Strategic Investment of Chinese Auto-parts Companies in US Market:

Intentions and Challenges in Creating Sustained Competitive Advantages"

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Abstract

The purpose of this article is to investigate the Chinese investment in US and their intentions. Extensive literature review and secondary data is used for this study. Our finding indicates the following: Chinese companies are entering through M & A and Greenfield. They also face great challenges such as political backlash from the US policy makers, especially in electronic and technology, agricultural and medical related firms as it is considered security risk. The closeness of the Chinese government to the firms is also an issue as the firms are not motivated by profit but practicing policy mandate from their government. The firms have liability such as cultural difference, foreignness, and lack of managerial skills. Our result indicates that some of the Chinese firms are running the risk of marginalization if they continue to establish themselves in an overseas market but do not follow and participate in their government's financial repatriation requirements. Finally, the Chinese firms' intentions are to learn the organizational process, technology and competencies required to participate in the manufacturing of cars. It is our suggestion that a firm level data related to the Chinese firms' investment in US should be examined to reach at better result.

Keywords: FDI, Strategy, China, MNE, U.S.

Introduction

The purpose of this paper is to study Chinese MNEs' investment in USA, specifically Chinese auto parts companies who have been buying out auto parts suppliers that are struggling before and after the 2008 economic crisis. This is in theory the process of moving up the supply chain and internationalization. While this is not unusual in this day, it creates curiosity for such action as it is riskier than the home market. Based on classical International theory a company from a developing nation like China could be investing in an overseas venture located in developing nations or within proximity of Asia but not in a market that is in developed country. In addition to enhancing the scope of research in strategy and International Business, this study will attempt to fill the gap in the following areas: it examines the challenges faced by Chinese MNEs in such areas as managerial skills, adapting to new technology and learning competitive business environment in USA.

Contrary to Porter's emphasis that the best competition of the firm should be based on innovation (1991), number of Chinese MNEs and the government chose rather to increase their competitiveness through FDI. According to Knoerich (2017), this may have been attributed to the following three reasons: it was already highest FDI among emerging nations, Chinese firms have begun going abroad as the result of the fast-economic development and China is facing acute challenges related to technology, resources, population growth and environmental issues. As stated by Rodium group (2017), political and economic risk facing the Chinese MNEs in addition to currency worries may have encouraged an increase in FDI in 2016. The decision made by most Chinese MNE's is directly or indirectly influenced by the Chinese government's policy of global OFDI and national economic development plan. As the result of this policy, the MNE's are encouraged to invest in countries near and far from home, such as Australia, Russia, Brazil, African nations, Europe, and the United States.

In analyzing the internationalization of Chinese firms, Deng (2004, in Child & Rodrigues, 2005), emphasized the need to investigate the motive behind those investments, as it deviates from the classic theories that explains internationalization of MNEs because of competitive advantage to enter new markets. In the case of Chinese MNEs, Child and Rodrigues (2005) suggest it was because of competitive disadvantage. But Dunning (1993) reiterates that the entry into US market by Chinese MNEs is a classic model to avoid added cost and trade restrictions. While Appel (2009, in Walcot 2014) pronounces Chinese MNEs decision to invest in USA as the result of the opportunities created by the economic crisis, He and Lyles (2008) indicated the Chinese investment began in 2005 when Lenovo bid for IBM, CNOOC's attempt to buy UNOCOL, and Haier bought Maytag.

Research Questions:

What are the driving factors for Chinese MNEs investment in USA?

1. Considering that we know Chinese government supports the companies by giving them access to financial/credit resources; can having access to resource alone give them competitive advantage in the new market?
2. a) Understanding US market conditions, legal environment and labor issues may not be easy; does this knowledge or lack thereof make them less competitive compared to others in the industry?
   b) Managerial knowledge and skills need in US are quite different compared to home operation. How do companies deal with such challenges and lack of such skill?
3. Are the MNEs intending to use the skills and knowledge learnt in US for competition in home market?
4. Are Chinese MNEs intent to enter auto manufacturing in the future through mastery of knowledge of market conditions such as managing workers and suppliers?

Literature Review

In the following, we will summarize a select literature sources, data, theories, and models that will be used to support or rationalize the discussion of the research questions.

Evolution of China's Multinational Enterprises.

