies between the coercive and non-coercive type. To my knowledge, I will be the first to do so when studying OFDI policies. My results reveal that it is important to distinguish between these two types, as the response of firms through cross-border M&A differs. Studying the moderating effects of government ties and M&A experience on the relationship between home country policies and OFDI. I intend to contribute to the IB literature (Cui, 2016; Hong et al., 2015; Luo et al., 2010) by not only covering a longer period and focusing on more than one selected policy, but I will also distinguish between policy types. I find that for both the government ties and M&A experience moderators results differ between coercive and non-coercive policies.

I start this Essay by introducing the theoretical framework merging institutional theory and theoretical literature on policy change. I will then present my hypotheses on the influence of OFDI policies on cross-border M&A, as well as the methodology. The results of my zero-inflated Negative Binomial (ZINB) regression and the post hoc analysis will follow. I conclude with a discussion of my findings and highlighting the contributions of this Essay.

3.2.2. Theoretical Framework

Institutions and Policies

As emphasized by Buckley et al. (2018), IB has been unclear about the usage of the terminology covering institutions and policies. The ongoing discussion in political science (e.g., Béland, 2007; Streeck & Thelen, 2005: 12) shows that IB scholars might be able to make use of the developed definitions from that field. Streeck and Thelen (2005: 12) developed the following distinction between policies and
institutions: “Policies, that is to say, are institutions in my sense to the extent that they constitute rules for actors other than for the policymakers themselves—rules that can and need to be implemented and that are legitimate in that they will if necessary be enforced by agents acting on behalf of the society as a whole.” Consequently, they make a distinction in terms of actors being able to claim for their rights. Similarly, Hornby et al. (2010) define policies as “a principle or course of action” and institutions as “an established law, custom.” Institutions influence when and how policies are implemented (Greif, 2006: 380; Lowi, 1985), i.e., the form and characteristics of policies, which shows that institutions hold an essential part in the policy change process. An example from the Chinese context is, on the one hand, the development of the new Small and Medium Enterprises (SME) Promotion law in 2017 which set the broad legal framework and, on the other hand, the subsequent issuance of the Development Plan for SME Promotion (2016-2020) that defines specifically how SMEs can receive government support. This relationship of the announcement of amendments to existing laws and the chain reaction of changes in policies reveals that I cannot leave the institutional literature out of the discussion completely, when studying policy context. I, therefore propose a combination of the policy change and institutional literature, to put policy change into a theoretical context.

Where institutional research on legitimacy pressures (DiMaggio & Powell, 1983) distinguishes between three institutional pillars (Scott, 2014) and the accompanying differences in legitimacy pressures for firms (coercive, normative, mimetic), in policy research, differences have been made between coercive and non-coercive (normative) policy types (Cushman, 1937, 1941; as cited in Lowi, 1972), and the pressures thereof. As stated by Lawrence and Suddaby (2006), policymakers equip
policies with a mechanism of pressure to maintain institutions. For firms targeted by policies, these pressures are similar to those of institutions. The policy implementations can also lead to legitimacy pressures on firms, especially in an authoritarian home-country context (c.f., Rottig & de Oliveira, 2019). I use the institution-policy relationship as my theoretical foundation to study the home country policy pressures on firm internationalization (Table 3.1).

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Coercive/Regulatory</th>
<th>Non-coercive/Normative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy intention</td>
<td>Impose obligations</td>
<td>Impose positions</td>
</tr>
<tr>
<td>Policy formalization</td>
<td>Highly formalized</td>
<td>Less formal/less specific</td>
</tr>
<tr>
<td>Policy comparison level</td>
<td>Power</td>
<td>Privileges</td>
</tr>
<tr>
<td>Institutional pillars</td>
<td>Regulative</td>
<td>Normative</td>
</tr>
<tr>
<td>Basis of compliance</td>
<td>Expedience</td>
<td>Social obligation</td>
</tr>
<tr>
<td>Basis of order</td>
<td>Regulative rules</td>
<td>Binding expectations</td>
</tr>
<tr>
<td>Mechanisms</td>
<td>Coercive</td>
<td>Normative</td>
</tr>
<tr>
<td>Logic</td>
<td>Instrumentality</td>
<td>Appropriateness</td>
</tr>
<tr>
<td>Basis of legitimacy</td>
<td>Legally sanctioned</td>
<td>Morally governed</td>
</tr>
</tbody>
</table>

Source: Adapted from Lowi (1985) and Scott (2014, p. 60).

**OFDI Supportive Policy Types**

The policy typology (i.e., coercive or non-coercive) does not represent an OFDI restrictive or supportive position; both might restrict or support OFDI. Policies of the coercive type include formalized measures that articulate the benefits of the policy, next to the requirements that firms need to align to, to be able to take advantage of this policy. For example, if a Chinese firm wants to invest abroad, they are required to go through a registration or approval process (e.g., National Development and Reform Commission (NDRC), 2014). Also, in comparison to non-coercive policies, coercive ones sometimes even highlight punishment
schemes for misbehavior (MOFCOM & Ministry of Finance, 2013). Non-coercive OFDI policies with less specific articulation, using soft guidance measures, have no such “gatekeeper” power. They often include expressions of opinions (e.g., State Council, 2010, 2015b), listings of industries abroad that are found suitable for home country development and thus firms investing in these areas abroad will be supported (e.g., NDRC, 2011), or the outline of strategy plans considering the support for OFDI (NDRC, 2012; NDRC, Ministry of Foreign Affairs, & MOFCOM, 2015) - all without defining specific approaches on how firms will be supported in their international endeavors. Hence, due to their type, coercive policies pressure firms to follow the announced policy (change) similar to the coercive institutional pressure. In contrast, for non-coercive policies, the form of pressure is related to normative institutions.

3.2.3. Hypotheses Development

Home Country OFDI Supportive Policies

IB literature highlights that OFDI supportive state interventions influence firm internationalization. For example, Zhang and van den Bulcke (1996) argue that Chinese firms using mostly M&A as a form of internationalization are more influenced by home country policies than those with greenfield OFDI. This finding found support by Du and Zhang (2018) on Chinese M&A in developing countries and Buckley et al. (2016) on developed economies. Furthermore, Buckley et al. (2007), studying China’s OFDI policy liberalization with a binary dummy for the year of Deng Xiaoping’s South China tour, find that OFDI to developed countries increased consequently. Also, Lu et al. (2014), in their study on the decision of Chinese firms to internationalize, and Lu, Liu, and Wang (2011), analyzing the motives for OFDI, both found that home country policies lead to more OFDI. Even though these findings are not specific to Chinese M&A but include all forms of
internationalization, they show more broadly the change in the attitude of Chinese firms on OFDI through policy liberalization.

When studying policy change empirically, studies analyzed the implementation of one specific policy or the change of one type of policy over time (Du & Zhang, 2018; J. Lu et al., 2014; C. Wang, Hong, Kafouros, & Wright, 2012). However, they did not compare different OFDI supportive policies of the coercive and non-coercive type. To be able to build a broader argument about the role of supportive policies on Chinese OFDI, I analyzed the combined effect of the issuance of OFDI supportive policies.

H1: The announcement of OFDI supportive policies leads to more cross-border M&A.

**Differences in Policy Types**

As in my study with nationwide introduced OFDI policies, the counterfactual situation and thus, control-groups, are missing, it cannot be analyzed how MNEs would have internationalized without the policy announcement or what the difference-in-difference effect is between groups (Blundell & Dias, 2009). However, as the effect of policy implementation on firm behavior differs between policy types (Prakash & Kollman, 2004), a comparison study seems appropriate.

Considering coercive and non-coercive OFDI supportive policies, it can be argued that MNEs react stronger to the coercive type, as the probability of benefitting from the issued policies is higher (c.f., Torres & Clegg, 2014). Where for coercive policies, the positive effect of the policy change comes naturally by following the newly defined guidelines, with changes in non-coercive supportive policies, the firms’ benefits might not be clearly defined. Where the literature studied the effect of OFDI supportive policies on OFDI (see the previous Section), they did not
distinguish – at least not empirically - between the types of OFDI supportive policies.

H2: The effect of OFDI policies on cross-border M&A is more positive for coercive policies than for non-coercive policies.

**Policy Announcements and Ownership**

IB scholars have studied the institutional pressures of home country policies and the process of gaining legitimacy in the context of Chinese MNEs and their distance to the government (e.g., Cui & Jiang, 2012; Hong et al., 2015; Peng, Tan, & Tong, 2004). As the literature shows (J. Li, Xia, et al., 2018; M. H. Li, Cui, & Lu, 2014), SOEs closer to the central government (e.g., CSOEs) are equipped with different tasks than those being more distanced (e.g., LSOEs). Hence, they are under a different legitimacy pressure. As argued by these groups of authors, the legitimacy pressures of CSOEs is largely to act as a policy tool of the home government. As a firm with close ties to the home government, it can therefore receive special financial support from governmental agencies (Holtbrügge, 2018) to fulfill the defined aims of the government, e.g., from SASAC. This support is not accessible to other firms (Cui & Jiang, 2012; M. H. Li et al., 2014; Luo et al., 2010; Sutherland, 2009).

With the government's decreasing influence on the firm’s management and increased focus on profit maximization, specific firm support for their OFDI endeavors becomes less likely (Liang, Shi, Wang, & Xu, 2017; Voss, Buckley, & Cross, 2010). As a result, the role of each OFDI supportive policy is perceived

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5 For exceptional cases in which POEs also received financial non-policy state support in their OFDI endeavors, see Milhaupt and Zheng (2015).
differently between the ownership levels (Cui, 2016), and the dependence on OFDI supportive policies becomes stronger (weaker), the less (more) the firm can rely on the government to receive support in addition to the OFDI supportive policies. Firms with stronger home government ties do not rely on the announcements of non-coercive policies, i.e., policies for which the support mechanism is not formally articulated. Taking benefit from coercive policies does not include this uncertainty. The costs of following a defined set of rules, as included in coercive policies, are low for firms with close government ties due to their experience in going through state administrative procedures (e.g., through CEOs previously holding positions in the government) (J. Li, Meyer, Zhang, & Ding, 2018; Peng et al., 2004). For POEs, which in opposite to SOEs, and especially CSOEs, rely mainly on the market economy and do not enjoy the same safety net as firms with closer state connections, non-coercive policy announcements might reveal an opportunity to shine in front of its home government and to gain support in its cross-border investment. Benefitting from coercive policies, in comparison to state-owned or state-controlled firms comes at a larger cost, as firms with weaker government ties do usually not have the same experience of handling state administrative procedures (J. Li, Meyer, et al., 2018; Peng et al., 2004).

H3a: The positive effect of coercive policies on cross-border M&A is greater for firms with higher levels of government ties.

H3b: The positive effect of non-coercive policies on cross-border M&A is greater for firms with weaker levels of government ties.
Policy Announcements and M&A Experience

The literature argues that with larger internationalization experience, MNEs and their home country governments get to understand the benefits of one another more profoundly (Luo et al., 2010). Furthermore, studies have also revealed that if firms make use of OFDI supportive policies, their internationalization experience seems to no longer be seen as crucial for the decision of an additional M&A (e.g., J. Lu et al., 2014). However, IB research did so far not focus on the substitution effect from the other side of this relationship, i.e., if with larger M&A experience, firms rely less on home country OFDI supportive policies. Studying this relationship might provide insights into how much or if at all the costs related to the exploitation of coercive and non-coercive OFDI policies (freedom to operate – coercive policies; uncertainty to gain benefit – non-coercive policies) might be a burden for Chinese firms to conduct cross-border M&A and if M&A experience might be able to replace it. As the costs related to both policy types differ, I study the M&A experience separated between coercive and non-coercive policies.

H4a: Internationalization experience weakens the positive relationship between coercive policy announcements and cross-border M&A.

H4b: Internationalization experience weakens the positive relationship between non-coercive policy announcements and cross-border M&A.

Summarized, I will hypothesize that cross-border M&A is influenced by coercive and non-coercive OFDI policies differently, whereby the level of influence depends upon the level of government control and the M&A experience of the firm. The conceptual model builds the basis whereon I will conduct my empirical analysis, as shown in Figure 3.1.
3.2.4. Methodology

Sample and Data

To capture China’s OFDI period of gaining a stronger hold in the world economy (2008: 3% of worldwide OFDI; 2015: 9%; (UNCTAD, 2020b), I will focus on the years 2008 to 2015. I used two M&A databases (SDC, Orbis) to search for Chinese cross-border transactions with announcement dates between 2008 to 2015 and acquisition shares of at least 10% (UNCTAD, 2007). I defined the acquirers’ parents as one level below the holding company, respectively, one level below any entity with solely managerial tasks. This approach is in line with that of the statistical department of the United Nations Conference on Trade and Development (UNCTAD) for the World Investment Report (Trentini, Skype-interview, July 05, 2018). Excluding duplicates, transactions with undisclosed acquirers, acquirers being individuals, and transactions with target firms located in Hong Kong or Macao, I was left with 986 M&A deals.

The distribution between ownership types is shown in Figure 3.2. Overall, I include 570 Chinese parent companies, with POEs counting for the majority of M&A transactions (523), followed by CSOEs (170), LSOEs (144), and other SOEs (79). POEs’ annual number of M&A deals climbed almost continuously, leading to an
increase from 25 deals in 2008 to 155 in 2015. Throughout the same period, the annual number of completed deals stayed relatively stable for CSOE and approximately doubled for other types of SOEs.

Figure 3.2: Cross-border M&A and OFDI flows, 2008-2015 (Essay 1)

Source: SDC; Orbis; UNCTAD (2020b).

I include six OFDI supportive policies in my study, of which half were of the coercive and half of the non-coercive policy type. Other policies were not considered as they are specific on the industry- or the firm ownership-level – and thus, not directly comparable, or they have a potentially non-supportive influence on the M&A decision (e.g., OFDI policies of FDI statistics). As most of China’s OFDI policies are supportive (using CATA, I found that 107 out of 117 Chinese OFDI policies issued between 1980 to 2019 showed a supportive tendency), I will focus on the supportive policies. I categorized all policies of the 2008-2015 period, 6

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6 I used the KH Coder software (version 3.01) from Higuchi (2020a) to perform a content analysis on all 117 Chinese OFDI policies published between 1980-2019. Defining keywords for the OFDI supportive and restrictive tendencies, their number of appearances were counted per policy. While this approach has clearly some shortcomings, it tackles the subjectivity issues of defining policy tendencies through human coding (Gaur & Kumar, 2018; Ostergard, 2000).
based on a thorough analysis of their texts. Thereby, I distinguished between coercive and non-coercive policies by studying the approach of each policy in supporting firm internationalization. If a policy does not formally state the circumstances under which support is given to a cross-border M&A project, the policy is categorized as being of the non-coercive type. In this situation, the policy does not guarantee firms to gain support, even if they would act in the way that the policy states (e.g., the publication of government opinions).

I include a one-month lag between my dependent and all of the explanatory variables to avoid possible endogeneity issues (Yuan & Pangarkar, 2015) and counteract the inclusion of internationalization transactions taking place within the month of policy issuance but before the policy announcement.
### Variables

**Table 3.2: Variable description and data sources (Essay 1)**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Descriptions and Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>M&amp;A</strong></td>
<td>Dependent Variable. M&amp;A is defined as the monthly count of completed cross-border M&amp;A deals (SDC; Orbis).</td>
</tr>
<tr>
<td><strong>M&amp;A experience</strong></td>
<td>Moderator variable. Count of a firm's M&amp;A deals completed within the previous 60 months (SDC; Orbis).</td>
</tr>
<tr>
<td><strong>Firm ownership</strong> (CSOEs, LSOEs other SOEs, POEs)</td>
<td>Moderator variable. Categorical variable with POEs as the base level. CSOEs are defined regarding the official list of SASAC (SASAC, 2017), other state-owned or controlled enterprises (other SOEs) are either under the control of Ministries or the state’s sovereign wealth fund (China International Corporation), LSOEs are defined as being under the control of the local government, and POEs are not owned or controlled by any state authority (SDC; Orbis; annual reports; company websites).</td>
</tr>
<tr>
<td><strong>Firm age</strong></td>
<td>Control variable. Difference between an individual month and the year of establishment (Orbis; annual reports; company websites).</td>
</tr>
<tr>
<td><strong>Firm size</strong> (Small, Medium, Large, Very large firms)</td>
<td>Control variable. Grouping firms into four different size categories based on their operating revenue, total assets, and employees (Orbis).</td>
</tr>
<tr>
<td><strong>Foreign shareholders</strong></td>
<td>Control variable. Share of all foreign shareholders on a firm’s total shareholders at the end of the year (Orbis).</td>
</tr>
<tr>
<td><strong>Closeness to industrial clusters</strong> (Eastern region, Central region, Western region)</td>
<td>Control variable. Grouping home regions into Eastern-, Intermediate-, and Western region (NBS, 2018).</td>
</tr>
<tr>
<td><strong>Closeness to central state institutions</strong> (Beijing)</td>
<td>Control variable. Binary variable for being located in the capital city (Orbis, SDC; annual reports; company websites).</td>
</tr>
<tr>
<td><strong>Mimetic pressures</strong></td>
<td>Control variable. Count of completed M&amp;A projects of Chinese MNEs with the same ownership and industry, covering the previous 60 months (Orbis, SDC; annual reports; company websites).</td>
</tr>
<tr>
<td><strong>Presidency of Xi Jinping</strong> (Xi Jinping)</td>
<td>Control variable. Binary variable being 1 for the months following Xi Jinping’s presidential inauguration, before 0.</td>
</tr>
<tr>
<td><strong>Knowledge acquisition</strong> (High-income countries)</td>
<td>Control variable. Counting the investments into high-income countries; monthly (World Bank, 2020).</td>
</tr>
<tr>
<td><strong>Host country inward FDI restrictiveness</strong> (Investment treaties)</td>
<td>Control variable. Binary variable being 1 if the investment is into a host country China has to the point of the M&amp;A an effective bilateral or other type investment treaty with, otherwise 0 (UNCTAD, 2020a).</td>
</tr>
<tr>
<td><strong>Tax havens</strong></td>
<td>Control variable. Counting the investments into tax haven countries; monthly (Fuest, Hugger, Sultan, &amp; Xing, 2019; OECD, 2001).</td>
</tr>
<tr>
<td><strong>OFDI supportive policies</strong> (OFDI supportive policies)</td>
<td>Main independent variable. Count variable covering coercive and non-coercive OFDI policies (own policy dataset).</td>
</tr>
<tr>
<td><strong>Coercive OFDI policies</strong> (Coercive policies)</td>
<td>Main independent variable. Count variable covering coercive OFDI policies (own policy dataset).</td>
</tr>
<tr>
<td><strong>Non-coercive OFDI policies</strong> (Non-coercive policies)</td>
<td>Main independent variable. Count variable covering non-coercive OFDI policies (own policy dataset).</td>
</tr>
</tbody>
</table>
**Dependent Variables**

Following the literature, my dependent variable is measured by the number of completed cross-border M&A deals (J. Li, Xia, et al., 2018). To be able to measure the direct effect of the policy implementation on the firms’ internationalization, I use the monthly count of M&A deals. As a result, I can be close to the policy implementation date and do not lose too much of an immediate policy effect (c.f. Cui, 2016; Globerman & Shapiro, 1999), as it would be the case with lagging for a longer period.

**Explanatory Variables**

With my zero-inflated model, I estimate the count of a Chinese company’s \(i\) investments abroad in country \(j\) in a given month \(t\) as:

\[
CN_{i,j,t} = \alpha + \beta_1 X_{i,t}^{Home} + \beta_2 Z_{j,t}^{Host} + IndustryEffects + YearEffects + \epsilon_{i,j,t}
\]

Where \(\beta_1 X_{i,t}^{Home}\) includes my home country explanatory variables, in \(\beta_2 Z_{j,t}^{Host}\) I cover the country control variables.