In our study of Chinese FDI, we plan to examine the growth and maturity of the firms and their characteristics which will lend us the knowledge that will assist us to compare with other MNEs from developed nations. The evolutionary process, as presented by Penrose (1995, in Warner, Hong and Xiaojun, 2004), can be an ideal tool to describe the characteristics of the firms in the process of their venture overseas. The factors that could determine their growth is the internal resources and external opportunities that are available to firm's attempt to diversify. Furthermore, a theory that clearly represent the evolutionary stages is Johanson and Weidersheim-Paul's (1975) establishment chain. This theory depicts the process of establishment chain in the following steps: The firm starts with export through representatives and sales by a subsidiary after which the manufacturing begins.

Their advancement in how they handle complex management issues between the mainland and their subsidiaries in the West are also considered reflection of their attempt to measure up to their counterparts from the West. While the institutional match-up could be strengthened by their access to technology and knowledge learned, the challenges remain from the cultural and ideological orientation of the Chinese firms. In their study of the Chinese MNEs, Warner et at (2004) listed the following evolutionary lifecycle based of four stages.

Stage one: This was during 1979-84 when the firms established a branch in a foreign market to coordinate import export from the home base.

Stage Two: This was a period between 1985-90 when the government established rules and guideline for overseas operation of state-owned firms. The same type of guideline was also created for inward investment by foreign firms. This was the period when the state approved of national companies to do business overseas.

Stage Three: 1991-99 was a period of fast growth and diversification by Chinese MNEs. In 1991, there were only 2000 firms in about 93 countries. By 1997 this has grown to 5356 in 140 countries. This was also a challenging time as the MNEs were unable to enter or integrate into technology and strategic industries.

Stage Four: The last one is from 2000 to present. This period is much more upbeat and organized under the same strategy integrating both firm level and national level investment. The MNEs' competency in doing business overseas has created competitive advantage in global integration of their production and value creation. China became accepted into World Trade Organization membership the same time during this period.

Internationalization of Chinese Firms

Internationalization is development of opportunities that emerge from interactions within a relationship, in which the process comprises of learning and commitment building (Johanson and Vahlne, 2013). Also, explained as when a firm trade outside the border from its home market (Sun, 2009). Strandskov states that it entails "the process of adaptation, change, and development in a long range of successive transformations within the firm's fundamental functions, systems, and structures" (1995, in Rask, Strandskov, Hakonsson, 2008).

We are presenting two studies made on internationalization for the sake of this research. The first is, the Uppsala process (Johanson and Vahlne, 2013**).** A behavioral and evolutionary increase in relationship (Johanson and Vahlne, 2013). Johanson and Vahlne (1977 in Pandian and Sim 2002) refined this theory as a dynamic model of continuous stage and change cycle. The most important components in this cycle are the market knowledge and commitment.

The Second one is the eclectic paradigm (Dunning, 1996, 1988). Dunning's Eclectic theory when firms will select compatible entry mode by account for ownership advantage, location advantage of the market, and internationalization advantage (OLI). *Ownership advantage* is the resources, capabilities, and core competency the firm owns that can be used to create sustained competitive advantage. *Location advantage* is when the firm selects a market that can offer greater opportunities compared to other locations. As the result of the low-cost labor and input, the firm can achieve a sustained competitive advantage. *Internalization advantage* happens when the firms can form a convenient relationship and share their competencies, resources, and skills in the way they manage the value chain efficiently.

In his publication on transferability of advantages, Hu (1995) states that advantages are not always transferrable. The outcome of his study of East Asian countries such as Taiwan, Hong Kong, South Korea, and Singapore is that they were successful in Asia more than they were in the United States. Hu's explanation of advantage or disadvantage is equated to the term strength and weakness compared to competitors. He presented four different contexts relevant to the concept of advantage: First, advantage is based on available resource and capabilities relative to competitors. Second, it is within a context. Advantage in one does not mean it will hold similar position in another circumstance. Third, while it clearly understood to compare against competitors, it is complex when it comes to alternatives like Joint Venture in which the other firm can live without it and there is not visible competition. Fourth, the competition can be actual with firms in the market or potential with firms that could come into the market. This can also be competition in home market or competition in foreign market.