The explanatory variables on coercive OFDI policies and non-coercive OFDI policies are deemed to be of OFDI supportive nature (Table 3.3). As the date of policy issuance is the same as its effective date for all included policies, each policy will be proxied by a dichotomous dummy covering the period after its announcement and until policy expiration. Thus, I can study the policies’ potential influence on OFDI.
<table>
<thead>
<tr>
<th>Coercive policies</th>
<th>Issued</th>
<th>Citation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralizing the Power of Examination and Approval in OFDI Projects</td>
<td>2/14/2011</td>
<td>NDRC (2011)</td>
</tr>
<tr>
<td><em>Summary:</em> The policy aims at meeting the needs of overseas investment development under the new economic situation. It increases the threshold value for which an OFDI project approval is needed from central government institutions and decentralizes decision-making.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Measures for the Administration of Special Funds for Foreign Investment Cooperation</td>
<td>6/14/2013</td>
<td>MOF &amp; MOFCOM (2013)</td>
</tr>
<tr>
<td><em>Summary:</em> To continuously improve China’s Going Global strategy and regulate the foreign economic cooperation management, an investment fund covering pre-implementation expenses of OFDI projects is implemented.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralized Operation and Management of Foreign Exchange Funds of Multinational Companies (for Trial Implementation)</td>
<td>4/18/2014</td>
<td>SAFE (2014)</td>
</tr>
<tr>
<td><em>Summary:</em> With fulfilling specific criteria, Chinese companies can use foreign exchange funds abroad and in their home country. With this policy, the Chinese government aims to improve current approaches on cross-border investments and trade and upgrade its industry.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-coercive policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Summary:</em> To improve the development level of Going Global, it highlights the OFDI development objectives and guidelines for 2010.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Twelfth Five-Year Plan&quot; Utilization of Foreign Capital and OFDI Planning</td>
<td>7/17/2012</td>
<td>NDRC (2012b)</td>
</tr>
<tr>
<td><em>Summary:</em> Informing companies on forthcoming OFDI related changes, the policy describes how OFDI shall be conducted in the forthcoming five-year period and which government procedures shall be improved to support OFDI.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing a New System of Open Economy</td>
<td>5/5/2015</td>
<td>State Council (2015a)</td>
</tr>
<tr>
<td><em>Summary:</em> The efforts to attract foreign investment into China shall be organically combined with the efforts of Going Global. To additionally encourage the use of Renminbi in making OFDI, this policy introduces a new (OFDI encouraging) era of economic (policy) reform with 2021 (the 100th anniversary of the founding of the Communist Party of China) and 2049 (the 100th anniversary of the founding of the People's Republic of China) as key dates.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As a moderator variable, I include firm ownership (Hong et al., 2015; C. Wang, Hong, Kafouros, & Wright, 2012), whereby I distinguish between different levels of closeness to the central government. From CSOEs being under very strong supervision to other SOEs being under central control but not under the special body (SASAC) for China’s most important state firms (Chang & Jin, 2016; Li, Cui, & Lu, 2014), to LSOEs and POEs. By including firm ownership as a categorical variable, I follow an established approach of the literature (e.g., Cui & Jiang, 2012; Dau, 2012). As is standard practice for categorical variables, the lowest level of the categorical variable (for us POEs) is defined as a reference point to which the results of the other levels are referred to (StataCorp, 2015). Furthermore, as Lu et al. (2014) found that FDI experience is an important moderator for studying home government support, I follow their approach and include a moderator for the M&A experience of Chinese firms.

Control Variables

Following the literature on Chinese OFDI, I control on the firm level for age (e.g., C. Wang, Hong, Kafouros, & Boateng, 2012), size (e.g., Holtbrügge, 2018; Luk et al., 2008), and foreign ownership (Bhaumik, Driffield, Gaur, Mickiewicz, & Vaaler, 2019; Karhu, 2015). I control for home country effects, such as the differences in access to central institutions, industrial clusters, and infrastructure (e.g., Fan, Kanbur, & Zhang, 2011). Moreover, I consider the potential mimetic pressures on a firm’s decision to internationalize (e.g., Henisz & Delios, 2001; J. Li, Xia, et al., 2018) and the presidency of Xi Jinping bringing a new approach towards Chinese OFDI (Devinney & Hartwell, 2020). For host countries, I control for high-income countries (Buckley, Elia, & Kafouros, 2014), inward FDI restrictiveness (J. Lu et
al., 2014), as well as tax havens (Buckley, Sutherland, Voss, & El-Gohari, 2015; Fuest et al., 2019).

**Modeling Approach**

As the dependent variable consists of discrete, non-negative integers, regarding Greene (2011), a standard Poisson Model is not suitable, and a zero-inflated count model regression should be applied. Performing information criterion tests (Desmarais & Harden, 2013), my results indicate that the ZINB model is the most appropriate. As the zero-inflation parameter, I use the sum of a firm’s internationalization activities (J. Li, Xia, et al., 2018) of the previous 60 months, i.e., I estimated the probability of zero OFDI activities based upon the internationalization behavior within the last 60 months. Further, I included firm-level clustered standard errors in all my estimations to control for within-country correlation.

**3.2.5. Results**

In Table 3.4, I included the descriptive statistics for the variables of my model. I find that my variables for investment treaties and high-income countries, as well as non-coercive policies and the variable for the presidency of Xi Jinping, reveal higher levels of correlation. I tested these combinations for being able to be run together and found no changes in significance or the coefficient sign in my models. The variance inflation factors test shows that I do not have any problems with collinearity (Brown, Yaşar, & Rasheed, 2018).
Table 3.4: Correlation matrix and descriptive statistics (Essay 1)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. M&amp;A</td>
<td>0.018</td>
<td>0.148</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. LSOEs</td>
<td>0.140</td>
<td>0.347</td>
<td>0.007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Other SOEs</td>
<td>0.063</td>
<td>0.243</td>
<td>0.009</td>
<td>-0.109</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. CSOEs</td>
<td>0.091</td>
<td>0.288</td>
<td>0.040</td>
<td>-0.135</td>
<td>-0.087</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Firm age</td>
<td>13.576</td>
<td>6.622</td>
<td>0.025</td>
<td>0.140</td>
<td>0.090</td>
<td>0.235</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Medium firms</td>
<td>0.030</td>
<td>0.169</td>
<td>-0.009</td>
<td>-0.074</td>
<td>-0.047</td>
<td>-0.059</td>
<td>-0.112</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Large firms</td>
<td>0.089</td>
<td>0.284</td>
<td>-0.011</td>
<td>0.024</td>
<td>-0.082</td>
<td>-0.078</td>
<td>-0.095</td>
<td>-0.055</td>
<td></td>
</tr>
<tr>
<td>8. Very large firms</td>
<td>0.679</td>
<td>0.467</td>
<td>0.019</td>
<td>0.061</td>
<td>0.095</td>
<td>0.163</td>
<td>0.126</td>
<td>-0.284</td>
<td>-0.491</td>
</tr>
<tr>
<td>9. M&amp;A experience</td>
<td>0.685</td>
<td>1.349</td>
<td>0.072</td>
<td>0.050</td>
<td>0.073</td>
<td>0.291</td>
<td>0.215</td>
<td>-0.047</td>
<td>-0.089</td>
</tr>
<tr>
<td>10. Eastern region</td>
<td>0.828</td>
<td>0.377</td>
<td>0.010</td>
<td>-0.198</td>
<td>0.016</td>
<td>0.095</td>
<td>-0.005</td>
<td>-0.008</td>
<td>-0.057</td>
</tr>
<tr>
<td>11. Central region</td>
<td>0.079</td>
<td>0.270</td>
<td>-0.005</td>
<td>0.072</td>
<td>-0.018</td>
<td>-0.045</td>
<td>-0.008</td>
<td>-0.010</td>
<td>0.079</td>
</tr>
<tr>
<td>12. Beijing</td>
<td>0.246</td>
<td>0.430</td>
<td>0.028</td>
<td>-0.116</td>
<td>0.159</td>
<td>0.417</td>
<td>0.072</td>
<td>-0.088</td>
<td>-0.085</td>
</tr>
<tr>
<td>13. Mimetic pressure</td>
<td>3.549</td>
<td>6.112</td>
<td>0.027</td>
<td>-0.025</td>
<td>-0.106</td>
<td>0.021</td>
<td>-0.010</td>
<td>-0.021</td>
<td>0.030</td>
</tr>
<tr>
<td>14. High-income countries</td>
<td>0.015</td>
<td>0.129</td>
<td>0.018</td>
<td>0.006</td>
<td>0.003</td>
<td>0.030</td>
<td>0.018</td>
<td>-0.008</td>
<td>-0.009</td>
</tr>
<tr>
<td>15. Investment treaties</td>
<td>0.012</td>
<td>0.123</td>
<td>0.014</td>
<td>0.010</td>
<td>0.003</td>
<td>0.034</td>
<td>0.025</td>
<td>-0.006</td>
<td>-0.006</td>
</tr>
<tr>
<td>16. Foreign shareholders</td>
<td>0.011</td>
<td>0.073</td>
<td>0.003</td>
<td>-0.032</td>
<td>0.034</td>
<td>-0.026</td>
<td>0.013</td>
<td>-0.029</td>
<td>0.019</td>
</tr>
<tr>
<td>17. Tax havens</td>
<td>0.001</td>
<td>0.037</td>
<td>0.003</td>
<td>0.000</td>
<td>0.005</td>
<td>0.001</td>
<td>0.001</td>
<td>-0.002</td>
<td>-0.003</td>
</tr>
<tr>
<td>18. Xi Jinping</td>
<td>0.250</td>
<td>0.433</td>
<td>0.033</td>
<td>-0.004</td>
<td>-0.001</td>
<td>-0.005</td>
<td>0.145</td>
<td>-0.001</td>
<td>0.010</td>
</tr>
<tr>
<td>19. OFDI supportive policies</td>
<td>2.379</td>
<td>1.996</td>
<td>0.037</td>
<td>-0.006</td>
<td>-0.003</td>
<td>-0.006</td>
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<td>0.002</td>
<td>0.001</td>
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<td>0.040</td>
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The results of the ZINB model are shown in Table 3.5. Where the first model only includes the control variables, in Model 2, I add the OFDI supportive policy dummy. Model 3 splits the dummy covering all OFDI supportive policies into coercive and non-coercive policies. While Model 4 covers the interaction terms on ownership types and coercive policies, Model 5 includes non-coercive policies. This is repeated in Models 6 and 7. However, I replace ownership with M&A experience.

Hypothesis 1 predicts that OFDI supportive policies' announcement has a positive effect and, therefore, leads to more cross-border M&A. The significant positive coefficient of my OFDI supportive policies variable (Model 2) supports my hypothesis ($b = 0.152$, $p = 0.1$). Hypothesis 2 (Model 3) predicts that the announcement of coercive policies ($b = 0.091$) leads to more M&A than the announcement of non-coercive policies ($b = 0.202$, $p = 0.1$) cannot be supported.

Turning towards my hypotheses studying the moderation effect of firm ownership on the relationship between policy announcements and cross-border M&A, I want to highlight that my different ownership types are part of a categorical variable (firm ownership). Hence, the results need to be interpreted in relative terms to the base of the categorical variable (i.e., POEs). Against the prediction of hypothesis 3a (Model 4), my results show that for MNEs with the highest home government ties (CSOEs), the policy effect is with the smallest ($b = -0.377$, $p = 0.01$), next to Other SOEs ($b = -0.454$, $p = 0.01$). None of the state-ownership categories show a more positive coercive policy announcement effect than POEs. With a focus on non-coercive policies (hypothesis 3b: Model 5), I predict that with weaker levels of government ties, the policy announcement has a stronger effect on cross-border M&A. This gains support in my results, as not only with higher levels of government connection the coefficients of the non-coercive policy interaction terms turn increasingly
negative, from LSOEs (b = -0.337) to Other SOEs (b = -0.497) and CSOEs (b = -0.537), but all interaction terms are also significant at the one percent level. Finally, my results reveal that hypothesis 4a (Model 6), where I predict that with more M&A experience, the announcement of coercive policies has less effect on cross-border M&A, can be supported. The interaction variable between coercive policies and M&A experience is negative and significant (b = -0.075, p = 0.01). Focusing on non-coercive policies, I also confirm my hypothesis 4b (Model 7) that increasing internationalization experience replaces some of the effects of non-coercive policy announcements (b = -0.085; p = 0.01).

Table 3.5: ZINB regression - cross-border M&As (Essay 1)

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<tr>
<th>Control variables</th>
<th>Model 1</th>
<th>Model 2</th>
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<th>Model 4</th>
<th>Model 5</th>
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<td>0.075*</td>
<td>0.075*</td>
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<td>0.095***</td>
<td>0.234***</td>
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<td>(0.041)</td>
<td>(0.041)</td>
<td>(0.034)</td>
<td>(0.033)</td>
<td>(0.070)</td>
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<td>0.232**</td>
<td>0.232**</td>
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<td>(0.096)</td>
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<td>0.279**</td>
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<td>(0.684)</td>
<td>(0.663)</td>
<td>(0.684)</td>
<td>(0.979)</td>
<td>(0.244)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>50,554</td>
<td>50,554</td>
<td>50,554</td>
<td>50,554</td>
<td>50,554</td>
<td>50,554</td>
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</tr>
<tr>
<td>Industry</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Year</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

Note: *, **, *** mean significant at, respectively, 10 %, 5 %, 1 % level; Robust standard errors clustered at firm-level in parentheses.

3.2.6. Post hoc Analysis

Following Brown et al. (2018), I control the robustness of my ZINB regression with a change in the outcome variable to a binary variable - being 1 for the month that the firm completes an M&A deal and 0 otherwise. With the dichotomous variable leading to M&A being a rare event, I perform a firthlogit regression (Firth, 1993). The results confirm the findings of my ZINB models.

In addition to the logit approach, I analyzed different periods for measuring a firm’s internationalization experience (three years, five years, since 1980) and the firm’s mimetic pressure to internationalize. For the latter, I also used different combinations between home country regions/provinces, industries, and ownerships.
For my investment treaty variable, I also considered only bilateral investment treaties, excluding other investment treaties. The results confirm the robustness of my findings.

3.2.7. Discussion, Conclusions, and Research Limitations

Discussion and Conclusions

In this Essay, I explore how OFDI supportive policy types are different in their effect on cross-border M&A and elaborate on the moderating role of government ties and M&A experience. By studying the Chinese context, I focus on a market environment with large government policy intervention. Nevertheless, I believe that my findings can be applied to other emerging economies revealing a similar relationship between the state and cross-border M&A. Using policy change specific literature from the political sciences in my research, I define an avenue for forthcoming IB policy studies and make the following contributions:

Firstly, my Essay contributes to the literature on OFDI policies with the comparative analyses of policy types. So far, no study has empirically tested the difference in the announcement effect of OFDI policies on cross-border M&A between coercive and non-coercive policies. While some studies focus on a selected policy (e.g., Du & Zhang, 2018; Lu et al., 2011, 2014) and were able to show that OFDI supportive policies lead to more OFDI, my findings add to this literature by revealing that the announcement effect on cross-border M&A differs between policy types. With non-coercive policies having a larger effect on cross-border M&A than coercive policies, I argue that host country governments might increase their inward FDI restrictiveness in line with coercive policy developments in China (c.f., Cui, 2016; Raess, 2020; W. Yin, 2020). With a clearly defined support mechanism in coercive policies, host governments can find formal ground for
developing protective “countermeasures,” whereas, with non-coercive policies, this basis becomes more unstable.

Secondly, I contribute to research on the moderating role of ownership types on the relationship between home country policies and firm internationalization. The literature (e.g., Cui, 2016) argues that across ownership types, the response to home country OFDI policies might differ. Hong et al. (2015) find that the effect of state-ownership on the amount of a firm’s OFDI is especially strong in industries that receive government support. This study contributes to this literature by finding that with decreasing government ties, the influence of coercive and non-coercive FDI policy announcements on cross-border M&A becomes greater. My findings also show that while POEs and SOEs in China from many perspectives appear similar (Milhaupt & Zheng, 2015), the policy pressures to internationalize differ.

Thirdly, my results contribute to the literature on the role of the internationalization experience for cross-border M&A by revealing that the effect of coercive and non-coercive policy announcements become partially replaced with increasing experience. This supports the argument of Luo et al. (2010) that with more M&A experience, firms increase their knowledge of the value (and costs) of their home country support when investing abroad. At the same time, my results also confirm the argument of Lu et al. (2014) that by using OFDI supportive policies, the internationalization experience loses in importance.

Lastly, as my results show when studying home country government support in the form of policies, the mere focus on the institutional theory (e.g., J. Lu et al., 2011) might not be sufficient to explain differences in results between policy types (c.f., L. J. Clegg, 2019). By integrating the policy change literature from the political sciences, I provide another stream of theoretical perspective to the IB scholarship.
I argue that this is required, as with increasing cross-border M&A from countries of strong state support, the politicization of this form of internationalization also gains traction and I need to appropriately “frame the picture.”

With my findings, I aim to provide valuable insights for policymakers of the home and host country. The former, for example, can take away that coercive and non-coercive policy are not alike in their influence on cross-border M&A, and that host-countries might act more strongly or merely react to the announcement of coercive policies. This could influence how the home country policymakers formulate policies in the future. For host country policymakers, my findings on the relationship between firm ownership types and the influence of coercive policies on cross-border M&A might be of specific interest, as this might help in formulating appropriate inward FDI screening mechanisms.

**Limitations and Future Research**

I acknowledge that my study does not come without limitations. For example, the language used in policy statements leaves room for interpretation. Furthermore, my policies are included as binary variables which do not provide insights into the policy embedded tools through which the government supports OFDI. Besides, as I focus on different home country OFDI policy types, factors of the host country are only included to a limited extent. Here, future research might study the effect of OFDI policies from a host country perspective. As more countries implement inward FDI screening mechanisms, this offers great research potential.
3.3. Essay 2: The Effect of Economic Conditions on OFDI Policy

3.3.1. Introduction

Policies\(^7\) are non-stable, with their dynamics of change depending on evolutions within and external to the political system (Baumgartner & Jones, 2002, 2009; Hall, 1989, 1993; Streeck & Thelen, 2005a). Where evolution within the political system is in a democracy often caused by an election, in an autocracy, it might be the announcement of a five-year plan introducing new political aims (see, for example, China or the former Soviet Union). However, external changes to the political system affecting the design of governance actions exist in any country\(^8\). Nevertheless, this is especially true for developing economies, which are often characterized by higher market failure levels and reactive government intervention (Krueger, 1990; Stiglitz, 1989).

The relationship between policies and changes in the political and non-political system is well-researched (on population-level) in the political sciences (e.g., Bondes & Heep, 2012; Pierson, 1993). Its policy change literature mainly comprises the design and change process of policymaking (e.g., Albright, 2011; Arnold & Long, 2019; W. Li & Weible, 2019), the differences between the size of the policy-sphere external changes and their influence on policy change (e.g., Streeck & Thelen, 2005a), and the effect of policy change on the external environment (e.g., Whitaker, Herian, Larimer, & Lang, 2012). However, while it

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\(^7\) In this Essay I define policy in line with Clegg (2019) and Utesch-Xiong (2021a) and see it as “a principle or course of action” (Hornby et al., 2010), where policies and institutions (“an established law, custom”; Hornby et al. (2010)) are at different political levels (Streeck & Thelen, 2005a, p. 12). Furthermore, I understand policy change as newly implemented policies, as well as changes in existing policy instruments and settings (c.f., Hall, 1993).

\(^8\) Dunning (1992, 1995), for example, argued that changes in macro-organizational strategy of governments, are due to developments on the international political and economic level.
provides essential insights into policymaking, it does not sufficiently address firms' role as policy external environment market players shaping decision-making. This is where IB research has its raison d'être, studying the feedback loop between policymakers' decision-making and MNEs’ behavior. However, IB research focusses on the one hand mainly on how firms proactively shape political decision-making through CPA, such as lobbying (Cui et al., 2018; Patnaik, 2019), and, on the other hand, on how policies influence firm internationalization (Du & Zhang, 2018; J. Lu et al., 2014; Yan et al., 2018). Only in its earlier literature, the field studied a more macro-perspective on the relationship between market participants and policymakers. Dunning (1992, 1995), for example, analyzed how globalization required governments to rethink their established “macro-organizational policies”, to be able to reduce the costs of market failures associated with the global economic developments. While the early IB literature considers reactive policymaking, it studies the relationship between market evolution and governance merely on a highly conceptual level.

Hence, IB research cannot answer questions about how home country economic developments (i.e., also firm internationalization) affect OFDI policymaking and if the size of the change in these economic developments is critical for triggering policy reactions. I argue that these are crucial topics for home and host country policymakers’ decision-making, managers who need to know about the policy reactions that their actions might trigger (feedback effect⁹), and academics interested in the relationship between firms and governments.

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⁹ Defining the feedback effect, I follow Lewin and Volberda (Lewin & Volberda, 1999) who state that change might be caused by feedback from the system, next to the direct actions of the parties involved.
I address these questions in this Essay by combining insights from the IB and economics literature with the theoretical perspective of political sciences on policy change (Baumgartner & Jones, 2002, 2009; Hall, 1989, 1993; Streeck & Thelen, 2005a). I contribute to policy change theory by providing insights into the context of responsive policymaking in China. As my results show, next to shocks on the firm level, also shocks in industrial upgrading and national level stability led to these effects on OFDI policies. With my hypothesis on firm internationalization and OFDI policymaking being confirmed, I strengthen the reactive policymaking argument.

Especially in EMs, reactive policymaking is a crucial approach of the government, as for them high levels of economic growth are important to be able to catch up with industrialized countries and the process requires both firms and the home government (Caseiro & Masiero, 2014; Ozawa, 2018; Sauvant et al., 2014). Close market observations and reactive policymaking provides EM governments with the option to quickly react to market changes on the firm-, industry-, and macroeconomic levels and implement supportive or countermeasures to steer the economy. With China being economically the largest EM and revealing an extensive level of reactive OFDI policymaking (Zenglein & Kärnfelt, 2019; own constructed OFDI policy database), I study the role of home-country economic developments on OFDI policymaking in the context of China. It examines this relationship focusing on 1999-2019, where most of China’s responsive OFDI policymaking took place.

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10 Shocks are defined in this Essay as an annual change being more extensive than the mean change of the respective variable (e.g., Delios et al., 2008; Han et al., 2010; Hu et al., 2019).
However, it is not only China that intervenes (reactively) in the market to drive its economy to higher areas of growth, but other EMs are also intervening in OFDI (Caseiro & Masiero, 2014; Sauvant et al., 2014). Thus, I argue that my results might also be generalized away from the Chinese context to other EMs.

3.3.2. Theoretical Framework

While the IB and policy change literature are highly intertwined in practice, IB scholars seemed to have excluded this interdisciplinary area in their research, at least for some time. Theories on policy change are already well-embedded in the political and sociology literature. However, IB scholarship has only recently refocused on the interaction between both fields (Lundan, 2018). I use the extant policy change theories, as I believe that they offer an excellent foundation for research on the crossroad of public policy and IB (e.g., Lowry, 2006; Tosun & Workman, 2017; Weible, 2017).

There are two main streams in the policy change literature, the incrementalism and non-incrementalism approaches. The incrementalism approach (M.-L. Djelic & Quack, 2003; Lindblom, 1959; Streeck & Thelen, 2005a) highlights the importance of gradual changes in policies to explain transformational changes in policy outcomes. As argued by Streeck and Thelen (2005a), the incrementalism approach not only separates the process of change into nuanced facets but it also reveals that accumulated small changes might lead to a discontinuity of policies next to external shocks. The advocates of the incrementalism approach argue that any approach that defines stability in policy change by the fact that external shocks are not happening or eventually not leading to policy disruption (see the second stream) might not be able to explain the transformation of a policy to the whole extent (c.f., Streeck & Thelen, 2005).
However, scholars of the non-incrementalism approach (e.g., Baumgartner & Jones, 2009; Jenkins-Smith, Nohrstedt, Weible, & Ingold, 2017; Sabatier, 1987) support the opinion that only large changes (shocks) can lead to a complete replacement of policies (e.g., Heikkila & Cairney, 2017; Sabatier & Jenkins-Smith, 1999: 147-148; Weible & Carter, 2017).

As can be seen from the juxtaposition of the incremental and non-incremental approaches, the paths of policy change theories differ in their understanding, considering the type of change needed to achieve a change in policy outcomes. However, the different perceptions have in common that events external to the policymaker circles, for example, significant changes in outward direct investments in a centrally planned economy, might be a decisive factor for policy change. With an event’s effect size large enough to change the established opinions of society or policymakers, it might also be able to change existing policies.

Nevertheless, what precisely the minimum size of an external event must be to be large enough to lead to policy change is not clear, per se (Bauer & Knill, 2012). Also, the definition might change together with the development of the economy. Hence, policymakers might react differently to current external developments than in the past (Bauer & Knill, 2012). In the case of OFDI, it might be that in a centrally controlled economy OFDI of the same form and value might be seen as acceptable from the central decision-makers position. However, as other macroeconomic factors change, this OFDI might be seen as a threat to economic development and restricted.
3.3.3. The Role of Policies in China

When developing new or changing existing policy, it is not sufficient for policymakers to study the policy itself and, for example, focus on closing a loophole in the existing policy system. Policymakers also need to understand the policy target group and its environment, which might be directly or indirectly affected (Streeck & Thelen, 2005a). This understanding is particularly crucial in centrally planned economies, where industry sectors are part of a network designed to achieve a specific level of economic growth. Furthermore, when the economic environment is steered by the central government, implementing a new policy deserves more attention than with an open economy. With more policies steering the economy, avoiding contradictions between policies is crucial for the central government's clear guidance - but it is even more challenging. For a centrally planned economy, it is of paramount importance to keep its economy in balance, as instability in one part of the economy might affect other economic factors and eventually lead to slowing growth rates while risking the government's ability to provide the essential needs for its population. Hence, policymakers have to listen carefully to changes in the market, as they might affect economic aims.

Since the People’s Republic of China's proclamation in 1949, the central government drives the economy through strict guidance. To maintain control over its economy, the government implemented a helix-structure of leading state organs, divided into the National People’s Congress (NPC) and the State Council (e.g., Heilmann, 2016: 55). The NPC is the country's highest decision-making board, consisting of deputies of regions and cities, minorities, and the military, electing the President of the People’s Republic of China. The State Council is the NPC's highest executive decision-making body, representing China’s central government.
(National People’s Congress, 2019). The joint structure of these two organs highlights the connection between the Chinese Communist Party and the state, as well as their intertwined tasks of developing and stipulating China’s basic laws (through the NPC) and designing and implementing legal orders (through the State Council) (Heilmann & Stepan, 2017). In addition to these two leadership bodies, subordinate decision-making departments, such as the government Ministries and the Supreme People’s Court, publish policies and laws that support the directions of the NPC and State Council (Heilmann, 2017).

**The Process of OFDI Policymaking**

Between 1999 and 2019, China’s policymaking organs introduced 108 changes to main OFDI policies, showing that the centrally managed economic system is permanently adjusted to an ever-changing environment (c.f., Blanchard, 2019; Luo et al., 2010; Voss et al., 2008; B. Wang & Gao, 2018). Figure 3.3 highlights that of the 20 OFDI policy enunciating government organs, only one was not under the State Council's control - the All-China Federation of Industry and Commerce (ACFIC). All other policy enunciators are the State Council itself or any of the State Council's subordinated organs, such as executive departments (e.g., ministries), (special) agencies, or public institutions (see Figure 3.3). Most policies were (co-)announced by the executive departments, with 146 appearances, followed by the (special) agencies under the control of the State Council (24) and the State Council itself (8 times).
Figure 3.3: OFDI policy enunciators, 1999-2019 (Essay 1)

Note: The Figure shows only government organs that enunciated at least one of the 108 policies included in my dataset. The count of policy enunciations is in parentheses – the sum across government organs can be larger than 108 due to the co-enunciation of policies. SAMR = State Administration for Market Regulation; ExIm Bank = Export-Import Bank of China; MOF = Ministry of Finance; MOFA = Ministry of Foreign Affairs; NBS = National Bureau of Statistics; Sinosure = China Export & Credit Insurance Corporation; PBoC = People’s Bank of China; SAFE = State Administration of Foreign Exchange; GACC = General Administration of Customs of the People’s Republic of China; STA = State Taxation Administration; MIIT = Ministry of Industry and Information Technology; CBIRC = China Banking and Insurance Regulatory Commission; CSRC = China Securities Regulatory Commission; MOJ = Ministry of Justice; MOST = Ministry of Science and Technology; MOT = Ministry of Transport.

Source: Own constructed Chinese OFDI policy database and State Council (2020).
Between 1999 and 2019, MOFCOM is the most active ministry to announce changes to the existing OFDI policy framework, with 58 policy changes, followed by SAFE (33) and the NDRC (20). Four more government organs announced more than five policy changes in the same period (see Figure 3.3), next to 13 other departments (co-)enunciating each less than five OFDI policy changes (own constructed OFDI policy database).\textsuperscript{11}

In the authoritarian-led economy, individual economic players do not have the political power to intervene in the policymaking process (Hu, Cui, & Aulakh, 2019). However, for selected OFDI policies, the government seeks public comments on draft versions of the policy (e.g., MOFCOM’s 2012 call for comments on revising the Statistical System for Foreign Direct Investment) or organizes conferences to understand the concerns of Chinese MNEs (Yan et al., 2018). This situation shows that it is not the MNEs that mainly and actively approach the government, but the government establishes a platform for feedback. Besides, as Streeck and Thelen (2005) highlight, structures and meanings of institutions, and thus policies, are not always influenced actively but change with the evolution of the external environment which surrounds them. This economic environment might include evolution on the firm, industry, and macroeconomic level. Thus, as Luo, Xue, and Han (2010) argued, structures of government organizations responsible for OFDI policymaking change along China’s OFDI growth path.

\textsuperscript{11} For a description on the government bodies, see Heilmann (2017).
Economic Home Country Developments and OFDI Policy Change

Firm Internationalization

As highlighted in Figure 3.4, between 1999 and 2018, China’s OFDI flows, as well as the count of cross-border M&As grew both on average by 64%. The annual increase in OFDI is especially notable and cross-border M&As from 2015 to 2016. The significant decline, hereafter, leads to the question of whether this path was policy or market-driven. While China’s policymakers use their power of market intervention regularly to steer OFDI, it is not always the case that Chinese MNEs follow their home-country guidance for investing abroad (L. Jones & Zou, 2017). Moreover, Chinese MNEs, due to their growing internationalization activities and growth in size, also gained the power to influence policymakers (Abdul-Gafaru, 2009; p. 53).

Figure 3.4: Chinese firm internationalization, 1999-2018 (Essay 2)

On the one hand, Chinese MNEs’ OFDI became crucial for the home country's economic development and societal stability. As earlier studies reveal, MNEs’ internationalization is connected to spillover effects on the home country, such as access to and imports of natural resources (Knoerich, 2016), higher (regional)
growth of the home economy (Ali, Shan, Wang, & Amin, 2018; C. Chen, 2018; J.-E. Chen & Zulkifli, 2012), as well as technology upgrading (Kokko, 2006). As a result of the potential for home-country spillovers, MNEs’ OFDI is seen as a driver of home country economic growth and, thus, economic development (c.f., Dunning, 1981, 1986). In addition, the importance of firm internationalization for the home government can also be seen in the number of OFDI policies being implemented to steer OFDI (own OFDI policy database & OECD, 2019).

Conversely, OFDI is also linked with factors that might harm the home economy’s development (Kokko, 2006), for example, capital flight (Cui & Jiang, 2012; Jia, Yu, & Mingming, 2017) and the pressure this brings on the foreign exchange rate (c.f., Wolf, 2012). In China, and also previously in other Asian economies (Rasiah, Gammeltoft, & Jiang, 2010), the anxiety of large scale capital flight led the government to react and implement stricter OFDI policies (Jia et al., 2017; c.f., B. Wang & Gao, 2018). For instance, the Chinese government implemented OFDI restrictive policies to respond to cross-border M&A deals being used by companies as a pretext for capital flight (c.f., Jia et al., 2017). With both harmful and supportive OFDI spillovers to the home economy, China’s policymakers had to develop a middle way of policies steering OFDI (see Figure 3.5).

Figure 3.5: Evolution of OFDI triggered policy announcements (Essay 2)

Note: All included policies state that the evolution of China’s OFDI was a trigger for their publication; Source: Author.
With the acceleration of the OFDI activities of China’s MNEs (see Figure 3.4), many home country government bodies amended their existing policies or introduced new ones, covering different aspects concerning China’s cross-border direct investment. Where OFDI was initially supported by the government, with increasing levels, restrictive policies were implemented to set boundaries for internationalizing firms. For example, in 2005, MOFCOM and MOFA issued an update on the Catalogue of Industrial Products for Foreign Investment Countries to encourage OFDI and advance the Going Out strategy. Furthermore, in 2007, a group of governmental bodies jointly published their supportive opinion on OFDI of private firms, titled Encouraging and Guiding Non-Public Enterprises to Foreign Investment Cooperation. However, in 2010, the first OFDI restricting policy in the observation period, triggered by China’s latest OFDI, was published. The Ministry of Finance announced in 2010 a policy with the title Regulating the Individual Shareholding of Overseas Investments on Behalf of SOEs, which forbids individuals to further hold the share of an SOE’s in an investment project abroad representatively. With this policy announcement, the Ministry of Finance aimed to reduce OFDI related asset management risks. To keep the essential administrative procedures in line with the evolution of China’s OFDI, in 2011, the Chinese government decided to ease the process of gaining approval for OFDI by increasing the threshold level for which approval from central government institutions is necessary (for example, the NDRC’s 2011 publication on Doing a Good Job in Decentralizing the Power of Examination and Approval in Overseas Investment Projects).

Moreover, in 2016, the NDRC started a public call for comments on its draft to enhance the administrative OFDI processes. On the one hand, the administrative
processes and related OFDI policies developed towards becoming more efficient. On the other hand, OFDI regulations that might harm China’s economic development are either canceled or replaced by more restrictive policies. Thus, to limit the large scale capital outflows and tackle OFDI used as a vehicle for capital flight (Buckley et al., 2015; Pei, 2016), in 2016, SAFE introduced more restrictive policies on cross-border repatriation, requiring pre-approval through SAFE (Shen, Ruwitch, Zhong, & Glenn, 2016). The two-sided approach of announcing OFDI policies that are of an OFDI supportive nature and OFDI policies that restrict OFDI continued in 2017, with the released opinions of China’s State Council on Further Directing and Regulating the Direction of Overseas Investments. In this policy, the State Council highlighted their favoring of a “carrot and stick” approach for OFDI. In some sectors, OFDI is encouraged (e.g., Belt-and-Road Initiative related sectors) through benefits in the areas of taxation, foreign exchange, customs, information or insurance, in a few restricted (e.g., real estate, hotels, cinemas, entertainment, and sports clubs) and in selected cases prohibited (e.g., military, gambling). In addition, in 2018, a group of governmental bodies published their opinion on Guiding the Sound Development of Outbound Investment and Financing Funds, calling for a new OFDI ideology to tackle the misbehavior of some OFDI projects when raising funds for their internationalization activities.

As the documents of the highlighted OFDI policies mention, they were all implemented to some extent due to the evolution of China’s OFDI. With China’s MNEs holding a crucial position for the home country’s economic development, a large change in firm behavior might lead the government to react quickly, aiming to mitigate any associated risks or implement support mechanisms. Hence, I state the following hypotheses:
**Hypothesis 1:** A more than average increase (shock) in cross-border M&As leads to the announcement of more OFDI restrictive policies than a non-shock increase in cross-border M&As.

**Hypothesis 2:** Increasing cross-border M&As are positively associated with OFDI policymaking.

*Industrial Upgrading*

Between 1998 and 2004, China’s industrial upgrading process improved rapidly, with the share of medium- and high-tech manufactured exports on total manufactured exports (blue line; Figure 3.6) quickly climbing (1998: 40 %, 2004: 57 %). Hereafter, it stayed almost steady until 2018 and even went through a short period of decline (2010-2014). In the same period, China's impact on world manufacturing value addition (red line; Figure 3.6) increased steadily, from 9 % in 1998 to 29 % in 2018. However, since 2009, the growth rates were marginal. To catch up with industrialized countries, China needs to further shift towards high-value added manufacturing and services.

*Figure 3.6: China's industrial upgrading process (Essay 2)*

To reach economic prosperity, a common development strategy of (former) developing countries is to provide policy support for firms to invest abroad and acquire knowledge that is not available at home. Through the acquisition of technology advanced foreign firms, the aim is to transfer “know-how” to the home-country (Lattmann et al., 2017; Morris, 2012; Virmani & Amann, 2015) and, on a national level, catch up with the frontrunner economies. As the literature shows, in comparison to industrialized economies, developing countries are still lagging behind in the industrial production, for example, high- and medium-high-tech manufacturing, and thus, struggle in their economic upgrading (Blomström & Kokko, 1998; Mathews, 2006; Virmani & Amann, 2015). However, the process of catching up with industrialized countries cannot be achieved through the market alone, but with the support of a proactive home government (Ozawa, 2014).

China now and before the East Asian newly industrialized countries (South Korea, Taiwan, Singapore, Hong Kong), and Japan, were able to transform their industries of competitive advantage (Nem Singh & Ovadia, 2018; Yeung, 2016: 2, 6). In 2003, China introduced a policy that is equipped with loans for particular OFDI projects, aiming at technological acquisition abroad. Specifically highlighting areas where China does not possess such know-how at home and areas where China’s industries appear to be working comparatively inefficiently. In addition, cross-border M&As might benefit from the policy if they improve the firms’ international competitiveness (as highlighted in the SDRC and ExIm Bank’s 2003 policy on Providing Credit Supports to the Key Overseas Investment Projects Encouraged by the State). Furthermore, in 2015, China’s State Council introduced the Made in China 2025 strategy to tackle the international non-competitiveness of its manufacturing sector. By promoting OFDI in advanced manufacturing industries,
the government aims to catch up with industrialized countries in key manufacturing industries. In the same year, the State Council also published its opinions on the Promotion of International Production Capacity and Equipment Manufacturing Cooperation to keep its policies in line with the industry's fast evolution. The State Council plans to support companies’ OFDI projects that can enhance the economy’s international production capacity and improve the Chinese economy's industrial level. Besides, in 2016, a group of Ministries and working groups of the Chinese government jointly published their opinion, calling for policy support on firm internationalization, intending to enhance the integration of China’s firms into the global value chain and the opportunity for industries to climb up the global value-chain. As this reveals, China’s government uses OFDI to upgrade its economy to higher value-added levels. Hence, large changes in the evolution of its industrial competitiveness or slower growth rates, compared to the industrial frontrunning countries, might lead the home government to implement policies targeted at reversing this negative trend. This leads us to hypothesize that:

**Hypothesis 3:** A more than average increase (shock) in the gap between China’s industrial upgrading as compared to high-income countries industrial development leads to more announcements of OFDI supporting policies than a non-shock increase.

**Hypothesis 4:** The lag in China’s industrial upgrading behind the high-income countries is positively associated with OFDI supportive policymaking.

**Macroeconomic Developments**

China’s vast foreign exchange reserves are of utmost importance for the macroeconomic stability of the country (Buckley et al., 2010; UNCTAD, 1995, 2006) and for keeping its foreign exchange reserves within the range to its peg - a
U.S. dollar (USD) dominated international basket of currencies (Barghini, 2017). With its currency coming under devaluation pressure, e.g., through changes in the interest rate in the U.S. or a negative Chinese FDI balance (c.f., Sun & Ma, 2005), large amounts of foreign capital reserves need to be sold to be able to purchase and hence, strengthen the Chinese Yuan (CNY) (SAFE, 2020; Setser, 2019). A shock that led to a large sell-off of foreign exchange reserves (to counteract the devaluation of the CNY), as visible in Figure 3.7, happened in 2015 and 2016.

Figure 3.7: Macroeconomic indicators, 1999-2019 (Essay 2)

![Graph showing macroeconomic indicators](image)

Source: SAFE (2020).

As threats to the foreign exchange rate, and thus to the accumulated foreign exchange reserves, are partially due to developments in the home country, e.g., with many firms investing abroad, home country policymakers in China have the chance to intervene. For example, this happened in 2016, with the Chinese government implementing new, tighter policies on currency controls targeting OFDI transactions (Barghini, 2017; Zenglein & Kärnfelt, 2019). However, changes in the foreign exchange rate and with that the level of foreign exchange reserves are not only driven by home country developments but also international ones. Consequently, I derived the following two hypotheses:
**Hypothesis 5**: A more than average decrease (shock) in China’s foreign exchange reserves leads to the announcement of more OFDI restrictive policies than a non-shock decrease.

**Hypothesis 6**: Declining Chinese foreign exchange reserves are positively associated with OFDI restrictive policymaking.

**Conceptual Framework**

My conceptual framework reflects the interconnectedness between OFDI policy changes and economic developments in China. Where the IB literature studied the effects of OFDI policy on firm internationalization extensively (Du & Zhang, 2018; J. Lu et al., 2011, 2014), in this Essay, I am interested in studying the changes in the economic development leading to OFDI policy change. In the context of a centrally planned economy, it is important to consider next to the firm level, also evolutions on the industry and macroeconomic level, as contagion effects between the firm, industry, and macro levels are felt more strongly. Hence, I build my analysis considering all three economic levels (see Figure 3.8).