There are two main distinctions in the advantages we discussed. The different levels of advantage a firm can attain. And advantage in home market compared to advantage in international market may require different resources, capabilities, and competencies.

Hu listed three factors available in-home market that could give the firm an advantage in international market. One is superior product or the firm's capability that may be transferred. Second is the resources and capabilities, customer or supplier relation and organizational culture, and third is the factors that are being enjoyed by most firms because of the country's leadership status in certain products like chemical, electronic or computers.

On their work on Internationalization of Chinese firms, Child, and Rodrigues (2005) state that Chinese firms make such investment because of competitive disadvantage. While the study considers the motivation of the firms to invest overseas, they use IB models and theories as a basis to see if Chinese firms are like the western MNEs or not. They list theories such as Dunning's eclectic paradigm to identify ownership, location and internationalization advantages. They also discuss the fact that China qualifies as one of the countries that is placed in the category of "late development" thesis such that it ventured abroad in response to its disadvantages.

SUN (2009) also discusses internationalization of MNEs from emerging economies. According to their finding, the MNEs have the tendency to strengthen themselves in the domestic market before they go abroad, they get into markets with low barrier (cultural, economic, institutional and proximity to home) and they also use internal and external linkage to enhance their weakness. In addition, they use the mainstream IB theories to enhance their discussion.

Kolstad and Wiig (2010), investigated the characteristics and institutional decisions of Chinese FDI in which they found that they are more interested to invest in countries with abundant natural resources and weaker institutional structure. Buckley et al. (2007) also reiterate that more of the MNEs invest in countries with large GDP, high volume of trade and close to home. Considering the MNEs have experience with exploiting weaker institutional environment, they are less challenged by liability of foreignness compared to western firms. It is also evident, most are state owned (Liu and Yeung, 2008), and in 2006, 82% of the firms were SOEs. Deng (2004) also explains that they promote domestic development supporting the foreign policy. In addition, Liu, and Yeung (2008) stated the MNEs support for government policy and how they are involved in backing the host country's economic development.

Child and Rodrigues (2005) suggested that there are three internationalization routes for Chinese MNEs:

1- *Through OEM or JV* – partnership with foreign firms through manufacturing or licensing is a common choice Chinese MNEs take. This relationship will help to transfer the technology leading to competitiveness. While it is considered an inward internationalization, it also gives the Chinese MNEs the competency they need for an outward investment.
2- *Through Acquisition* – This route is the fastest growing choice for the Chinese MNEs. The role the government is playing in helping the firms' in acquiring competitors by easy access to capital is evident from past practices. The government's influence in internationalization of the Chinese firms should be considered for the successfully attaining new technology and R & D.
3- *Through Organic expansion* – This method of internationalization requires building original business with specific plan of entering preferred market. The purpose of organic expansion is to create a brand identity and as it become recognized the same brand could be taken to other market to gain competitive advantage.

As difficult as it is to deal with internationalization, it is even more challenging to overcome the liability of foreignness which can affect the Chinese firms' ability to do business in the U.S. According to Hymer (1976, in He and Lyles, 2008) liability of foreignness can be divided into four factors: Spatial distance- this will increase the cost of doing business; firm specific costs- is due to the lack of experience of the firm in the market; Cost accrued as the result of the host nation's politics and economics; and cost accrued from factors in the country's atmosphere. Another liability is from cultural difference between U.S and China. Comparing the two countries based on Hofstede's dimension can clarify the challenges. The following table represents the cultural dimension:

Table 2 – The difference between U.S. and China – Hofstede's Dimension -Total 100pts

Cultural Dimension	U.S.	China
Power Distance	40	80
Individualism	91	20
Masculinity	62	50
Uncertainty Avoidance	46	60
Long Term Orientation	91	20

Hofstede Cultural Dimension – Hofstede (1983)

Risk of Marginalization

Ma and Yang (2012) studied how Chinese MNEs run a risk of marginalization considering their fast pace of internationalization. Luo and Tang (2007, in Ma and Yang, 2012) state that buying recognized brands are not without risk, as there are challenges after the deal is signed, during reorganization, issues of governance, lack of international experience, poor management, and low performing product and process. Lack of knowledge of these risks may cause Chinese MNEs from losing control over the day-to-day operations and up to ownership of their company. The fast internationalization process coupled with the knowledge needed to handle technological, cultural, and geographic changes will expose the Chinese MNEs to risks. In addition to this is a recent finding of environmental uncertainty. According to Miller (1993, in Ma and Yang, 2012) those risks are divided into three categories: Uncertainty in external environment, risk embedded in each industry and risk inside the firm. Risk of marginalization of Chinese companies have be manifested in two ways: uncertainty from the external business atmosphere and during the process of internationalization.