*Figure 3.8: Conceptual framework (Essay 2)*

- **Firm internationalization**
  - Cross-border M&As
  - OFDI flows
  
- **Industrial upgrading**
  - Medium/High-tech manufactured Exports
  
- **Macroeconomic stability**
  - Foreign exchange reserves

Note: A shock is defined as an annual change that is larger than the average annual change of the specific variable within the period of 1999 to 2019.
3.3.4. Methodology

Data and Variables

The study of policy change requires theoretically the coverage of at least two points in time (Tosun & Schnepf, 2020). Nevertheless, the policy change literature suggests studying an extended period to understand the process (e.g., Jenkins-Smith et al., 2017; Sabatier, 1988). I have focused on one country, China, to gain an extensive understanding of the determinants influencing OFDI policy change (c.f., Sanders, 2006). As I am interested in the announcement of China’s OFDI policies triggered through changes in firm internationalization, the industrial catch-up process, and macroeconomic movements, I have covered China’s primary period of OFDI policymaking, starting with the announcement of the Going Global policy in 1999, and continuing until 2019.

In line with Krippendorff (2004, pp. 117–118) a snowball sampling approach is followed to search for OFDI policies being announced within this period. Screening government and ministerial websites, making use of the Chinalawinfo (2020) – a legal information database of Peking University, and relying upon IB literature (e.g., Buckley, Cross, Tan, Xin, & Voss, 2008; Luo et al., 2010; B. Wang & Gao, 2018), I have initially selected 155 policies.

After having manually read through all documents, I excluded 42 policies as these have either other main focuses than OFDI (e.g., the Notice on Adjusting the Publication Cycle of Statistics Journals of FDI, announced by MOFCOM and SAFE in 2009), are subordinated to and not changing their superior OFDI policy (e.g., the Notice on Launching the Network System for the Recordation Administration of Overseas Investment Projects Nationwide, announced by NDRC in 2014), or focus on highly specific areas that are only relevant to a very limited
number of firms\textsuperscript{12} (e.g., the Circular on the Relevant Issues concerning the Administration of Foreign Exchange for Overseas Investments of Border Areas, announced by SAFE in 2005). In addition, I have also excluded China’s national five-year plans, as well as announcements that merely list abolished policies. The former is not considered due to their coverage of many topics, next to OFDI, and the existence and consideration of OFDI specific five-year plans in this Essay. The remaining 108 OFDI policies (Figure 3.9) include announcements that are either applicable to all Chinese MNEs or are specific considering ownership or industry. Specified policies were not excluded, as it is assumed that spillover effects exist across types of ownership and industries.

\textit{Figure 3.9: China's core OFDI policies, 1999-2019 (Essay 2)}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.9.png}
\caption{China's core OFDI policies, 1999-2019 (Essay 2)}
\end{figure}

Source: Authors.

My approach, using as the outcome variable the count of restrictive and supportive policies announced in a specific year between 1999 to 2019, is a standard procedure in policy studies (e.g., Arnold & Long, 2019; Bromley-Trujillo & Poe, 2020;\textsuperscript{12} Policies covering subject areas whose developments are least likely to lead to spillovers on other areas are excluded in this Essay as they are too specific for this research, i.e., policies focusing on areas with geographical disputes, policies that are specific on economic zones and trade cooperation, policies with a focus on Taiwan as a host country, or policies covering merely loans or special-purpose vehicles.)
While the count of policies might not be able to give insights into the importance of the individual policies, it reflects the broader focus that the government puts on OFDI in a year (c.f., Galeotti, Rubashkina, Salini, & Verdolini, 2018; Samant, Thakur-Wernz, & Hatfield, 2020). Furthermore, with a count outcome variable, researchers have found that the number of existing policies might influence the announcement of new ones (Burns & Tobin, 2016). However, this should be less of a problem for my analysis, covering 1999-2019, as in the first twenty years of China’s opening up (1979-1998), comparatively few (15) core policies with a focus on OFDI were announced.\footnote{This excludes in this Essay, policies that have other foci next to OFDI, policies that are subordinate to main OFDI policies, as well as policies where no document could be found by the author.}

The explanatory variables of my analysis reflect the change in cross-border M&As of Chinese firms, the process of China’s industrial “catch up” to high-income countries, as well as China’s macroeconomic shift and dependence on its foreign exchange reserves.

By using the count of cross-border M&As, I cover most of China’s global FDI activities (c.f., Hanemann, Rosen, Gao, & Lysenko, 2020; Kratz, Huotari, Hanemann, & Arcesati, 2020) and follow standard practice in IB research (e.g., Alimov, 2015; Clougherty, Gugler, Sørgard, & Szücs, 2014). For proxying the industrial advancement of a country, the medium- and high-tech manufactured exports share in total manufactured exports is often included in the literature (e.g., Narayanan & Wah, 2000; UNIDO, 2013), which I follow in this Essay. To represent the characteristics of the Chinese dependence on having stable macroeconomic indicators, I use China’s foreign exchange reserves due to their importance for
adjusting the pegged foreign-exchange rate. Foreign exchange rate and FDI balance were not considered in this Essay due to high levels of correlation.

I am interested in situations where these variables show an annual rate of change larger than what is usually observed – a shock. When studying the influence of a shock on the dependent variable, I follow the literature (e.g., Delios, Xu, & Beamish, 2008; Han, Kang, Salter, & Yoo, 2010; Hu et al., 2019) and define a shock as leading to the annual rate of change being greater than the mean annual change of the selected variable (see Table 3.6).

I include a set of control variables in my models to cover change on the firm-, industry-, and macro-level. In the models studying the shock of change on the firm- and industry-level, I include as control variables the continuous change variables of the other two economic levels that are not in the main focus of the respective model, i.e., Model 1, studying the shock of M&A change includes the continuous change variables of the industry- and macro-level as control variables. The same applies to the industry level shock analysis (Model 3), which includes the continuous variables of the firm- and macro-level as controls. For the shock analysis on the macroeconomic level (Model 5), this analogy does not apply, due to the model’s small sample size and a larger number of variables being included to control for macro-level factors influencing OFDI policy announcements.

I add in each Model control variables that proxy change on the respective economic level (firm, industry, macro) that I focus on. Hence, in my micro-level Models (Model 1 & 2), I control for the closeness to the state with a variable covering the cross-border M&A activities of central SOEs. Thereby, I follow the literature, which argues that central SOEs are, on the one hand, under specific pressure by the Chinese state (J. Li, Xia, et al., 2018) and being used as policy tools to reach
macroeconomic aims (M. H. Li et al., 2014), and, on the other hand, are better equipped and have better connections to policymakers (J. Li, Meyer, et al., 2018).

On the industry level (Model 3 & 4), I control for the level of China’s industrialization and its integration into the global manufacturing network by considering China’s share in global manufacturing value-added (Singh, 1989). In Models 5 and 6, I focus on macroeconomic changes. As the achievement of long-term high economic growth levels (O’Callaghan & Vivoda, 2013) and with that high levels of national welfare and the core evaluation factor in China for politicians (W. Liu, 2018), I control for the development of China’s economy by including its gross domestic product (GDP) growth rate. In addition, as inflation and economic growth are highly intertwined (Klein & Shambaugh, 2015), higher inflation rates risk the aim of achieving economic growth in the longer perspective (B. D. Jones & Baumgartner, 2005, p. 77), and also increase the chances of bringing instability to other macroeconomic indicators (e.g., China’s central interest rate). Furthermore, with changes in the status of China’s FDI balance (i.e., net acquisitions of FDI assets being smaller than net incurrences of FDI liabilities; OECD, 2008, pp. 59-90), its policymakers might be more or less prone towards OFDI (e.g., Hanemann & Rosen, 2016; Mee & Botham, 2019). Hence, as I consider Chinese cross-border M&A activities in my study, I also include a control variable for inward FDI.

I summarize my explanatory variables in Table 3.6, where I have included next to the descriptions of my proxies and the expected signs of coefficients, also the data sources.
<table>
<thead>
<tr>
<th>Abbreviation, expected sign of coefficient, and variable description</th>
<th>Variable type</th>
<th>Data sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Count of home country OFDI policies (<em>OFDIpolicies</em>)</td>
<td></td>
<td>Own OFDI policy database</td>
</tr>
<tr>
<td>2. Count of either supportive (<em>OFDIpolicies_sup</em>) or restrictive (<em>OFDIpolicies_rest</em>) home country OFDI policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>M&amp;A_shock</em> (+); Annual increase of Chinese cross-border M&amp;A projects larger than its average increase = 1 (shock), otherwise 0.</td>
<td>Main</td>
<td>Orbis; SDC</td>
</tr>
<tr>
<td><em>M&amp;A</em> (+); Count of Chinese cross-border M&amp;A projects, annual change.</td>
<td>Main</td>
<td>Orbis; SDC</td>
</tr>
<tr>
<td><em>MHXsh_shock</em> (+); Annual increase of the difference between the change of the medium- and high-tech manufactured exports share in total manufactured exports in high-income countries and China, larger than its average increase = 1 (shock), otherwise 0.</td>
<td>Main</td>
<td>UNIDO (2020)</td>
</tr>
<tr>
<td><em>MHXsh</em> (+); Difference between the annual change of the medium- and high-tech manufactured exports share in total manufactured in high-income countries and China.</td>
<td>Main</td>
<td>UNIDO (2020)</td>
</tr>
<tr>
<td><em>Fx_reserves_shock</em> (+); Annual decline of foreign exchange reserves (billion USD, current prices) larger than its average decline = 1 (shock), otherwise 0.</td>
<td>Main</td>
<td>SAFE (2020)</td>
</tr>
<tr>
<td><em>Fx_reserves_dec</em> (+); Annual change of foreign exchange reserves (billion USD, current prices); Declines have a positive notation, whereas increases are negatively notated.</td>
<td>Main</td>
<td>SAFE (2020)</td>
</tr>
<tr>
<td><em>M&amp;A_csoes</em> (+); Count of central SOEs’ cross-border M&amp;A projects, annual change.</td>
<td>Control</td>
<td>SASAC (2017); Orbis; SDC</td>
</tr>
<tr>
<td><em>World_manuf_VA</em> (+); Impact of China on world manufacturing value added (% share in world manufacturing value addition).</td>
<td>Control</td>
<td>UNIDO (2020)</td>
</tr>
<tr>
<td><em>GDP_growth</em> (+); China’s gross domestic product, annual growth rate (%). Constant 2010 USD, not seasonally adjusted.</td>
<td>Control</td>
<td>OECD (2020)</td>
</tr>
<tr>
<td><em>Inflation</em> (+); China’s inflation rate, annual change (in percentage points). Index 2015=100, not seasonally adjusted.</td>
<td>Control</td>
<td>OECD (2020)</td>
</tr>
<tr>
<td><em>IFDI</em> (+); Annual change of inward FDI flows (billion USD, current prices).</td>
<td>Control</td>
<td>UNCTAD (2020b)</td>
</tr>
</tbody>
</table>

---

14 I was not able to use the non-export alternative of the *MHXsh* variable due to missing data from 2009 onwards (UNIDO, 2013, 2020).
Modeling Approach

As the dependent variable consists of discrete, non-negative integers, a Poisson or Negative Binomial Model is deemed appropriate (Greene, 2011). To test which of these approaches is a better fit and whether their zero-inflated or non-inflated model should be selected, I conducted information criteria tests based upon the Akaike information criterion (AIC) and the Bayesian information criterion (BIC) (Greene, 2011). The results showed a preference for the non-inflated Poisson approach. The likelihood ratio test (alpha = 0) is insignificant at the five percent level throughout my models. Hence, the Negative Binomial regression is not more appropriate for my data than the Poisson model, confirming the information criteria tests' results.

Furthermore, as my models also show characteristics of being slightly overdispersed, I analyzed the dispersion characteristics ((1/df) Pearson; (1/df) Deviance) and found that all results are below the critical threshold of two (Borror, 2008, p. 187). Additionally, I compared the AIC results for running a poisson and a generalized poisson regression, as the latter controls for under- and overdispersion (Hilbe, 2014, p. 216). The generalized Poisson regression showed in two cases the problems of convergence. Moreover, as for the other regressions, the results of the generalized and non-generalized Poisson approaches were very close to one another or lower for the poisson regression, I found that the latter fits better to my data.

Furthermore, with my analysis being on the national level of one country, studying OFDI policies across time, as suggested for studies on the policy process (e.g., Gray, 1973), I employ a time-series regression. With only 21 years of OFDI policies being covered (1999-2019), my dataset can be categorized as a relatively small sample (e.g., Maggioni et al., 2012). With a short time-period, I face the risk of an overfitting regression when including only a few independent variables - i.e., the 95 %
confidence interval overlaps the variable coefficients (Lazzaro, 2014). However, I do not find an over-fit in any of my regressions. The likelihood ratio tests (Bellocco & Algeri, 2013) further reveal no sign of a lack of fit in my models.

I employ the Newey-West standard errors in my regressions, correcting potential autocorrelation and heteroscedasticity (West & Newey, 1993). As my statistical program (Stata, version 14.0) does not automatically consider the appropriate correction factor for the time-series Newey-West standard errors, I calculate it manually, following StataCorp (2009, p. 534). By lagging all but the dependent variable, I additionally account for the potential of reverse causality, i.e., that OFDI policies might affect my independent variables. However, I acknowledge that reverse causality might not be entirely delimited by following this approach (specifically when considering path dependence). Nevertheless, it decreases the chances and ensures, as much as possible, that I study the right direction of the effect.

I present my results as incidence rate ratios (IRR) - the exponentiated Poisson regression coefficients – for reasons of result interpretation (Borror, 2008, p. 223). My regression outcome with standard coefficients can be found in Appendix 1. Using the IRR, the predicted value of the dependent variable (count of policies) represents a percentage change related to a one-unit increase of the explanatory variable while holding all other variables constant (Hilbe, 2014, pp. 60–61).

3.3.5. Results

In Table 3.7, I test for multicollinearity, employing the variance inflation factor (VIF). The mean VIF is 4.82, with all values being below the threshold value of ten, showing no multicollinearity issue (Brown et al., 2018; Chatterjee & Hadi, 1986). In Table 3.7, I also show the pairwise correlation matrix of my variables. I
controlled for the high correlations existing for some of my variables by running separate regressions, or if run together, testing their influence on one another. If found as non-problematic, I kept the variables in one regression. In model 5 (Table 3.8), I excluded M&A and MHXsh, due to a high correlation with the main interest variable Fx_reserves_shock.

Table 3.7: Pairwise correlation matrix and descriptive statistics (Essay 2)

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. OFDI policies</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. OFDIpolicies_res</td>
<td>0.16</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. OFDIpolicies_sup</td>
<td><strong>0.72</strong></td>
<td>-0.04</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. M&amp;A_shock</td>
<td>0.39</td>
<td>0.37</td>
<td><strong>0.45</strong></td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. M&amp;A</td>
<td>0.43</td>
<td>0.27</td>
<td><strong>0.48</strong></td>
<td><strong>0.69</strong></td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. MHXsh_shock</td>
<td>-0.01</td>
<td>-0.15</td>
<td>-0.30</td>
<td>0.09</td>
<td>0.09</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. MHXsh</td>
<td>-0.16</td>
<td>0.10</td>
<td>0.13</td>
<td><strong>0.48</strong></td>
<td>0.30</td>
<td>0.48</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>8. Fx_reserves_shock</td>
<td>0.34</td>
<td><strong>0.55</strong></td>
<td>0.32</td>
<td><strong>0.79</strong></td>
<td><strong>0.68</strong></td>
<td>-0.07</td>
<td>0.34</td>
<td>1.00</td>
</tr>
<tr>
<td>9. Fx_reserves_dec</td>
<td>0.13</td>
<td>0.16</td>
<td>0.29</td>
<td><strong>0.67</strong></td>
<td>0.34</td>
<td>0.01</td>
<td><strong>0.46</strong></td>
<td><strong>0.72</strong></td>
</tr>
<tr>
<td>10. M&amp;A_csoes</td>
<td>0.07</td>
<td>-0.15</td>
<td>0.12</td>
<td>0.19</td>
<td>0.41</td>
<td>-0.33</td>
<td>-0.19</td>
<td>0.04</td>
</tr>
<tr>
<td>11. World_manuf_VA</td>
<td>0.20</td>
<td>0.05</td>
<td>0.14</td>
<td>0.03</td>
<td>0.28</td>
<td>0.02</td>
<td>0.11</td>
<td>0.02</td>
</tr>
<tr>
<td>12. GDP_growth</td>
<td>0.14</td>
<td>-0.10</td>
<td>-0.15</td>
<td>0.42</td>
<td>0.05</td>
<td>-0.13</td>
<td><strong>-0.44</strong></td>
<td>-0.36</td>
</tr>
<tr>
<td>13. Inflation</td>
<td>0.16</td>
<td>-0.15</td>
<td>0.12</td>
<td>0.04</td>
<td>0.04</td>
<td>0.11</td>
<td>0.05</td>
<td>0.02</td>
</tr>
<tr>
<td>14. IFDI</td>
<td>0.12</td>
<td>-0.10</td>
<td>-0.13</td>
<td>0.06</td>
<td>0.02</td>
<td>-0.20</td>
<td>-0.30</td>
<td>-0.07</td>
</tr>
<tr>
<td>Mean</td>
<td>5.1</td>
<td>0.6</td>
<td>2.0</td>
<td>0.1</td>
<td>8.3</td>
<td>0.0</td>
<td>-1.9</td>
<td>0.1</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>2.3</td>
<td>0.9</td>
<td>1.5</td>
<td>0.4</td>
<td>34.2</td>
<td>0.2</td>
<td>2.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>-69.0</td>
<td>0.0</td>
<td>-7.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Maximum</td>
<td>9.0</td>
<td>3.0</td>
<td>5.0</td>
<td>1.0</td>
<td>96.0</td>
<td>1.0</td>
<td>4.0</td>
<td>1.0</td>
</tr>
<tr>
<td>VIF</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Variables</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Fx_reserves_dec</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. M&amp;A_csoes</td>
<td>-0.16</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. World_manuf_VA</td>
<td>-0.32</td>
<td>0.11</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. GDP_growth</td>
<td><strong>-0.60</strong></td>
<td>0.19</td>
<td>0.16</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Inflation</td>
<td>-0.35</td>
<td>0.25</td>
<td>0.05</td>
<td>0.25</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>14. IFDI</td>
<td>-0.26</td>
<td>0.40</td>
<td>-0.09</td>
<td>0.34</td>
<td><strong>0.65</strong></td>
<td>1.00</td>
</tr>
<tr>
<td>Mean</td>
<td>-134.9</td>
<td>0.8</td>
<td>1.0</td>
<td>9.0</td>
<td>1.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>252.6</td>
<td>6.2</td>
<td>0.7</td>
<td>2.0</td>
<td>1.6</td>
<td>8.4</td>
</tr>
<tr>
<td>Minimum</td>
<td>-510.0</td>
<td>-10.0</td>
<td>0.0</td>
<td>6.6</td>
<td>-1.0</td>
<td>-14.2</td>
</tr>
<tr>
<td>Maximum</td>
<td>513.0</td>
<td>13.0</td>
<td>3.0</td>
<td>14.2</td>
<td>4.8</td>
<td>24.8</td>
</tr>
<tr>
<td>VIF</td>
<td>8.0</td>
<td>2.8</td>
<td>1.9</td>
<td>3.1</td>
<td>4.7</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Note: N = 21; two-tailed tests; absolute values greater than 0.43 (in bold) are statistically significant at the level of p ≤ 0.05 in the pairwise correlation matrix.
Below, in Table 3.8, the results of my regression are presented. In Model 1, I test my first hypothesis, focusing on shocks leading to more than an average annual increase in Chinese cross-border M&A and its effect on the announcement of home country OFDI restricting policies. Model 2 tests hypothesis 2, with a continuous increase of China’s cross-border M&A and its effect on OFDI policies' announcement. Model 3 then analyses the situations where China’s industrial upgrading reveals shocks that lead to more than average-sized lags in catching up with high-income countries and its effect of OFDI supportive policy announcements (hypothesis 3). Model 4 follows a similar approach, however, focusing on the continuous effect of the lagging of China’s industry behind high-income countries industrial development and the announcement of OFDI supportive policies, thereby not distinguishing between shocks and non-shocks (hypothesis 4). Model 5 considers shocks leading to more than average drops in China’s foreign exchange rate reserves and the effect on the announcement of OFDI restrictive policies (hypothesis 5). Finally, in Model 6, I test my sixth hypothesis, where the same relationship as in Model 5 is analyzed, but analyzing the decline in foreign exchange reserve, it is not distinguished between shocks and non-shocks.
In addition to my core analysis presented in Table 3.8, with the count of cross-border M&A as the micro-economic variable, in a preliminary regression, I used OFDI flows instead. As both results do not differ vastly, I focus on cross-border M&A projects in the central part of the text and include the results considering OFDI flows in Appendix 2.

Model 1 reveals a significant and positive coefficient estimate (IRR $5.437$, $p = 0.097$) of shocks that lead to more than annual average increases in Chinese cross-border M&A ($M&A_{\text{shock}}$). Such shocks occurred in the years 2014, 2015, and 2016, where Chinese cross-border M&As increased by 40, 62, and 95 projects,
respectively (see Figure 3.4). The average annual increase in Chinese cross-border M&A deals between 1999 and 2019 has only been 24 projects. The result in Model 1 shows that a firm-level shock leads to an increase in the announcement of home country OFDI restrictive policies by 444 % more than a non-shock while holding all other variables constant. With my positive and significant result for the continuous cross-border M&As ($M&A$; IRR 1.009, $p = 0.039$), I show in Model 2 that each additional cross-border M&A project leads to 0.9 % more announcements of OFDI policies. For the cross-border M&As of central SOEs, I find significant but contradicting results (IRR 0.980, $p = 0.053$), revealing that with each additional cross-border M&A project, the announcement of OFDI policies decreases by 2 %.

In Model 3, my coefficient of a negative shock ($MHXsh\_shock$), i.e., a more than average increase in the gap between China’s industrial upgrading as compared to high-income countries, is positive and highly significant (IRR 1.970, $p = 0.000$). This finding indicates that compared to a non-shock situation of lagging behind high-income countries, the announcement of OFDI supportive policies increases by 97 %. Furthermore, with each additional cross-border M&A project, the announcement of OFDI supportive policies increases by 0.8 %, as shown with the highly significant and positive result (IRR 1.008, $p = 0.001$). In Model 4, I find an insignificant result for my coefficient estimate of continuous industrial upgrading comparison between China and high-income countries ($MHXsh$; IRR 0.967, $p = 0.755$). Moreover, the result shows that with each additional unit lagging behind the high-income countries' annual change in industrial upgrading, China’s OFDI policymakers decrease the announcement of OFDI supportive policies by 3.26 %. However, as in Model 3, I also find in Model 4 that with each additional cross-border M&A project, the announcement of OFDI supportive policies increases by 0.9 %, as shown with the highly significant and positive result (IRR 1.009, $p =
The coefficient estimate in Model 5 of a negative shock in China’s foreign exchange reserve ($Fx_{reserves\_shock}$) is strongly positive and highly significant (IRR 5.469, $p = 0.001$). This reveals that compared to a non-shock, the announcement of OFDI restrictive policies increases by 447%. The annual change in China’s inflation rate is significant and positive ($Inflation$; IRR 1.368, $p = 0.019$), and the annual change in inward FDI flows significant and of decreasing character ($IFDI$; IRR 0.946, $p = 0.022$). With each additional unit of inward FDI, the announcement of OFDI restrictive policies decreases by 5.44%. In Model 6, the coefficient of a negative change in foreign exchange reserves ($Fx_{reserves\_dec}$) is positive but insignificant (IRR 1.001, $p = 0.336$). This result shows that with each additional unit, the announcement of OFDI restrictive policies increases by 0.1%. In line with Model 5, also in Model 6, the annual change in China’s inflation rate is significant and positive ($Inflation$; IRR 1.567, $p = 0.033$), and the annual change in inward FDI flows significant and of decreasing character ($IFDI$; IRR 0.930, $p = 0.083$). Thus, with each additional inward FDI unit, the announcement of OFDI restrictive policies decreases by 7%.
Table 3.9: Summary of results (Essay 2)

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Expected sign</th>
<th>Result</th>
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<tr>
<td>Hypothesis 1: A more than average increase (shock) in cross-border M&amp;As leads to the announcement of more OFDI restrictive policies than a non-shock increase in cross-border M&amp;As.</td>
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<td>(+), significant</td>
</tr>
<tr>
<td>Hypothesis 2: Increasing cross-border M&amp;As are positively associated with OFDI policymaking.</td>
<td>(+)</td>
<td>(+), significant</td>
</tr>
<tr>
<td>Hypothesis 3: A more than average increase (shock) in the gap between China’s industrial upgrading as compared to high-income countries industrial development leads to more announcements of OFDI supporting policies than a non-shock increase.</td>
<td>(+)</td>
<td>(+), significant</td>
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<td>Hypothesis 4: The lag in China’s industrial upgrading behind the high-income countries is positively associated with OFDI supportive policymaking.</td>
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<td>(-), insignificant</td>
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<td>Hypothesis 5: A more than average decrease (shock) in China’s foreign exchange reserves leads to the announcement of more OFDI restrictive policies than a non-shock decrease.</td>
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<td>Hypothesis 6: Declining Chinese foreign exchange reserves are positively associated with OFDI restrictive policymaking.</td>
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3.3.6. Discussion, Limitations, and Future Research

Discussion

In this Essay, I study the relationship between China’s OFDI policymakers and, firstly, the internationalization of its MNEs, secondly, the home country's industrial upgrading, and, thirdly, its macroeconomic stability. Distinguishing between incremental annual changes and shocks resulting in larger than average annual changes on all of these three ex-policy levels, I find that shocks influence the announcement of OFDI policies in the home country on the firm, industrial, and macroeconomic levels to a stronger extent. In contrast, the effect of a continuous change on policymaking can only be confirmed at the firm-level. Comparing the
results of the different types of change, the effect of shocks is much larger on policymakers than a non-shock change.

With my study, I contribute to the IB and political literature by expanding and enhancing extant research on the firm-government relationship and policymaking in the context of China (Dahan, Doh, & Guay, 2006; G. Deng & Kennedy, 2010; He & Tian, 2008; Tian & Deng, 2007). Where current research focuses mainly on CPA through different channels of direct lobbying (e.g., Banerjee, Venaik, & Brewer, 2018; Cui et al., 2018; Lord, 2000; Patnaik, 2019) and the direct policy feedback given by (state-owned) companies (Kennedy, 2005, pp. 74–75; Yan et al., 2018), I contribute by adding an indirect perspective to the firm-government relationship. My findings show that the feedback effect of OFDI on home country policymakers plays an essential role in China’s guided economic system. With a higher than average annual increase of cross-border M&A projects, home country policymakers might feel that with a large-scale capital flight abroad, not only the macroeconomic stability (e.g., Buckley et al., 2010) and long-term economic development – one of the policymaking’s essential aims (e.g., Sauvant & Chen, 2014) – is at risk, but also managers of firms might shift abroad private capital that they illegally earned (Heilmann & Stepan, 2017). Thus, as my results indicate, increases larger than the average annual increase in M&A projects lead to announcements of more OFDI restrictive policies. Sufficient policy examples confirm that the feedback effect considering Chinese OFDI policies should not be seen as a mere econometric result but as an essential element of China’s policymaking process (e.g., the Catalogue of Industrial-oriented Products for Foreign Investment Countries (II) of MOFCOM & MOFA published in 2005 or the State Council’s Announcement on Further Directing and Regulating the Direction
of Overseas Investments announced in 2017). For instance, China’s policymakers reacted to the OFDI spree of three large corporations, HNA Group, Fosun International, and Dalian Wanda, by re-adjusting its OFDI policies (e.g., Bloomberg News, 2019; Goh, 2017; Jia et al., 2017). In this specific case, cross-border investments in selected host industries were restricted to the extent that they need to go through a pre-investment approval process of the NDRC (e.g., as listed in the NDRC’s 2018 List of Sensitive Sectors for Outbound Investment).

Concerning the critical companies of China’s economy, its CSOEs (Song, 2018), I find that with an increase in M&A projects abroad, the number of OFDI policy announcements decreases. This, I find, might be explained by their strong state affiliation (J. Li, Meyer, et al., 2018) and their operation as an economic policy tool themselves (M. H. Li et al., 2014). It also reflects the influential role of CSOEs in their home country and their power to intervene in the policymakers’ decision-making process (Sauvant et al., 2010). I argue that CSOEs’ feedback loop to home country policymakers might be on a direct, political level instead of through a channel of firm behavior observation and policy reaction.

I furthermore add to IB research on home country OFDI policies by empirically confirming the argument of Luo, Xue and Han (2010) and others (Sauvant & Chen, 2014; Voss, Buckley, & Cross, 2009) that with developments of the home economy and firm internationalization, home country OFDI policies are amended or new ones implemented. My results show that to keep control of the changes in the OFDI environment, the Chinese government reactively amends its policy framework following the evolution in cross-border M&As.

I contribute to IB research by theoretically introducing and empirically testing the incrementalism and non-incrementalism approaches of policy change to the IB
context. I do this, by distinguishing between incremental and large-scale (shock) changes in the firm-, industry-, and macroeconomic environment and its influence on the announcement of OFDI policies. Implementing policy change theoretically to IB research might help scholars who focus on policy change, as it allows to distinguish between the size of change (Baumgartner & Jones, 2002; Hall, 1989; Jackson & Deeg, 2008). With my results showing that the size of change matters for the governments’ decision-making, distinguishing between annual changes that are smaller than the average change in the economic environment and those that are larger than the average might be essential for creating relevant insights.

I also add value to the literature on China’s economic development and centrally driven policymaking (e.g., Garnaut, Song, & Fang, 2018). While the literature highlights that industrial policies steer market players (Hofman, 2018; Naughton, 2015), I find that when China’s industrial catch-up process realized a negative shock, i.e., the annual change in its distance to high-income countries industrial progress is larger than the average change in distance, its policymakers react by announcing supportive internationalization policies to close this gap. For example, in 2015, the Chinese State Council implemented a wide-covering industrial policy - Made in China 2025, highlighting the aim of using OFDI as a tool (Gammeltoft et al., 2010; Morck et al., 2008) for catching up and eventually overtaking developed countries.

Moreover, I contribute to the literature on the relationship between China’s strong economic dependence on the stability of its macroeconomic indicators (e.g., Setser, 2019) and OFDI policies. My results show that to counteract further large drops in its foreign exchange reserves, China’s home country policymakers react with an increase in the announcement of OFDI restrictive policies. This finding confirms
the argument made by Buckley et al. (2010) on developing countries or Cui and Jiang (2012), that centrally controlled countries largely depend upon foreign exchange reserves. The effect of a shock resulting in a more than average decrease in foreign exchange reserves seems to reflect the Chinese government's sensibility on this macroeconomic dependence. With a devaluing exchange rate, the Chinese government sells foreign exchange reserves to keep the CNY exchange rate and the basket of foreign currencies in its fixed range (SAFE, 2020; Setser, 2019). My findings on the control variables of inward FDI and inflation additionally contribute to the argument of China’s dependence on stable macroeconomic indicators for its economic development.

Limitations and Future Research

Of course, this type of research comes not without its limitations. Firstly, I was only able to cover a relatively short period of 21 years, limiting my ability to study longer-term changes. Additionally, I defined a shock as more extensive than the mean of the respective independent variable (e.g., Delios et al., 2008; Han et al., 2010; Hu et al., 2019), which makes a direct comparison between the effects of the individual independent variables difficult. Standardizing the independent variable was not an option, as I am interested in the effect's direction. Finally, as my aim with this Essay was to study the external perturbations that determine OFDI policy change on a broader level, I included a period covering a wide scope of OFDI related government publications. Hence, I was not able to study policy dynamics as understood by Hall (1993), as this would have required me to segment and follow each document’s subparts (means, ends, policy outputs), which would have exceeded the scope of this Essay. However, I see the great potential for research on policy-path dependence in the IB context. Furthermore, I see the opportunity to
study how external evolution influence China’s OFDI policies differently, leading to policy shock or small policy change as an outcome.

3.3.7. Concluding Note

My Essay provides insights on how evolution on the firm-, industry-, and macroeconomic levels influence OFDI policymaking in the home country. While I study this effect focusing on China, its results might be generalized to other developing economies that intervene in the internationalization of their firms, such as Brazil (Caseiro & Masiero, 2014), India, or Morocco (Sauvant et al., 2014). Furthermore, developing countries often share similar characteristics, such as a fixed exchange rate system (UNCTAD, 2006) or common development aims, e.g., to catch up in their industrial upgrading to industrialized countries (Ozawa, 2014).

Studying the role of economic developments for home country policymaking, I hope to have answered a few questions, but even more so, to have opened a research path for IB scholars, which helps us understand reactive policymaking considering the evolution in cross-border firm activities more clearly. In addition, I believe that my findings are also of interest for policymakers, as they shed light on different types of economic determinants triggering reactive policymaking, and for managers, as I provide insights into the policy reactions that changes in firm-behavior can provoke.
3.3.8. Appendix

Appendix 1: Poisson Models with standard coefficients; M&A

<table>
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<tr>
<th>Variables/Hypotheses</th>
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Note: *, **, *** mean significant at, respectively, 10 %, 5 %, 1 % level; Newey–West standard errors are in parenthesis.
**Appendix 2: Poisson Models with IRR; OFDI**

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<th>Variables/ Hypotheses</th>
<th>H1</th>
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</table>

Note: *, **, *** mean significant at, respectively, 10 %, 5 %, 1 % level; Newey–West standard errors are in parentheses; OFDIflow: Annual change in China’s OFDI flows (USD, billion); OFDIflow_shock: Annual increase in China’s OFDI flow larger than its average increase = 1 (shock), otherwise 0.

3.4.1. Introduction

The home country policy environment of EMNEs is a complex and dynamic mix of policy goals and policy instruments, resulting from the government’s attempt to stay ahead of ever increasing and comprehensive structural changes in EM economies. Having to react with a continuous policy-learning process (Utesch-Xiong, 2021c), EM governments often sway between pro- and reactive policymaking (Holtbrügge & Berning, 2018). This elevates levels of environmental complexity and dynamism that interfere with a firm’s ability to scan the environment for resources and create dynamic capabilities (Fainshmidt, Wenger, Pezeshkan, & Mallon, 2019; van Uden, Vermeulen, & Knoben, 2019).

Despite IB research acknowledging this “dynamic, non-linear and multi-directional” home country policy system (Chan & Pattnaik, 2021, p. 10), we currently lack concepts to capture the complexity and dynamism of the policy environment systematically. The existing literature on the influence of home country policies on firm internationalization in the EM context often follows an institutional perspective, such as new institutional economics (Chan & Pattnaik, 2021; F. Li & Ding, 2017) or the institutional work lens (Yan et al., 2018), defining them as formal institutions (Buckley et al., 2007; T. Yin, De Propris, & Jabbour, 2021). However, this means that these studies tend to reduce policies in their complexity, seeing them as stable resources or constraints, because institutions maintain rather than change behavior (L. J. Clegg, 2019).
Further exacerbating this issue, most studies of EM policy environments use historical perspectives to study the evolution of policies (e.g., Luo et al., 2010; Sauvant & Chen, 2014). Alternatively, researchers often calculate broad average sums to measure the sentiment (supportive or restrictive) of the policy environment (T. Yin et al., 2021). Yet, this coarse understanding of the policy environment puts limitations on detecting the sources of complexity and dynamism in changing configurations of individual policy goals and instruments.

In this article, we aim to provide a first step to address these research problems by conceptually unpacking the home country policy environment. We develop a set of concepts that go beyond the analysis of policies as resources or constraints by connecting insights from the policy literature with a framework of the organizational task environment that separates resource munificence, complexity, and dynamism (Dess & Beard, 1984). This allows us to systematically study the complexity and dynamism in firm internationalization policy on a policy goal and policy instrument level.

We illustrate the relevance of our theoretical concepts in an empirical analysis of internationalization policy in the People’s Republic of China. The Chinese government has published at least 117 OFDI policies with 139 policy instruments between 1979 to 2019. This high level of policy change (OECD, 2019a), alongside a steep increase in OFDI with diverse firm-level characteristics, provides a particularly suitable context to analyze the internationalization policy task environment of EM firms. Our analysis begins with a description of changes in the policy environment and a typology of policy instruments, which is subsequently used to explore the complexity of policy instruments. In addition, we track the coherence in the sentiment of policies, as well as the density of policy changes.
Our results show that the policy goal coherence increased from 2001 onwards, becoming more coherently OFDI supportive, and, thus, making the policy environment seem to be less complex from a policy resource perspective grounded in the institution-based view. However, we also find that the level of policy instrument complexity and policy dynamism increased drastically within the same period. This supports our call to shift in research from an institution-based view to a policy-based view when studying internationalization policy environments.

Based upon our findings, we have developed three propositions as guideposts for future research on the learning processes of EM firms and EM policymakers considering the dynamism and complexity associated with the evolution of the policy environment.

In addition to giving a unique insight into Chinese OFDI policy developments on the level of policy goals and instruments, we contribute to the methodological development of studying FDI policies by utilizing a combination of CATA and human coding of policies to operationalize our complexity and dynamism measures in quantitative terms. CATA is not yet established in the IB context, but was argued to have great potential to aid the validity and reliability of text-based research (Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Reuber, 2016; Gaur & Kumar, 2018). We leverage the method to validate our policy instrument categories and to explore the coherence of policy goals.

This article is structured as follows. Part 2 develops our theoretical concept for studying dynamism and complexity in the policy task environment. Thereafter, we describe our dataset and method to operationalize the framework. Part 4 presents our empirical results from using CATA and human coding of policies. We discuss
our findings and derive three propositions in Section 5. Finally, we Section 6 concludes and presents the managerial implications of our article.

3.4.2. Conceptual Framework

The EM internationalization policy literature is expanding, but is still in its infancy. This observation is particularly true for studies that take a home country perspective (see, for instance, V. Z. Chen et al., 2016; Gao Yan, 2021; Luo et al., 2010). The field can be separated into two main research approaches. In the established approach, scholars have explored the structure and history of EM policy environments to better understand their role in internationalization activities (Buckley, Clegg, et al., 2008). More recently, scholars have also begun to test the effect of the home country policy environment on internationalization behavior both in a developed and developing market context (Miguel Matos Torres, Clegg, & Varum, 2016; T. Yin et al., 2021). These approaches are complementary in the sense that the former provides insights as to how to operationalize the policy environment, which then affects the direction of firm-level IB research.

In both fields there is a dominance of institutional approaches, most often based on North (1990) or Peng (2008), which causes researchers to apply the tools and concepts of institutional analysis. However, Clegg (2019) points out that institutions and policy change may need separate theoretical and conceptual treatment. On the one hand, he argues that institutions span a formal and informal layer (see also Dunning & Lundan, 2008a), but only the formal layer is flexible enough to be consciously altered by policy. On the other hand, his point is that institutions are maintaining behavior rather than changing it, whereas policy is designed to invoke change and does so frequently. Thus, the danger of applying institutional approaches is to falsely treat policies as static resources and constraints.
We would like to add another point to Clegg (2019) by arguing that institutions are generally accepted principles that apply in a similar way to all agents of the institutional field, which drives isomorphic pressure (DiMaggio & Powell, 1983). By contrast, public policy is used as a strategic tool that only sometimes alters the behavior of entire firm populations, but often focuses on specific types of firms or even individuals. This suggests that policy requires a more fine-grained analysis of how and to whom policy is applied.

To prevent an overly static and simplified view of the policy environment, we find it essential to connect firm-level theorizing with insights from the dedicated policy literature. In agreement with the seminal contribution of Hall (1993), Baumgartner (2013, p. 240) points to three generally accepted forms of policy change, namely “first-order change (routine adjustments to existing policies), second-order change (changes in the policy instruments used to achieve shared goals), and third-order change (shifts in the goals themselves)”. Hence, instead of exclusively focusing on policies as resources and constraints, the policy environment is further unraveled into policy instruments, policy goals and their dynamics in the form of routine adjustments or comprehensive shifts.

The policy instrument literature focuses on the tools applied by governments to reach policy goals and represents how policy is implemented to affect policy-takers (Capano & Howlett, 2020). Policy instruments are arranged in a complex policy mix so that a policy environment is characterized by a variety of parallel implementation mechanisms (Rogge & Reichardt, 2016). Moreover, the set of policy instruments and active policies is liable to frequent changes, which introduces additional questions about the dynamics of the policymaking process (Schmidt & Sewerin, 2019). The following Section will introduce the concept of
policy instruments in the context of EM internationalization policy, which will serve as a basis to introduce the sources and consequences of *complexity* and *dynamism* in policy environments.

**Policy instruments and internationalization theory**

The term policy instrument has already made its inroads into the internationalization policy literature, but the concept is used in a rather ad-hoc and inconsistent manner. For instance, Yin et al. (2021) separate between regulatory and incentivizing instruments, arguing for a strict separation between supporting and constraining policy from the viewpoint of the institution-based view. Gorynia et al. (2015) distinguish financial and non-financial instruments as well as OFDI-related and non-OFDI related policies based on a discussion of IB theory. Others have introduced more detailed categories that aim to separate individual implementation tools (B. Ren, Liang, & Zheng, 2012). None of the studies offers both a theoretical and empirical justification of their policy instrument categories. Based on the assumption that policy is a rational attempt to shape a policy-taker’s behavior, we argue that a basic policy instrument typology would have to follow the main types of problems that policymakers face in the EM internationalization context. We have identified three policy problems, namely market failures, organizational failures, and strategic management, that we will introduce in more detail.