The first one, is when an internationalized firm is challenged by identity issues from both in home market and foreign market. As some of the Chinese companies change their country of registration, they also change their structure, management, and face identity issues in which they lose funding because they are not considered domestic or overseas operation. The second is when they lack complete control over their own operation, resulting in marginalization of in their leadership role.

Motivation of Chinese MNEs'

In their study of Chinese outward foreign direct investment, Buckley, Clegg, Cross, Liu, Voss, and Zheng (2007) stated the need to look at the institutional, investment locations decisions and how the economic policy has created a distinctive effect on Chinese MNEs. We will begin our discussion of FDI theory with principles of FDI (Buckley and Casson, 1976) and proceed to summarizing the special theory for Chinese FDI as presented by Buckley et al (2007). The FDI theory has two parts: First, organizations internalize resources or competencies they lack to the point, when it is not beneficial any longer. Second, they select operational locations that will minimize their cost. As stated by Dunning (1993, in Buckley et al, 2005), the location part of the theory refers to the firm's motivation to pursue market seeking FDI, efficiency seeking FDI and resource seeking FDI. This happens when firms want to attain competitive advantage through trade practices like access to distribution network, export to a growing market; efficiency seeking through moving to low-cost labor location and by acquiring valuable raw material and energy sources.

As mentioned in the above discussion, the classic theory is based on research done based on developed nations MNEs. Buckley et al, emphasize the need for FDI theory that should be proposed specifically for Chinese ODI. In their discussion of this theory, they presented three possibilities: Capital market imperfections, owner advantages and institutional factors.

Capital Market – Most capital market decisions are directly or indirectly made by the central government in China. It means the access is not competitive and it can be accessed by state owned firms, and at the same time the inefficient banking system will make it available to potential investors because of policy. In addition, the conglomerates can exploit the inefficient capital market to subsidize the outward investment and even family-owned firms can use the access to cheap family capital for managing their operations.

Ownership advantage – This emphasizes the relationship orientation of Chinese businesses in which they acquire resources through networks of overseas Chinese diaspora. According to Dunning (2002, in Buckley et at.) it is long lasting relationship and helps to have a semi-permanent proprietorship.

Institutional factors – According to Buckley et al, firms from developing countries are influenced by the institutional environment in home country. The presence of a consistent policy application will determine their ability to invest overseas. At the same time, if there is a continued adjustment to these policies, the firms tend to do otherwise. It is also evident the Chinese government's FDI approval process has impacted the overall capabilities and direction of the firms' investment.

DENG (2004) examined the motivations and implication of Chinese MNCs foreign investment. He discussed various motivations such as 1. Resource-seeking, acquiring security and access to raw material 2. Technology-seeking, acquiring sophisticated technology to satisfy their competitive disadvantage; 3. Market-seeking, as Chinese market is being saturated the firms need to take their products to an overseas market 4. diversification-seeking, investing in overseas projects with the encouragement of the government to reduce the risk and 5. Strategic asset-seeking, like internationally known brand names. He also explained the important role the Chinese government played in encouraging and implementing favorable policy for the MNCs venture overseas. In his examination of the motivation and the rationale behind the outward investment by the Chinese companies, he concluded that the main intention is to acquire strategic resources and capabilities, expecting the contribution towards strategic needs (2007). Schueller and Turner (2005) also stated that the reason for an increase in Chinese MNEs outward investment is similar motive with the Western companies' FDI. In addition, Schueller mentions that entry into foreign market and the investigation into various markets and buying out companies with important capabilities and competencies are another reason. Considering the political background, the companies are expected to invest in known brand names, energy and other resources that will satisfy the strategic need of China.

In Schueller and Turner (2005), it is explained that there are two more reasons for Chinese MNEs FDI: these are buying out strategic resources such as technology and brand names. Some of these companies who bought out foreign companies are Haier who bought Maytag; TCL bought Schneider Electric, and Huawei bought Siemens.