In the earlier IB literature, market failure was argued to be a consequence of government policy, e.g., in terms of taxation or insufficient property protection (Brewer, 1993). Market failures are inefficiencies that arise from the interaction of firms in the market. If these inefficiencies exist in a cross-border market, firms have an incentive to internalize the inefficient transaction, enabling foreign direct
investment to become a more cost-efficient alternative to trade (Buckley & Casson, 1976; Dunning & Lundan, 2008b). However, policies can also fix existing market failures such as when institutional factors lead to capital misallocation or underperformance in internationalization activity (Acs, Morck, Shaver, & Yeung, 1997).

This issue is pertinent in EMs, where resource bottlenecks are ubiquitous, and institutional voids exacerbate these conditions, triggering policy intervention to support local firms in gaining international competitiveness (Gao, Murray, Kotabe, & Lu, 2010; Palepu & Khana, 1998). In line with this, studies have reported that the fixing of institutional voids supports outward internationalization (Estrin, Meyer, Nielsen, & Nielsen, 2016; F. Li & Ding, 2017; Ma, Ding, & Yuan, 2016). Policies that address market failures must change the way in which firms interact in the market and, thus, can be viewed as changes in an institutional field. For this reason, such policies are also referred to as “watering-can” policies to highlight their undifferentiated effect on a population of firms (Calabrese & Manello, 2018).

However, we know that EM policymaking goes well beyond watering-can policies, as successful governments have actively supported the creation of new markets with targeted policy programs (Rodrik, 2005). The development of a market for cross-border trade and investment requires the encouragement of specific firms that are not yet active in this market, e.g., because of a lack of firm-specific resources (Bannò & Piscitello, 2010). Firm-specific resource bottlenecks can be related to information asymmetry, path-dependency, networks, and international experience (Chandra & Wilkinson, 2017; Johanson & Vahlne, 1977, 2009). These issues are not connected to market failures, i.e., inefficiencies arising from the interaction of firms, but to organizational failures, i.e., bottlenecks or distortions on the level of
managerial teams (Lundan, 2018; Penrose, 1959). Watering-can policies are too broad to consider the heterogeneity of organizational failure, which is why EM governments engage in activities such as network building, information campaigns, and administrative support that are more flexible and targeted than changes in laws or regulations.

Therefore, we think that a differentiation between targeted policy instruments and untargeted policy instruments captures one of the core dimensions of policy instruments in the internationalization context. The former dimension incorporates policies that address a specific group of firms. For example, in China, policy implementation often differs in relation to the varying degrees of state-ownership (Milhaupt & Zheng, 2015). Such policies must be learned and implemented by the firm in a different way than an untargeted policy such as a foreign exchange constraint. At least in theory, targeted policies may require more managerial effort to integrate as they are based on information absorption and active participation in programs. They are also more likely to skew the playing field and provide opportunities for specific firms, which may cause a change in the competitive landscape, triggering a rethinking of firm growth strategy that may further lead to managerial bottlenecks.

Besides having to address market and organizational failures, internationalization policy in EMs has turned towards the strategic management of global connectivity. For instance, it has often been argued that there is a political mission of the Chinese OFDI to allow faster technology catch-up in strategic industries (e.g., through the Made in China 2025 strategy). While these strategies are often long-term, their effective implementation requires significant and interactive adaptation to a changing context on both the public and private side. Accordingly, policy cannot
consist merely of financial top-down incentives that would override firm-level efficiency incentives and undermine governance agility (Miguel M. Torres & Clegg, 2014). Instead, governments depend on robust communication channels, soft power, and deliberation instruments to simultaneously learn from and affect the behavior of firms in a constantly changing global economy; a dynamic that recent literature has captured in the concept of coevolution (Chan & Pattnaik, 2021).

From the perspective of a policy instrument analysis, we would propose that strategic policies require a higher degree of non-financial instruments as opposed to financial instruments. This categorization has been frequently applied in internationalization policy analysis (Gorynia et al., 2015; M. Torres & Varum, 2012), and we see it as the second core policy instrument dimension. Financial policy instruments are defined as monetary incentives such as credits, loans, guarantees, repayable advances and similar subsidies of internationalization. Non-financial instruments are sometimes referred to as regulatory instruments, because they can be clearly separated from financial incentives (T. Yin et al., 2021). However, we argue that this term is associated with coercion, whereas non-financial instruments also assert their effects through normative and cognitive channels (Utesch-Xiong, 2021c), and this latter function is arguably more central to strategic policy than top-down constraints.

We propose a basic policy instrument typology (targeted, untargeted; financial, non-financial) that is derived from the three core issues of EM internationalization policy, namely market failures (and institutional voids), organizational failures, and strategic policy. The simultaneity of these issues implies that the policy environment consists of a configuration of policy instruments at any given point in
time (Flanagan, Uyarra, & Laranja, 2011). Thus, firms are faced with a changing and complex policy task environment that requires continuous learning efforts.

**Complexity and dynamism of the policy task environment**

The policy instrument mix view suggests complex and dynamic policy environments, which leads us to two claims from the firm-level perspective. Firstly, and as argued by Levitt and March (1988), firms learn from experience, but environmental dynamics will require continuous learning processes with varying intensity. Furthermore we would claim that the complexity of policy environments requires dedicated sensing and seizing capabilities (Fainshmidt et al., 2019) to identify and benefit from policy measures. This suggests the importance of non-market dynamic capabilities to navigate the policy environment both efficiently and effectively (Lundan & Li, 2019).

These points resonate with organization theory in which varying degrees of munificence (resource availability), complexity and dynamism influence the ability to learn, utilize external resources, and generate dynamic capabilities (Dess & Beard, 1984; Fainshmidt et al., 2019). While the institutional approach to EM policy focuses on the resource munificence of the policy task environment (Hobdari, Gammeltoft, Li, & Meyer, 2017), the dynamism and complexity of the policy task environment is currently underdeveloped.

This raises the question of how environmental conditions affect the capability and capacity of firms to utilize home country internationalization policy resources. Evidence suggests that awareness (Miguel Matos Torres et al., 2016) and utilization costs (Bannò & Sgobbi, 2010) – effectively costs of learning to sense and seize policy resources in the policy task environment – affect the policy uptake of firms in the internationalization context, but research has yet to determine what
environmental factors are responsible for this. Only the literature on market
dynamism and complexity provides some tentative evidence that these factors can
negatively affect the development of sensing capabilities in EM environments (van
Uden et al., 2019), which might point to a similar connection in the policy area.
However, in theory, moderate levels of dynamism and complexity might have
positive effects on long-term capability development, e.g., due to more
opportunities for learning and interaction in the non-market domain (Lundan & Li,
2019).

We argue that these issues remain underexplored because the conceptualization of
the policy environment through institutional theory does not provide a complete
understanding of the complexities and dynamics at play. By contrast, the policy mix
literature captures the complexity and dynamism of policy environments in
dedicated concepts such as policy goal coherence, policy instrument diversity and
policy change density (Howlett & Goetz, 2014; Kern, Kivimaa, & Martiskainen,
2017).

The policy goal coherence of a policy mix is understood as the degree to which
policy goals are complementary and mutually reenforcing or conflicting (Rogge &
Reichardt, 2016). Due to the complexity of the policymaking process, it is possible
that two independent agencies or ministries would propose policy packages with
contradicting goals. This is problematic as we have empirical evidence that firms
prefer stronger and credible policy signals that increase their confidence in
internationalization commitments (Banalieva, Cuervo-Cazurra, & Sarathy, 2018).
Extant studies often take a broad average sum of whether an internationalization
policy environment is incentivizing or restricting, thus, ignoring the potential
incoherence of the policy mix as an independent variable (T. Yin et al., 2021).
However, such incoherence may drive the complexity of the task environment, reducing the capacity to leverage policy resources.

But even if the policy environment is perfectly coherent, there is another source of complexity in the *policy instrument diversity* at a given point in time (Capano & Howlett, 2020; Schmidt & Sewerin, 2019). EM research shows that the diversity of the non-market environment can provide both learning opportunities as well as information costs for firms (Santangelo & Meyer, 2011; Wu & Park, 2019). We currently lack knowledge about how the diversity of policy implementation affects firm internationalization. However, Torres et al. (2016) argue that a lack of policy uptake might be due to a lack of policy awareness, which could be exacerbated when policy implementation is diverse, requiring significant managerial resources. Therefore, it seems vital to explore the instrument mix complexity as both a source of learning as well as a constraint to policy uptake.

Finally, the policy literature has discussed the dynamism of policy change by measuring the *policy change density*, i.e., the changing density of new policies being introduced each year (Schaffrin, Sewerin, & Seubert, 2015). This complements studies of institutional change in EMs that focus on the dynamics of change (Banalieva, Tihanyi, Devinney, & Pedersen, 2015). Studies of institutional dynamism are concerned with changes in laws and regulations, i.e., water-can policies, but the actual environmental dynamism is likely to be greater when adopting a policy-level view. In line with evidence that quickly changing task environments can have negative effects on capability utilization and learning (Santangelo & Meyer, 2011; van Uden et al., 2019), we argue that policy change density is a critical addition to represent the firm’s policy task environment.
Table 3.10: Policy perspectives (Essay 3)

<table>
<thead>
<tr>
<th>Policy as a resource or constraint</th>
<th>Policy instrument mix</th>
<th>Policy task environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Policy complementarity</td>
<td>Policy resources (munificence)</td>
</tr>
<tr>
<td></td>
<td>Policy goal configurations (supporting/restricting)</td>
<td>Policy goal coherence (complexity)</td>
</tr>
<tr>
<td>Policy as an implementation mechanism (instrument)</td>
<td>Policy instrument mix</td>
<td>Policy instrument diversity (complexity)</td>
</tr>
<tr>
<td>Policy as a dynamic process</td>
<td>Policy configuration dynamics</td>
<td>Policy change density (dynamism)</td>
</tr>
</tbody>
</table>

We do not claim our framework to be an exhaustive conceptualization of the policy task environment, especially in terms of dynamism for which we have focused on only one of many procedural characteristics (Banalieva et al., 2015). Table 3.10 gives an overview of the different perspectives of policy analysis and how we translated the policy mix approach to the munificence, complexity, and dynamism framework of the policy task environment. In the following, we shall provide some empirical justification and validation for our complexity and dynamism concepts in the context of Chinese OFDI policy.

3.4.3. Data and Method

Our analysis concentrates on the operationalization and validation of our theoretical concepts to provide methodological insights for future research. This Section will first explain our process of compiling a policy dataset and then outline the steps of our analysis, including the operationalization through manual coding and the use of CATA.
**Dataset**

We searched for Chinese OFDI policies announced between the start of the opening-up and reform period in 1979 and 2019. To develop our dataset, we followed a snowball sampling approach (Krippendorff, 2004, pp. 117–118). We started with screening the websites of China’s government departments and ministries, then continued with the database on legal documents of Peking University (Chinalawinfo, 2020), and drew from the extant literature on Chinese OFDI policies (e.g., Buckley, Cross, et al., 2008; Luo et al., 2010; B. Wang & Gao, 2018). We triangulated these findings with the reports of the OECD on investment policy changes (OECD, 2019a) and websites of other public organizations. Our raw data contained 188 Chinese OFDI policies, covering the period of 1979-2019 (Utesch-Xiong, 2021b).

We performed several steps to improve the quality of our data. Firstly, we read through all policies for which English translations were available. As we are competent but not native Chinese speakers, we consulted a native speaker for support when an English version was unavailable (c.f., Cuervo-Cazurra et al., 2016). Policies for which we found no documents were excluded (9 policies). The policies were then categorized according to the issuing authority, the reason for the policy announcement, the aim of each policy, the policy instrument, the potential policy effect on OFDI (supportive, restrictive, or neutral), and the policy specifications.

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15 We define policies in the human coded analysis as either OFDI supportive or restrictive, if the documents’ contexts lead clearly to making the OFDI process easier or harder for internationalizing firms. In other cases, where policies introduce changes to the OFDI process, but where, these changes seem to not clearly affect the internationalization of firms positively or negatively, we defined these policies as being of the neutral type.
We then excluded those policies from the dataset where OFDI is not the core focus (21 policies), including China’s National Five-Year Plans and industrial policies (e.g., Made in China 2025). Although these documents have sections of relevance for OFDI, they cover many other economic areas to a more considerable extent. Also, we excluded (18) announcements that only introduced changes to FDI statistics and documents that list discontinued OFDI policies.

Finally, we distinguished between core and subordinate OFDI policies and excluded the latter (23 policies). Subordinate OFDI policies were mainly announced to support the implementation of core policies without changing them. An example is the Notice on the Joint Annual Inspection and Comprehensive Performance Evaluation of Overseas Investments in 2003 enacted by MOFCOM and SAFE, which explains the process of submitting annual inspection reports that were introduced in the Interim Measures for the Joint Annual Inspection of Overseas Investments published in October 2002. Our final dataset contains 117 OFDI policies.

**Method and operationalization**

In the following, we complement the manual coding of data with automatic coding and exploratory analysis performed with CATA (Gaur & Kumar, 2018; Krippendorff, 2004, p. 257; Ostergard, 2000). Conducting quantitative analyses of text documents has gained popularity with scholars in IB and policy studies as CATA tools became more available (Cuervo-Cazurra et al., 2016; Gaur & Kumar, 2018; Kaplan, 2016; Nowlin, 2016). This method provides the advantage of analyzing and categorizing policies with a higher degree of objectivity than manual approaches due to the ability to track patterns in text that often go beyond the boundaries of human perception (Gaur & Kumar, 2018; Ostergard, 2000). This is
specifically so for text patterns that are difficult to detect manually, e.g., due to the length of documents, complexity of content, and the arising difficulty of applying standardized judgments to operationalize theoretical concepts (Neuendorf, 2017, p. 21).

The output of CATA analyses is characterized by a set of visualizations, which reflect the investigated patterns of text. However, to be able to put the CATA findings into context it needs to be complemented by the qualitative judgement of the researcher (Grimmer & Stewart, 2013; Neuendorf, 2017, p. 66). We employ the KH Coder software, version 3b03 (Higuchi, 2020a), a widely used CATA software across academic disciplines (Higuchi, 2020b). For a more detailed description of our coding schemes and the preparation of the dictionary, see Appendix 1.

Our analysis is structured in three parts. Firstly, we give an overview of the Chinese OFDI policy environment in terms of the content of policies. Furthermore, we illustrate and validate our policy instrument categories from Section 2.1 with the help of CATA. We then go on to present a discussion of changes in the policy environment complexity regarding policy goals and policy instruments. To conclude, we discuss the changes in the dynamism of the policy environment as captured in policy change density.

Policy environment complexity measure

We define policy complexity as the diversity and ambiguity of options and choices regarding policy on the firm level. This led us to two main complexity dimensions, the first of which is policy goal coherence. We argued that a policy mix lens suggests that policy goals may not always be entirely consistent in their direction of either supporting or constraining internationalization. As a proxy of the complexity of the policy task environment, we use CATA and measure the policy
goal coherence as the share of sentences including supportive or restrictive keywords in policies. With this approach, we cover the coherence between policies and within policies (more information in Appendix 1), giving us an understanding of the prevalence of mixed signals in the communication of policies as a proxy of policy environment complexity.

The second proxy of policy environment complexity is policy instrument diversity. After manually assigning our core instrument typology to the raw data and validating it with the help of CATA (see Section 4.1), we have calculated the number of fine-grained instruments in use for a given year as well as the number of instrument categories. Taken together, these two indicators represent a simple way of capturing the complexity of the instrument mix, where higher values in both dimensions express a higher number of instruments and instrument categories utilized. There are more intricate ways of assessing this complexity through diversity measures (Schmidt & Sewerin, 2019), but these suffer from the fact that we deal with only a small number of categories. Nevertheless, we also calculate a diversity measure for the balance of the OFDI policy instrument mix with the Gini-Simpson indicator developed by Hill (1973) and Simpson (1949), following Schmidt and Sewerin (2019):

\[
1 - \lambda = 1 - \sum_{\text{instrument type}_{m}=1}^{M} p_i^2
\]

\[
= 1 - \frac{\sum_{\text{instrument type}_{m}=1}^{M} (\text{instruments}_{m} * \text{instruments}_{m} - 1))}{\sum \text{instruments} * ((\sum \text{instruments})(-1))}
\]

In the equation of the so-called 1-Simpson Index (range 0 to 1), the number of policy instruments of type \( m \) is proxied by \( \text{instruments}_{m} \). The index reflects the probability that with a random pick of two policy instruments of the same year, they
are of the same instrument type. Thus, where a high Gini-Simpson indicator (closer to 1) shows a balance between the use of policy instruments, a low indicator (closer to 0) represents an unbalance (Schmidt & Sewerin, 2019).

**Policy environment dynamism measure**

Dynamism is defined as the stability and procedural characteristics of the policy environment. Thus, we are not interested in the direction of change but in the characteristics of the process of change. Our measure of policy change density simply reflects the first difference of the number of policies enacted in each given year. This measure indicates either a quickening (higher values) or slowing (lower values) pace of reforms.

### 3.4.4. Results

**The Chinese OFDI Policy Environment**

OFDI policies are embedded in a multi-layer policy system of their home government comprising macroeconomic, industrial, firm, and population-level policies. Policies of the individual levels are designed and implemented to reach the overarching national-level aims of the government.

To study the reflection of macro-level political aims in the context of China’s OFDI policies, we perform a co-occurrence or so-called word association analysis covering 117 Chinese OFDI policy texts (see Figure 3.10). In China’s OFDI policies, macro-level political aims are reflected through a wide range of topical

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16 Focusing on the main topics of the policies, we only consider nouns and merely those which appear across all policy documents at least 28 times (top 10% term frequencies). We conducted the same analysis with lower thresholds, however, we found that this does not increase the significance of the analysis. Also, for reasons of clarity and readability, we further limit the display of word associations in our co-occurrence analysis (Figure 3.10) to the 50 strongest Jaccard coefficients (edges) – a measure of similarity (Higuchi, 2016, pp. 42; 47). As a level of analysis, the sentence level is chosen, to ensure proper contextuality of word associations.
clusters. Chinese firms with the plan to or already investing abroad are faced with various economic and political aims of their home government that are embedded in OFDI policies in the form of instruments. For example, in 2016, Chinese government organizations found that critical industries equipped with high potential for economic development were still in the lowest position of the global value chain, and hence, it published guidance mechanisms for targeted industries supporting cross-border M&As and the set-up of overseas Research and Development centers. As the word association analysis covering Chinese OFDI policy texts shows, the topics for Chinese MNEs reach from special purpose vehicle structures of the MNE to global value chains, and further to profit repatriation and win-win investments. Depending on the level of policy coercion, firms might either freely choose to use these instruments or need to adapt them (see also Utesch-Xiong, 2021a).

*Figure 3.10: Co-occurrence analysis - China's OFDI policies (Essay 3)*

Note: The bubble size represents the word count across all of our 117 policy texts enunciated between 1979 and 2019. SPV = special-purpose vehicle, FX = foreign exchange, manuf = manufacturing.
With the topics comprising Chinese OFDI policies outlined, we shift our attention to policy instruments. We distinguish between four categories of policy instruments: untargeted, targeted, and financial and non-financial instruments (see Table 3.11).