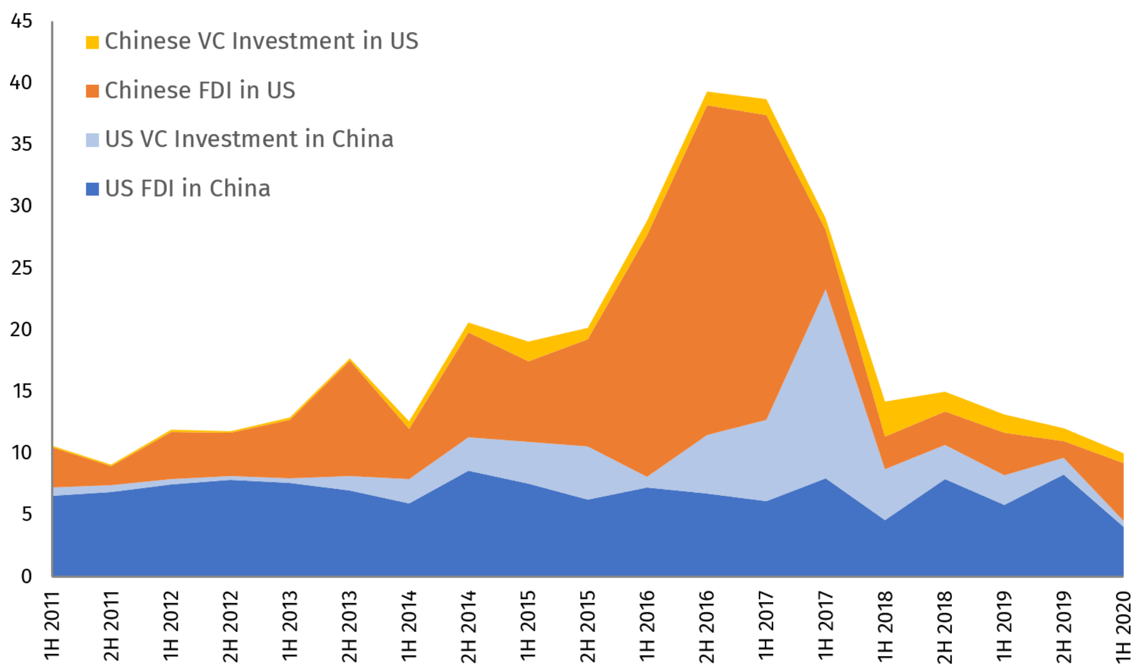
Deng's (2004) assumption about Chinese MNEs FDI presents better picture of their motivation. He explains that the firms' goal and action in pursuing multiple projects is evident. While their investment could begin with seeking resource, depending upon the amount of experience they gain their motive could change in pursuing new investment that could help them gain global competitive advantage. The following is a summary of those unique Chinese MNEs motives (2004). A) The role the government played by requiring the MNEs to adhere to goals compatible to the need of the national economic development, such as transfer of advanced technology, access to natural resources, an increase in export and increased currency earning. B) Unlike the development of East Asian nations, Chinese MNEs heavily traded outwards to acquire natural resource and advanced technology. An obvious reason behind the investments into developed nations of North America and Europe can be attributed to the need to raise foreign currency and satisfy their technological needs. In similar case, Chinese MNEs are allocating substantial amount of investment in resource rich nations of Africa and Latin America. C) Unlike MNEs in other parts of the world, Chinese firms are not going abroad for low-cost labor. While recently there has been an increase in labor cost in China, Chinese MNEs still enjoy surplus labor and are more likely to move to another location within the nation for cost saving. D) Similar to the above reason, the Chinese entry into other markets through JV and Wholly owned subsidiaries, is not meant to look for a low-cost location to send back products to home and foreign markets at lower cost compared to others in the market. E) Another reason could be the fact that there is limited access to foreign exchange in China, and in the future, firms may invest outside the country to help them access the foreign exchange market. In addition, Chinese may invest outwards because of non-economic reasons; like "residency right, tax advantage, legal protection, education, social security and health services" (pp 15).

Chinese FDI in US

Americas had a mixed reaction to Chinese FDI, some had the fear of Chinese companies buying out US businesses but most of the state leaders were happy to find that the investments are creating jobs in their respective states. In their study of Chinese FDI, He and Lyles (2008) state that US is an ideal investment destination for Chinese investors because of its openness, market size, technology, security and accessibility of financial sources. Among the first firms to invest in US is Bank of China in 1981 and followed by many like Lenovo, CNOOC, Haier, Fuyao and Waxiang; a mix of banking, technology, home products and automotive parts manufacturers.

According to a report by the National Committee on US-China Relations and Rhodium Group (2017, 2018), Chinese investment in US from 2010 to 2015 grew an average of 32%. The highest growth was recorded in 2016, from $15 billion in 2015 to $46 billion in 2016. The report reiterates the domestic situations such as political and economic risk were pressuring the MNEs to invest abroad. As the result China is among the top investors in US. Its evident Merger and Acquisitions are the preferred entry mode into US market. While 96% of the $46 billion total investment is Merger and Acquisition, only 4% is entry using Greenfield. The 2020 report

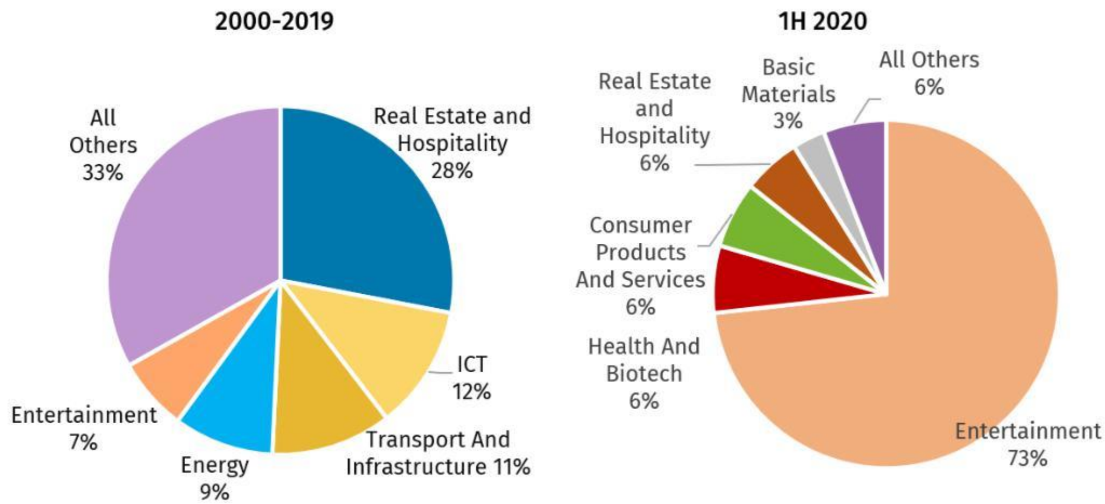
Figure 1: Completed Two-Way FDI and VC Investment Between the US and China



Source: Rhodium Group. FDI data represents the combined value of direct investment transactions by mainland Chinese companies in the US, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity). VC data represents pro-rata values determined as the investor country's proportional share of each funding round's value based on the number of participating investors. 1H 2020 data are preliminary only.

by the same group indicates contrary to the growth trajectory in 2016. The value of announced deal from China fell by 90%, and the value of completed deal fell by 35% because of the change in policy from both China and US. The impact of this change will be higher on local level as no new jobs will be created and the Greenfield project may have to seize (Rhodium, 2020). Figures 1, 2, and 3 in the appendix indicates the total and area of investment between the two nations. The drop in investment from China, to $10.9 Billion in 2020 is the lowest since 2011. This has a lot to do with the restrictive US policy towards state sponsored Chinese firms.