Using human coding, we classified policy instruments as being targeted on specific groups of MNEs based on their ownership, (home/host) location, (home/host) industry, OFDI type, and key OFDI projects or whether they apply to all Chinese MNEs (untargeted). In a second step, we analyzed whether the instrument is financial (e.g., profit repatriation rule exemptions, funds covering investment costs, special loan conditions) or non-financial (e.g., examination and approval procedures, opinions of government agencies on OFDI, inspection of OFDI projects). With this approach, we can define policy instruments by our four categories and study the complexity of the home country OFDI policy instrument mix. In Table 3.11, we show examples of typical policy instruments for all four categories. Also, our listing is not exhaustive, we are of the opinion that the examples included reflect the typical policy instruments for each group.
Table 3.11: Chinese OFDI policy instrument categories (Essay 3)

<table>
<thead>
<tr>
<th>Targeted</th>
<th>Untargeted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>• Investment funds, e.g., covering pre-investment costs or support in setting up overseas industrial parks (5)</td>
<td>• Setting maximum levels of overseas profit repatriation (6)</td>
</tr>
<tr>
<td>• Credit support, incl. special interest and lending conditions (4)</td>
<td>• Profit shifting regulations (1)</td>
</tr>
<tr>
<td>• Exemptions from strict profit repatriation regulations (1)</td>
<td>• FX reserve limits for OFDI projects (2)</td>
</tr>
<tr>
<td>• Financial penalties for misbehaving firms in terms of their OFDI (2)</td>
<td>• Define how MNEs are allowed to acquire FX for their investments abroad (3)</td>
</tr>
<tr>
<td>• Proof of sufficiently available FX reserves (3)</td>
<td></td>
</tr>
<tr>
<td>• Financial management duties (1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Non-financial</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>• Approval &amp; registration procedures specific to ownership, (home/host) industries, OFDI type, location (18)</td>
<td>• General approval &amp; registration procedures, applicable to all firms (18)</td>
</tr>
<tr>
<td>• Official opinions on private-owned enterprises (POEs) internationalization and OFDI specifics of selected industries (6)</td>
<td>• FX examination procedures (5)</td>
</tr>
<tr>
<td>• Requiring firms to perform feasibility studies and formulate investment plans before investing abroad (7)</td>
<td>• OFDI project inspection (9)</td>
</tr>
<tr>
<td>• Reverse spillover requirements for OFDI projects (2)</td>
<td>• Official opinions and five-year plans on FDI outlining how future OFDI development shall look like (7)</td>
</tr>
<tr>
<td>• Employment of OFDI project consulting, risk evaluation, risk control services (1)</td>
<td>• Call for comments on the improvement of policies (2)</td>
</tr>
<tr>
<td>• Asset verification and clearance (1)</td>
<td>• Encouraging, restricting, prohibiting investments in a set of host-country groups/host-country industries (3)</td>
</tr>
<tr>
<td></td>
<td>• OFDI guidance on firm behavior (7)</td>
</tr>
</tbody>
</table>

Note: Count of policy instruments in parentheses. Some instruments might be part of targeted and untargeted policies.
Between 1979 and 2019, most of China’s OFDI policy instruments were non-financial and untargeted (62), followed by 48 of the non-financial and targeted group. Financial and targeted policy instruments were employed 17 times and financial and untargeted 12 times. Most policies instruments targeted at firm internationalization were examination and approval procedures of the government through which home country MNEs need to go before investing abroad. Overall, we found this non-financial policy instrument to be targeted at specific recipient groups 18 times, and to the same amount being part of watering-can policies. Moreover, as Table 3.1.1 shows, policy instruments granting direct financial support to MNEs internationalization projects are targeted in their policy recipient groups. This approach might only be used to support industry-level policies that already target a specific audience. In the same vein, we found that topics related to changes in national fiscal policies and China’s balance of payments (e.g., foreign exchange reserves) are mainly addressed through untargeted policy instruments.

To verify our human-coding approach on defining policy instrument categories, we performed a correspondence analysis on all 117 Chinese OFDI policies, employing our four policy instrument groupings with CATA and the KH Coder. Figure 3.11 shows that both targeted categories are distinct from the untargeted policy instrument categories, and also the two targeted categories are distinct from each other. The distinction between targeted and untargeted categories is due to targeted instruments being specific in their application on the ownership type and size of the firm. The distinction between the two targeted categories is due them being distinct

\[\text{For reasons of clarity and readability, we focused in the correspondence analysis on the top 10\% of nouns used across all 117 policy files (708 nouns), excluded the top 1\% of nouns as they are too broad and do not add context (e.g., China), and only highlighted the 50 strongest chi-square values.}\]
in their context. The context of both untargeted groups is less distinct, with both comprising of macro-financial related topics, such as foreign exchange. Thus, also the distance between the untargeted financial and non-financial groups is at a lower degree.

Figure 3.11: Correspondence analysis - policy instrument groups (Essay 3)

Complexity: Policy goals and instruments

Policy goal coherence

We are now prepared to study policy complexity on both policy goal and instrument level. We perform a CATA-based sentiment analysis to analyze the mix of signals in policy goals. Our results indicate that between 1979-2019 Chinese OFDI policies tended to become more OFDI supportive. However, the supportive sentiment becomes predominant only from 2000 onwards (see also Ge & Ding, 2008). During
the first 20 years of OFDI policymaking in China, a relatively evenly distributed share of restrictive and supportive policy goals sent mixed signals to MNE decision-makers. In comparison, a stronger policy goal coherence was achieved during the 2001-2019 period with the supportive sentiment reaching higher levels and the restrictive levels decreasing.

In addition to CATA, we also conducted a human-coded analysis on the policy goal signal mix (see Appendix 3, Appendix 4). However, we found that defining an individual policy as merely supportive, restrictive, or neutral towards the OFDI process of MNEs might be misleading, as different parts (e.g., instruments) of an individual policy might include distinct sentiments. Thus, while our human-coded analysis broadly confirms the sentiment findings of CATA from 2003 onwards, a period with more policies being published, this does not apply to earlier years. We argue that the difference between our CATA and human-coding results is due to the small-sample in the first half of China’s OFDI policymaking. Overall, we find the CATA results with the analysis on the sentence level of policies to be more reliable.

**Policy instruments and complexity**

The evolution of the policy instrument mix shown in Figure 3.12 reflects what the Chinese government did for four decades in terms of its OFDI policy instruments, and what the OECD (2019b, p. 94) suggests countries do: “policy mixes should be regularly revised to respond to changes in the national environment, in policy learning, and in broader global trends”. Along with China’s economy and the global political and economic landscape, the home country policy mix focusing on MNEs continuously evolved (see also Luo et al., 2010). Moreover, the lower part of Figure 3.12 shows the number of policy instruments on a yearly level and the policy instrument density change. The Figure shows that only a few policies have been
announced when OFDI was restricted until about 2000, with an average annual policy instrument implementation of 2.91 for 1979-2000 and an average of 5.94 for 2001-2019.

During the first 20 years of China’s OFDI history, the macro policy aim of the central government has been defined by reaching financial stability through tight monetary policy. This focus shifted from about 2001 onwards to achieve worldwide leading positions for selected industries by following industrial policies (e.g., Made in China 2025). We find this shift in macro policy to be reflected in the choice of OFDI policy instruments. Between 1979 and 2000, it has been mainly policy instruments of the financial and untargeted, as well as the non-financial and targeted type that have been made use of by the Chinese government. With foci, for example, on profit repatriation in the Regulations on Foreign Exchange Administration of Overseas Investment published by SAFE in 1989 and tight foreign exchange reserve regulations (e.g., Strengthening the Management Opinions of Overseas Investment Projects published by the NDRC in 1991) the government aimed at keeping the foreign exchange outflow to a minimum (Luo et al., 2010). In 1990, the Chinese government also published its first formalization of an OFDI approval, evaluation, and examination system, defining firms’ pre-cross-border investment duties, such as feasibility studies and asset verifications.

The combination of only allowing selected SOEs to invest abroad until 2003 (S. X. Yin, Stender, & Song, 2003) and the very restrictive stance on the use of foreign exchange reserves allowed the home government to get into its test phase of letting MNEs go abroad without risking too high foreign exchange outflows. At this stage, policy instruments directly targeted at a specific sub-group of MNEs in the form of financial incentives or punishments were not needed to steer firms abroad, but
government control has been crucial. Only in a few exceptional cases and focused on a small circle of MNEs (e.g., for crucial projects) targeted and financial policies were enacted. For example, in 1999, the Chinese government supported firms in the light manufacturing and assembly business to set up subsidiaries in developing countries by providing them with special conditions on loans and profit repatriation.

Since the Going Global policy, the policy focus shifted towards including, to a significant extent, untargeted and non-financial instruments. The number of OFDI policy instruments of the targeted and financial type more than doubled. Next to the continuous amendment of China’s examination and approval procedures as part of the policy mix covered in the non-financial and targeted instrument, the examination and approval procedures were also untargeted.

With the outbreak of the global financial crisis, financial and targeted instruments, e.g., funds supporting SOEs in their overseas investments (see the 2009 Interim Measures for the Administration of Overseas Investment Funds of the Central State-owned Capital Operating Budget of the Ministry of Finance), were found a suitable tool by Chinese policymakers to take advantage of the global market situation and steer overseas investments of specific policy-recipient groups. In line with the development of policy instrument groups, it is important to note that it is not only the increasing number of instruments since 2001 that requires firms to be more actively tracking the changes of OFDI policy specifics than pre-Going Global, but also the balance considering the use of the different policy instrument types is important (see the upper part of Figure 3.12).

Calculating the Hodrick-Prescott Filter (1997) of our balance measure for the OFDI policy instrument mix, it shows that between the beginning of China’s OFDI policymaking and the end of 2019, the use of policy instrument types became more
balanced. However, this also means that MNEs’ management needs to be prepared for a broader set of OFDI policy instruments than in the past, requiring a broader knowledge base.

*Figure 3.12: Policy instrument mix & type balance (Essay 3)*

Note: One policy can include several policy instruments. The values shown above each column are the total number of policy instruments in the specific year. We use the Hodrick-Prescott (1997) Filter to address periodical developments (OECD, 2012).

While the policy instrument mix balance shows how policy instruments are distributed between instrument types, it does not distinguish between the count of annual instruments. For this reason, Figure 3.13 shows the count of instrument categories covered in a year against the total count of policy instruments in the same year (density). The bottom-left quadrant shows the years where policy instrument mix complexity has been relatively low. The top-right quadrant shows years with relatively high complexity in the policy instrument mix.
Dynamism: Policy Change Density and Consistency

As Nelson and Winter (1982, p. 371) argued, policies develop through a process of continuous change. And indeed, we found that at least 117 updates and new introductions of core OFDI policies took place. As Figure 3.14 clearly reveals, the first 20 years of China’s OFDI policymaking is defined by relatively low levels of dynamism with an annual average of only 0.95 new OFDI policies (1979-2000). From 2001 onwards, however, the annual average of new policies increased to 5.16.
3.4.5. Discussion and Propositions

Firm learning

In a political environment of continuous change, MNEs’ decision-making capacity is affected by varying levels of uncertainty and complexity that limit organizational learning efforts (Chan & Pattnaik, 2021; Cuervo-Cazurra et al., 2018; Delios & Henisz, 2003b; Dunning & Lundan, 2010). While extant studies of policy uncertainty focus primarily on host economies (Delios & Henisz, 2003b, 2003a; J. W. Lu, Li, Wu, & Huang, 2018), we argued that the home country policy environment has similar relevance as a mediator of firm learning in the non-market context, specifically in EMs (Cuervo-Cazurra et al., 2018). EM firms must quickly learn new market conditions to improve their global competitiveness. At the same time, there is a lack of critical firm-specific advantages in EMs (Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2007), which means that these firms must simultaneously learn to utilize resources offered by their home country governments (Child & Rodrigues, 2005; C. Wang, Hong, Kafouros, & Wright, 2012). This requires significant managerial capacity on behalf of EM firms to maintain learning
processes in both the market and non-market domain. The characteristics of the policy task environment are likely to alter how much managerial capacity is required to extract resources from it.

Thus, from a firm perspective, it is vital to separate between policies as resources or constraints, as implementation mechanisms, and as processes. The latter two dimensions are currently underexplored in research, although the policy instruments used for implementation and the rate of policy change should theoretically influence the costs of policy uptake, as well as the development of non-market capabilities necessary to access policy resources. Our analysis of the Chinese OFDI environment has illustrated its complexity and dynamism, producing unique insights into its evolution over time.

We showed that the announcement of national and industrial policies, such as the Going Global policy, the Belt-and-Road Initiative, the Made in China 2025 strategy, or national five-year plans, led to snowball effects of policy changes on different levels and a more balanced OFDI policy instrument mix. We have found that while the OFDI policy system continuously developed since the beginning of the opening-up process in 1979 (see Figure 3.12), its complexity and dynamism increased with the re-orientation towards industrial policy in 2001 (see also Figure 3.13). Not only did the diversity of policy instrument categories and policy instruments increase, but the shift also introduced a more dynamic era of policymaking. We would propose that this has led to increasing operational uncertainty and higher levels of information costs considering policy learning and uptake. Complexity and dynamism of the policy environment thereby affect the capacity, capability, and willingness of the MNE to learn about the use of the introduced policies.
However, these environmental characteristics are likely to interact with firm-specific factors. For example, larger firms might have more substantial capacities and stronger capabilities to learn about the advantages of announced policies, and they are also less dependent upon them in their internationalization endeavors (Miguel Matos Torres et al., 2016). The situation is quite different for SMEs. Cardoza, Fornes, Li, Xu and Xu (2015) concluded that, in contrast to the findings of Torres, Clegg, and Varum (2016), SMEs in China did not have a strong inclination to support their internationalization with policy resources. Together with our findings, we could hypothesize that SMEs have more trouble navigating the detected complexities and dynamics. This would explain why OFDI volume, typically driven by large enterprises, remained accelerating regardless of increases in complexity and dynamism. Another explanation follows from the research of Shi, Sun, Yan, and Zhu (2017), whose evidence implies that irregular institutional changes drive OFDI as a form of escapism from Chinese regions, which might equally apply to policy changes. We clearly require more research to explore these explanations in the context of policy uptake to understand whether policy complexity and dynamism affect the average performance of OFDI.

Another example that highlights the importance of firm-specific factors is the role of SOEs in China. Firms with higher levels of political capabilities, e.g., in the form of networks, might have an advantage compared to their home country peer firms, as they could benefit from extended lead times. SOEs are informed in advance about upcoming policy changes as they often participate in the policy formulation process (Kennedy, 2005, p. 76; M. Ren, Manning, & Vavilov, 2019), giving them more time to prepare for more effective and efficient policy uptake. They also have more experience in adjusting to political changes. As argued by Levitt and March (1988),
firms are able to learn from past experiences. In the context of China, SOEs that are close to the central government have the advantage of having up to 22 more years of experience compared to their private-owned counterparts, which were only allowed to invest abroad from 2003 onwards as seen in Figure 3.15.

**Figure 3.15: China’s firm internationalization, 1988-2018 (Essay 3)**

Sources: M&As: Own database based on Refinitiv and Bureau van Dijk Orbis; OFDI flows: UNCTAD; Note: No M&A data available for 1979 to 1987.

**Proposition 1:** EMNEs face varying degrees of complexity and dynamism in their interaction with home country policy environments, which influences their willingness, capability, and capacity to learn about how policies can be used as resources to support internationalization strategies. Learning costs and cognitive limitations of complex and dynamic contexts are exacerbated for private enterprises that can only devote limited capacity to non-market issues.

**Policymaker learning**

The learning process of governments regarding the design of internationalization policy over time still lacks attention in IB research (Miguel M. Torres & Clegg, 2014). Governments of developed economies went through the OFDI policy stages of “restriction-permission-promotion,” accumulating experience in policymaking along with political and economic developments (Sauvant et al., 2010). While
China’s political environment is to be distinguished from the developed economies, its politicians also accumulated extensive experience in the design and implementation of policies that target firm internationalization across a broad range of OFDI-related topics (see Figure 3.10), along with political and economic developments (Buckley, Cross, et al., 2008; Luo et al., 2010).

Our empirical analysis suggests that Chinese policymakers went through a path-dependent learning process (see Appendix 5) to design and enhance the mix of policy instruments that reflect specific policy goals. On the policy instrument level, we found that the instrument mix became more balanced over time, suggesting that policymakers have realized the importance of having a variety of policy instruments at their disposal and combining different instrument types (see Figure 3.12). This is likely to have been influenced by changes in the landscape of firms from large SOEs to large POEs and, specifically, to smaller POEs. In line with our arguments in Section 2.1, private Chinese SMEs were found to be mainly constrained by organizational issues and not institutional factors (Cardoza et al., 2015). This may have caused pressure for policymakers to adopt more targeted and non-financial instruments to help these firms tackle their idiosyncratic internationalization barriers (see the Five-Year Action Plan for Promoting the International Development of Small and Medium-Sized Enterprises (2016-2020) published by the Chinese Ministry of Industry and Information Technology in 2016). However, the effectiveness of this must be put under scrutiny in the light of changes in the policy task environment that could have affected policy uptake costs.

Hypothetically, changes in the instrument mix are at least partially linked to changes in the evolution of POEs’ OFDI. While OFDI of Chinese POEs increased between 2003 and 2016 drastically, it has been falling since 2017 at a comparable
speed (Figure 3.15). The complexity of China’s OFDI policy instrument mix decreased similarly, as Figure 3.12 shows. Arguably, the POE internationalization run required China’s home country policymakers to respond to previously unknown organizational failures emerging during the firm internationalization process. This exposed a lack of suitable policy instruments beyond direct ownership control as was sufficient with SOEs.

It follows that policymakers need to pay close attention to changes in the landscape of firms to engage in effective policy design. Learning about the ongoing internationalization efforts of firms becomes an essential part of a government’s “economic policy feedback loop” (Utesch-Xiong, 2021c). It provides policymakers with feedback on the effectiveness of policy instruments, the perceived uncertainty resulting from policy instrument mixes and further allows them to take reactive measures if necessary. This combination of pro- and reactive policymaking (Holtbrügge & Berning, 2018) in the context of rapid and comprehensive economic developments in EMs explains the higher levels of policy uncertainty in EMs that are not grounded in issues such as state fragility or institutional voids.

As highlighted by the OECD (2019b), policymakers need to consider the synergies, pre-conditions, and facilitations of policies while avoiding escalating complexity and contradictions. The fine tuning of changes to the policy mix requires thorough analysis to avoid policy outcomes that are unexpected or contradictory. We argue that the generation of knowledge about market developments on multiple levels (firm, industry, macro), as well as the design of effective policy mixes, is subject to an ongoing learning path for policymakers. With the individual policy being a stone in the large wall of home country policies (Filippov & Guimon, 2009), a clear and consistent approach within the whole OFDI policy system is paramount to decrease
firms’ information asymmetries and policy uptake costs, specifically in a quickly developing EMs.

**Proposition 2:** The design of internationalization policy requires a continuous learning process about firm internationalization behavior on behalf of emerging market governments to understand what mix of policy instruments and goals will translate to the desired outcomes on the firm-level. Thus, changes in firms’ characteristics requires adaptive policy making that results in policy complexity and dynamism.

**Co-evolution**

The parallel learning processes of firms and policymakers cause interactions between the economic and policy domain, resulting in a co-evolutionary development. EM firms depend on policy resources, and their active efforts of implementing them affects the design of future policy. EM governments depend on the internationalization of their economy, and their active efforts of shaping it through policy change affects the willingness, capability, and capacity of firms to utilize policy resources. This creates a system of feedback effects that can solidify homeostasis, but additive positive feedbacks could also generate instability, i.e., a spiraling increase in the complexity and dynamism of the policy environment alongside a similar development in the economic domain. Indeed, such vicious cycles of compounding political and economic instability have been found to be active in some Latin American EMs (Levitsky & Murillo, 2013).

Most IB scholars studying the co-evolution of MNEs and their political and economic environment follow a holistic and conceptional approach (e.g., Cantwell et al., 2010) or focus on the host country’s institutional environment (e.g., García-Cabrera & Durán-Herrera, 2016; W. Li & Hendrischke, 2020; Luo et al., 2019;
McGaughey et al., 2016). Only a few scholars have recently started to focus on the home country’s political environment (Chan & Pattnaik, 2021; Cuervo-Cazurra, 2015; X. Liu et al., 2021; Luo & Rui, 2009; Yan et al., 2018). This literature utilizes an institutional perspective on policies, such as the institutional work lens (Yan et al., 2018) or new institutional economics (Chan & Pattnaik, 2021; Cuervo-Cazurra, 2015), that views policies as resources or constraints for firms (Chidlow, Wang, Liu, & Wei, 2021; T. Yin et al., 2021). To be effective, resources and constraints must be relatively static, leading to an implicit stability assumption about the policy environment.

However, we would argue that we need to discuss how far the institutional approach is appropriate to study the dynamic interactions of policy (sub-)level evolution that we have described above (see L. J. Clegg, 2019). As Clegg (2019, p. 111) states, “[i]nstitutions shape behavior, but it is policy that changes behavior,” and a co-evolutionary perspective needs to unpack the policy environment to define and explain the relevant feedback mechanisms – it cannot center on institutional forces that treat policy as stable and simple “watering-can” effects. Our analysis supports this claim of a complex and dynamic policy task environment as opposed to a well-behaved and structured canvas of incentives and constraints.

From a firm’s perspective, if the density of policy change is high or the implementation is too complex, policy resources may turn into a burden for MNEs, which could result in escape FDI (Boisot & Meyer, 2008; Tang, 2021). In this way, complexity and dynamism would act as a barrier to co-evolution in the sense of active cooperation between MNEs and policymakers in a joint bottom-up and top-down approach towards policy design. Nevertheless, some level of complexity and
uncertainty is likely to be required, for firms to feel the necessity to participate in active co-evolution with their home country’s government (c.f., Tang, 2021).