Figure 2: US FDI Investment in China by Industry

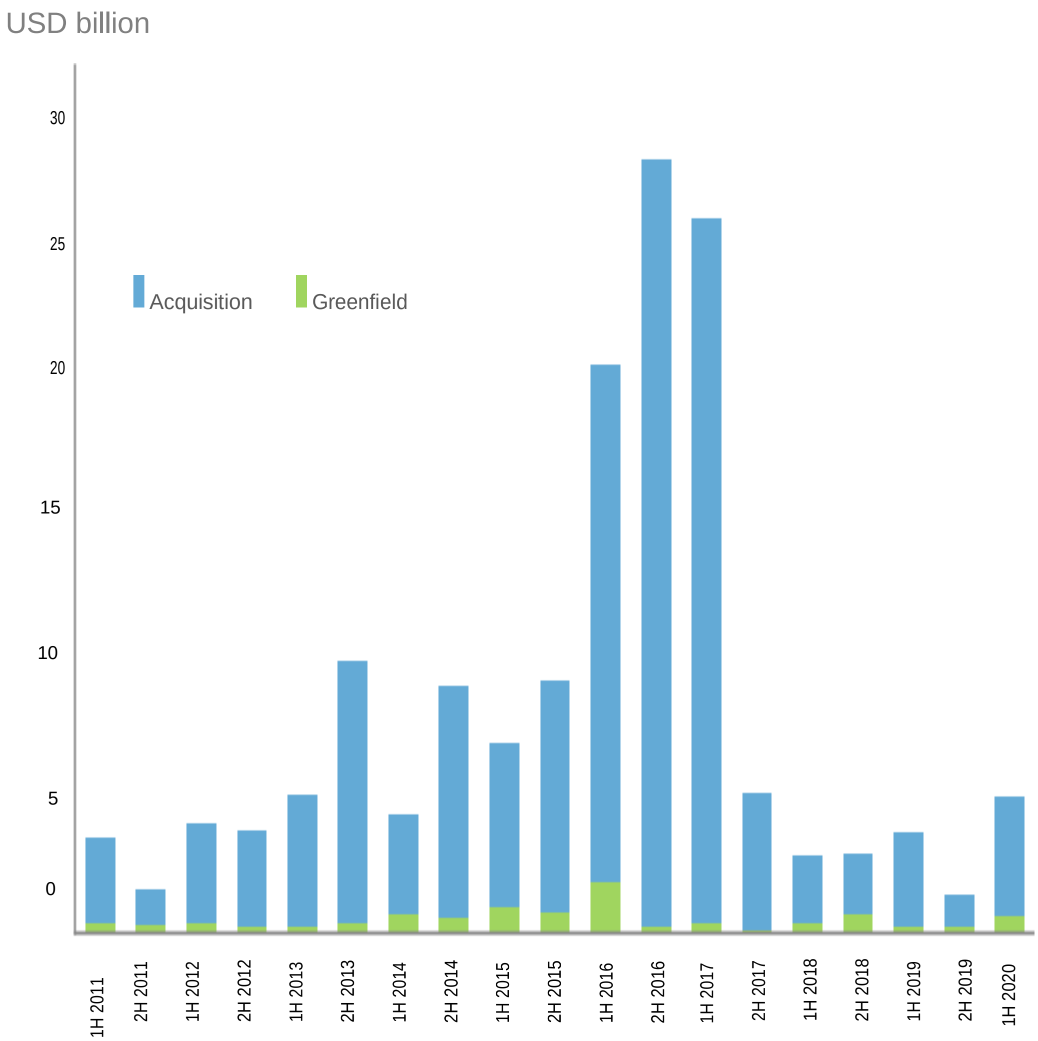


Source: Rhodium Group. Data represents the percentage of direct investment transactions in certain industries by US companies in mainland China, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity).

To describe characteristics of Chinese investors, Rui, and Yip (2008) expand on the firms' different categories based on ownership. 1) Large state-owned enterprise seeking resources 2) Large state-owned firms encouraged by government policy. 3) A public share issuing firm 4) Private company such as Huawei. These same companies can also be categorized into the following based on their strategic intents: 1) Transnational orientation with focus on global competition 2) No orientation but to make-up for its competitive weakness 3) Domestic orientation planning to compete with MNEs in domestic market 4) Trade oriented firm with main goal of expanding its trade 5) Niche player needing to increase its parts company. So, as we examine the Chinese MNEs intentions, they are planning to become competitive, and gain sustain advantages through Merger and Acquisition or Greenfield projects. But what will make them successful is rather complex issue, considering the many challenges they will face in much developed and culturally different market.