In summary, the reaction of firms to changes in the policy environment is not the result of an individual policy implementing a new additive constraint or incentive, as often assumed in IB studies (specifically those that measure policy change with dummy variables; e.g., Buckley et al., 2007; Du & Zhang, 2018; C. Wang, Hong, Kafouros, & Wright, 2012). However, we argue that the firms’ reactions are the outcome of a newly created policy mix and the policy instruments embedded therein (Filippov & Guimon, 2009), raising theoretical and methodological challenges to trace contextual feedback. We contend that the co-evolutionary exploration of EM policy environments should adopt theories and methods that can trace these contextualities, ambiguities, and complexities. Case-based explorative studies on the firm-level should complement large-n regression analysis, and the configurational approach of qualitative comparative analysis (QCA) could provide interesting insights on the effects of policy mixes.

**Proposition 3: The parallel learning processes of firms and policymakers result in co-evolution that emerges from the uncertainty of both firm internationalization behavior and the policy environment. Complexity and dynamism are necessary ingredients for co-evolution and, thus, harmonious self-regulation, but they need to stay within the limits set by organizational capacities.**

### 3.4.6. Conclusion

Despite an increasing number of papers analyzing the relationship between MNEs internationalization activities and home country policy change, the development of an analytical framework to systematically study OFDI policies is so far missing
(Buckley et al., 2010; L. J. Clegg, 2019). We develop a conceptual policy framework comprising two main perspectives – the policy instrument mix and the policy tasks environment – allowing us to unpack the policy environment into policies and policy instruments as resources (or constraints), as implementation mechanisms, and as dynamic processes. With this article, we present three contributions to IB literature.

Firstly, we expanded the argument of Clegg (2019) that an institutional perspective might not be a sufficient theoretical foundation for policy studies. In particular, we argued that the concepts of institutional theory, e.g., coercive, normative, and cognitive pressures, are more suited to understand isomorphism and stability in organizational fields. However, policy is intended to change rather than to maintain behavior and can operate only on a subset of agents. From a firm’s perspective, this leads to issues with the implementation and change of policy, emphasizing the need to continuously learn about the policy environment. We developed a novel conceptual framework integrating insights from the policy literature with the organizational task environment view, and this allowed us to argue that the use of policy as a resource on behalf of firms is affected by the implementation and procedural characteristics of the policy task environment. Specifically, we contended that policy operates as a complex mix of implementation mechanisms and goals. Moreover, we argued that policy change can be dynamic. Based on the prior literature, we hypothesized that the dynamism and complexity of the policy task environment are likely to interfere with the firm’s learning processes that determine firms’ willingness, capability, and capacity to utilize policy resources.

In addition, we have explored the Chinese OFDI policy environment to validate our theoretical constructs using a novel approach employing CATA and human
coding. The results of our exercise are largely consistent with the idea that more heterogeneous home country environments are likely to exhibit higher levels of OFDI policy complexity and dynamism. In the concrete case of China, the shift towards more diversity in OFDI, i.e., the increase in the internationalization of firms next to large SOEs, required a more diverse mix of policy implementation mechanisms. Such a more detailed representation of the Chinese OFDI environment implies that the treatment of policy in regression analyses might be reductionist. While interactive effects between OFDI policy instruments could have been ignored in the pre-Going Global era that was markedly less diverse, this is not the case anymore. Hence, our results point towards complementing traditional regression analyses with methods more suited to configurational effects such as QCA.

Thirdly, we have discussed our findings to develop a set of propositions focused on the learning processes of EM firms, EM governments, and their interaction that are meant to guide future research towards unanswered questions. Addressing the lack of IB literature on policy mix dynamics and complexity, we ask how the characteristics of the home country policy task environment affect firm learning processes and ultimately interfere with the willingness, capability, and capacity to utilize policy resources. With a focus on the literature’s extant lack of implementing governments’ policy design learning processes into IB research (Miguel M. Torres & Clegg, 2014), we pose the question of how governments can improve their policy design in quickly changing EM contexts to avoid interventionism that creates the danger of vicious political-economic instabilities.

Finally, we found that the channels of the policy-firm co-evolution relationships have not been studied from a complexity and dynamism perspective of the policy
environment, raising questions about the mechanisms through which the co-evolutionary process between firms and policy operate, and how these are intertwined with the complexity and dynamism of the task environment.

Limitations and Future Research

By focusing on a single country to validate our concepts, we limit issues of variations existing between nations’ policy environment (Keister & Zhang, 2009; OECD, 2019a) and are able to study the Chinese home policy task environment in great detail. However, at the same time, this also limits direct comparability with the policy environment of other countries (Ray, Ray, & Kumar, 2017). We contend that on a more abstract policy level, cross-national comparisons within a study might be utilized in future research.

Moreover, our developed policy mix concepts were so far only explained descriptively and their composition and development studied employing CATA and human coding. While these empirical approaches provide insights on the mix of policies and policy instruments, they do not show the effect of policy mixes on firm internationalization. To improve our understanding on this relationship, future research might want to empirically study the effect of policy mixes on OFDI.

While we have already provided three propositions aimed at future research, we want to highlight that our paper also provides a unique dataset (Utesch-Xiong, 2021b) of the Chinese policy environment that has high coverage and could be used by future research to avoid the limitations of small or coarse policy data. This could allow researchers to implement more systematic methods in policy analysis such as using QCA to explore the complementarities of policy mixes.
Managerial Relevance

The implications of our article are primarily addressed to managers and policymakers. Managers building the firms’ government relations can use our conceptual framework to better understand how announced policies will affect the firm. Being able to understand the multi-level mix of implementation mechanisms of policies (instruments) can allow firms to reduce frictions in the uptake of policy. Tracking the dynamics of the policy environment can allow an assessment of the sustainability of overall policy making. Today, such tasks can be automated, e.g., by using database and web scrapers in combination with CATA or similar methods. We think that future MNEs will greatly expand their digital capabilities to analyze their policy contexts. Our paper provides a basis for the structure of such systems.

For policymakers, we have put the issues of policy uptake costs center stage. As seen in the OECD (2019b) suggestions, extant policy advice is mostly restricted to the level of resources, i.e., making suggestions of whether policy should be supportive or constraining. However, this neglects complexity and dynamism which should be taken into consideration in the policy design process. Our paper offers insights for policymakers to understand the policy environment as a co-evolutionary system, which implies that there is a fine balance between over-interventionism and a lack of guidance. Understanding this relationship requires dedicated learning and analysis on behalf of governments of the sort we have provided here.
3.4.7. Appendix

Appendix 1: CATA coding scheme and dictionary
We followed Weber’s (1990, pp. 21–24) approach to develop our coding file. In a first step, we set our recording unit to the sentence level, as we are interested in the way words are used in sentences (c.f., Krippendorff, 2004, p. 51; Weber, 1990, pp. 21–24). Hereafter, we developed our initial coding scheme with mutually exclusive but collectively exhaustive categories (Grimmer & Stewart, 2013; Krippendorff, 2004, p. 130) representing supportive and restrictive sentiment. We developed our dictionary by selecting words that represent the direction of sentiment accurately and looking up synonyms using the Modern Chinese Dictionary (xian dai han yu ci dian) and the reference library of the China National Knowledge Infrastructure (Appendix 2). Running pre-analyses, we tested if the algorithm categorizes the text accurately and reliable and made corrections when needed. To circumvent inconsistencies in translations, we performed CATA using the policies’ original language (Chinese). Furthermore, to increase the reliability of our interpretation of the results, we again consulted a native speaker to triangulate our translations (c.f., Cuervo-Cazurra et al., 2016).

Appendix 2: CATA coding file – Sentiment Analysis
Supportive: 支持 | 支撑 | 支援 | 帮助 | 鼓励 | 推进 | 激励 | 提倡 | 促进 | 推动 | 提升 | 增进 | 简化 | 简单 | 放宽 | 许可 | 加强 | 强化 | 增强 | 允许 | 加快 | 深化 | 优化 | 推进 | 完善 | 健全 | 积极

Restrictive: 限制 | 限定 | 约束 | 禁止 | 不得 | 必须 | 不予
Appendix 3: Policy coherence analysis using CATA

Note: For years where no information is shown, our database does not include any OFDI policy.

Appendix 4: Human-coded policy coherence analysis

Note: Analysis is on the policy level, i.e., each policy is categorized as either supportive, restrictive, or no sentiment. The only exceptions are two OFDI catalogs turning effective in 2006 and 2017, each categorized as supportive and restrictive. For years where no information is shown, our database does not include any OFDI policy.
Appendix 5: OFDI policy change (human-coded)

Note: Years = Year a policy turned effective. Grey lines show policy development paths, whereby the text of the later published policy mentions that this policy replaces the earlier published policy (at least to some extent).
4. Conclusion

This Section provides answers to the four core research questions of this thesis, outlines how the framework and the three independent Essays jointly contribute to IB theory development, how they add to the policy discussion and reveals avenues for future research.

4.1. Answers to the Research Questions

Research Question 1: Can evolution perspectives explain the interdependent co-evolution relationship between firms’ internationalization and OFDI policymaking?

So far, the closest theoretical concept in the IB literature that has been developed to address the co-evolution relationship between firms and policymaking in the home country might be the approach of Cantwell, Dunning, and Lundan (2010). However, while their broad concept could apply to firm-political interactions in the host and the home country of an MNE, the political level of their analysis is on institutions rather than policies.

In the Essays of this thesis, it is outlined that studying the complex and dynamic home country policy environment requires a policy-based view. This perspective is essential, as policies and institutions do not show the same dynamism (Buckley et al., 2018; L. J. Clegg, 2019), leading to distinct interactions of firms and policymakers. These factors further result in different learning needs from a government body (institution-shaper vs. policy-shaper) and firm perspective, considering co-evolution. As Clegg (2019) has put it, “[i]nstitutions shape behavior, but it is policy that changes behavior.” Following his argument, this thesis finds that theoretical perspectives focusing on the policy level might be necessary to be integrated into IB when studying firm-policy interactions.
As a result, dynamic evolutionary approaches from public policy (e.g., Béland, 2007; Streeck & Thelen, 2005a) are used in this thesis and connected with IB literature. This combination allows for the integration of policymaking characteristics (considering their implementation and dynamism) into the co-evolution context of firms and governments. It also provides the opportunity to study the interdependent and nonlinear co-evolution relationship of MNEs and policymaking from the perspectives of how firms' OFDI strategy is affected by policymaking and how policymaking is also affected by OFDI strategy.

Combining theoretical evolutionary concepts from IB and public policy were found necessary to frame the firm-policy co-evolution relationship appropriately. Any firm- or policy-focused concept alone is, regarding my understanding, not explaining the whole interdependent and longitudinal co-evolution relationship.

**Research Question 2:** How do China’s OFDI supportive policies influence firm internationalization? Does the effect differ between policy types?

The first Essay of this dissertation focuses on the role of OFDI supportive home country policies for the internationalization of Chinese firms. Distinguishing these policies in terms of their level of coercion on MNEs, and with that between coercive and non-coercive policies, I find that while the response of firms in terms of the count of cross-border M&A projects is for both policy types positive, their effect size differs. Non-coercive policies lead to a larger supportive effect on M&A deals than coercive policies. Considering the ownership type of firms, when distinguishing between policy types, the announcement effect of coercive policies is less strong for SOEs than for POEs. These results show that it is important to distinguish between coercive and non-coercive policies when studying home
country policy support for firm internationalization, and this Essay is a first to do so.

**Research Question 3:** How do changes in firm internationalization, industrial catch-up, and the foreign exchange reserve level influence home country OFDI policymaking in China? Does the size of change matter for home country policymaking?

The second Essay analyzes reactive OFDI policymaking as a response to changes on the firm, industry, and macroeconomic level. Integrating different streams of policy change literature, arguing that large (Baumgartner & Jones, 2002, 2009) and incremental changes (Streeck & Thelen, 2005a) might lead to policy change, I distinguish between the size of changes in both the theoretical and empirical parts of this study. The findings show that a more than average annual change (defined as a shock) leads to more announcements of OFDI policies than a non-shock change on all three levels—firm, industry, and macroeconomic. This demonstrates that the home government reacts to critical developments that risk the stability and development of the home economy. The effect size for shocks is significantly larger than for incremental changes. Moreover, the findings show that only on the firm level continuous changes lead to significant results considering reactive OFDI policymaking, showing that OFDI policymaking is more sensitive towards the feedback effect of firms than the changes on the industry and macroeconomic level. With increasing levels of cross-border M&As, Chinese policymakers react by announcing more OFDI policies to steer the firm behavior. These findings contribute to the discussion on the influence of firm internationalization on reactive policy making in the firms’ home country. Moreover, they show that the achievement of a country’s national policy aims is supported by sub-national
policymaking (e.g., on the firm level) through reactive policy adjustments to changes in the political environment.

**Research Question 4:** How can IB scholars study the complexity and dynamism of EMNEs' home country policy environment systematically?

The third Essay finds that EMNEs face increasing uncertainties in the OFDI policy environment. The mix of proactive and reactive policymaking in the EMNE's home country (Holtbrügge & Berning, 2018) is found to be driven by a continuous learning process of the government considering the evolution of the economic environment. The resulting dynamism and complexity in the policymaking process leads, from a firm perspective, to increased uncertainty and influences the firm’s willingness, capacity, and capability to learn about the use of OFDI. Depending upon the level of perceived uncertainty, this dynamism and complexity might lead to a firm-government co-evolution in policymaking.

To conceptually address the fourth research question, policy literature on policy mix and policy dynamics is combined with the organizational task environment separating resource munificence, complexity, and dynamism (Dess & Beard, 1984). The third Essay of this thesis shows that it is important to focus not on the individual effect of a policy but the policy mix (Rogge & Reichardt, 2016) and study policies as resources, implementation mechanisms, and processes. As the Essay’s empirical results confirmed, it is essential to study all three policy perspectives (resources, implementation, processes) to cover the complexity and dynamics that define the OFDI policy environment of the EMNE.

The core findings of the dissertation are summarized in Figure 6.1, and the dissertation’s overall contributions to theory and policy discussed thereafter.
Figure 4.1: Conceptual Framework with core findings
4.2. Theoretical Contributions

The individual Essays of this thesis address different parts of the co-evolution relationship between MNEs’ internationalization and home country policymaking, as there is no general theory that can explain both the evolution of firms on the one hand and the development of policies on the other, as well as their dynamic interconnectedness.

Used as a theoretical framework for Essay 1 of this thesis, I argue that combining the sociological institutional theory (Scott, 2003) and the concept of coercive and non-coercive policies (Lowi, 1972) is one approach to explain how policies influence the behavior of firms. However, sociological institutional theory (Scott, 2003) used alone might not explain the influence of MNEs on the policymaking process, as it sees the government through its institutions and policies as external to the MNE. The MNE is defined as a reactive market player (which equally applies to institutional economics; North 1990). Hence, from a co-evolution perspective, institutional theory cannot explain the influence of MNEs on policies or institutions.

With a focus on the other side of the co-evolution relationship between MNEs and home country policy making, in Essay 2 of this thesis, theoretical policy change literature of public policy (Baumgartner & Jones, 2002, 2009; Hall, 1989, 1993; Streeck & Thelen, 2005a) is employed. This perspective focuses on the mechanisms that lead to developments in political instruments, such as policies. Hence, for my second Essay, which studies the influence of MNEs on home country policymaking through market transactions, the literature of public policy has been useful in building a theoretical framework and explain differences in the government external developments’ role for policy change. However, as this theoretical
approach focuses on political processes, it cannot simultaneously explain the effect of policies on MNE activities.

I argue that both theoretical approaches can be combined, as they cover from an evolutionary perspective the effect of policymaking on firm internationalization strategy, respectively, the effect of firm internationalization on policymaking. Joint together, both approaches form an interdependent co-evolution relationship between firm internationalization and home country OFDI policymaking.

4.3. Policy Contributions

This thesis contributes to the understanding of IB scholars on the dependence relationship between the Chinese government and local MNEs by outlining how the inter-connected relationship between policymakers and MNEs has changed across the last four decades. Between 1979 to 1999, Chinese MNEs that have been allowed to invest abroad (only SOEs until 2002) were largely steered through the government’s following of a strict monetary policy, using foreign exchange policy instruments as means of regulation. As a result, MNEs played a less active part in policymaking. However, since the announcement of China’s Going Global policy in 1999, the previously single macro policy focus has been extended by including the industrial policy perspective\textsuperscript{18}. With this change in the macro policy perspective, in China, MNEs started to be seen as vehicles for economic progress in their home country. Not only increased the active policymaking approaches during this period.

but also the reactive government policymaking in response to firm activities (see Essay 2 of this thesis).

The thesis enhances our understanding of the relationship between firm internationalization and home country OFDI policymaking. It supports the conceptual argument by Yan et al. (2018) on policymaking in China, with its empirical finding that policymaking is not only a one-way road of influence, from policymakers to the MNE (see Essay 1) but also a bottom-up relationship through market transactions which results in reactive policymaking (see Essay 2).

The conceptual framework developed in Essay 3 contributes to academic IB Policy research by allowing a systematic study of the OFDI policy environment. This concept addresses the complex structure of the dynamic policy system from multiple perspectives (policies as resources/constraints, as implementation mechanisms, as dynamic processes) and on several policy levels (policy goals, policy instruments). Despite the extant IB literature on the evolving relationship of MNEs and OFDI policy, a conceptual framework for the study of the firm internationalization environment has been missing. It is crucial for both policymakers and policy-takers to understand that it is not the individual policy’s effect that influences MNEs internationalization, but the mix of policies and the therein embedded instruments that are effective at a specific point in time. Hence, it is important to recognize and learn about the complexity of the policy environment.

As found in this thesis, for MNEs, home country policies can be supportive in financial and non-financial ways. However, they can also be a burden at the same time when entering new markets, as foreign governments see OFDI policies increasingly critically (e.g., European Commission, 2020). Hence, from an MNE’s
perspective, it is crucial to understand which instruments embedded in policies are seen as critical by host governments.

The database on OFDI policies that has been developed in this thesis provides an overview of China’s OFDI policies published within the last 40 years, including information such as the date of the policy announcement and the date of enactment, information on the government organizations publishing the policy, summaries of policies, as well as analytical insights, as policy triggers, policy aims, policy embedded instruments, policy sentiment, and the relationship of a policy to previously announced policies. The development of such a complex database covering Chinese policymaking since opening-up in 1979 allowed the creation of new insights on OFDI policymaking in this thesis, which eventually benefits IB policy research. Moreover, the database builds a good platform for future research on Chinese OFDI policies.

4.4. Future Research

This thesis combines three independent articles, each employing individual theoretical and empirical approaches to study a specific part of the co-evolution relationship between Chinese firm internationalization and home country policymaking. Such a complementary approach brings not only together many facets, building a comprehensive picture on co-evolution, but also offers new perspectives and opens avenues for future research.

First, by integrating theoretical approaches of the policy literature into the IB context and connecting them to established theories of the field, this dissertation might have sparked a discussion on the theoretical construct to approach IB policy topics. I contend that this inclusion of conceptual constructs that are currently mainly ignored by IB literature widens the relevance of the field. While this thesis
has made some first steps in integrating policy-level concepts, it certainly left much space for future research.

Second, distinguishing between OFDI policy types from the perspective of policy pressures in Essay 1, in Essay 3, I systematically analyzed policies from a policy mix view. I suggest that to improve our understanding of the policy environment and its combined effect of mixed policy instruments, IB literature needs to go beyond the individual policy analysis in its research and study policy synergies and their role for OFDI. Such research would, for example, be viable through the use of a QCA.

Third, with IB research taking a sharper policy turn lately, questions considering the need to include new methodological approaches arise. While a complete reinvention of the “methods wheel” might be unnecessary (Van Assche, 2018), some extensions to current methods, however, could be found useful. The CATA used in Essay 3 of this dissertation, for example, is increasingly getting attention from the IB field (Belderbos, Grabowska, Leten, Kelchtermans, & Ugur, 2017; Cuervo-Cazurra et al., 2016; Cuervo-Cazurra, Mudambi, Pedersen, & Piscitello, 2017; Gaur & Kumar, 2018). As CATA has the advantage of being able to analyze large amounts of text and identify context patterns included in policies and politics increasingly intervening in the cross-border activities of MNEs, I suggest future research consider this technique when working with text. However, for reasons of result reliability and putting the objective results into context, a combination with human-coded text might still be found the most suitable approach.
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Selbstständigkeitserklärung

Hiermit erkläre ich, dass ich die vorliegende Doktorarbeit mit dem Titel

The Co-Evolution of Outward Foreign Direct Investment Policies and Chinese Multinational Enterprises


Bremen, den 10.09.2021

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Fredrik Utesch-Xiong