Porter (1991) presents a discussion on what determines a firm success and defined a firm's success as achieving sustained financial position. He stated three important circumstances that can explain this concept. First is when a firm can create a clear and consistent explanation of its strategic position in the market. It is also imperative the strategy brings together all value chain activities within the organization into a common understanding. The second is that the goals are connects the organization's internal strength and weakness with the external opportunity and threat. The third one is when the firm's goals and achievements will help to create core competencies. At last, Change should be taken as a constant occurrence and every event should be taken as an exceptional attribute that can be exploited differently.

Figure 3: Completed Chinese FDI Transactions in the US



Source: Rhodium Group. Data represents the combined value of direct investment transactions by mainland Chinese companies in the US, including greenfield projects and acquisitions that result in significant ownership control (>10% of equity).

Deng (2007) analyzed the characteristics of the Foreign Direct Investment of Chinese firms in 1990s, which grew to second place compared other emerging nations. Compared to most firms from developing economies, Chinese companies seem to be interested in higher income countries like Hong Kong and the United States as it has greater investment atmosphere. Chinese companies have 646 R & D partners in US, 33 of them are in chemicals and the rest are related to manufacturing. The important reason for buying into the R &D is to transfer technology, expanding their brand, and by-passing the none-taxable barrier. The firms' main intention is to keep the design and manufacturing near to home. While most of the Chinese firms investing abroad in 2002 are owned by the government, it is evident that they are not always driven by the profitability, instead they are involved in supporting the government policy. Evidently merger and acquisition has become their choice of entry mode, in so doing the country's standing in merger and acquisition has risen to 4^{th} largest in Asia.

Entry Strategy

Brouthers, Brouthers and werner (1996) investigated the entry mode for small and medium service companies. They found that ownership and location advantage impact the entry mode for small and medium companies like how it affects the MNEs.

In Dunning OLI theory (1988), it is stated that firms select the most compatible entry mode when entering an international market. The ownership advantage is based on the firm's experience, the ability to differentiate their product and their service. Location advantages are when they contemplate which market is favorable and will allow them to become competitive. The internationalization advantage is the cost at which it will be possible to form a relationship that will maintain similar functions on global level. Figure 2. indicates the Chinese FDI in various industries in US. Figure 1. on the next page indicates total investment from 2005-2016 and mode of entry.

Anderson and Gatignon (1986) also explain entry mode in different way, Independent mode, Cooperative mode, and Integrated mode. Independent modes are licensing, franchising, and contracting. Cooperative mode is joint venture or strategic alliances, and Integrated mode is when the firm builds it own plant, distribution or sales and services.

RUI AND YIP (2008) studied the Chinese firms' strategic intents. While they used a secondary data for their summary of the last decades between 1978 and 2002, their major work is focused on the acquiring firms and what type of firms they acquired and its geographic distribution other than North America.

PORTER (1991) presented his original dynamic strategy of the firm. He discussed the reason behind why firms attain high performance and the process by which the competitive position is created. He listed 3 important steps how a firm can become successful. 1. developing a consistent internal goals and functional policies; 2. The alignment of those policies to the firm's strength and weakness and 3. The use of centrally placed strategy to help transform the resources into a competitiveness. While he had listed the steps to acquiring such position, he also explains the most important linkage between choices the company makes in an industry, its position, the activities it takes to do so and the outcome.

The Resource Based Theory

Wernerfelt (1984) in his seminal work on Resource Based View explains that resource and product are the same in such that product requires resources and resources can be part of products. This basically explains the need for resource as a central factor for the firm to become competitive in the marketplace. Fahy (2000) explained the Resource Based View and competitive advantage in the following: to date the definition is based on the use of resources to create competitive advantage. But RBV points to the fact that the important factor in competitiveness of resource is based on characteristics such as; value, barrier to duplication, and appropriability. So, competitive advantage can be achieved using such resources in the firm's product. The emphasis is on the ability of the manager to recognize such resources, develop and organize for a gaining profitability. An important point in the RBV is to make it impossible for a competitor to imitate your product or service.

Capability Lifecycle

HELFAT AND PETERAF (2000) stated the explanation behind the capability lifecycles. While it is a dynamic way of looking at the RBV, it is explained as the continuous improvement of organizational capability by which the resources are utilized in a manner that makes the organization competitive. So, competitive advantage or disadvantage comes overtime. Accordingly, the capability lifecycle has 3 stages: founding stage, developmental stage and maturity stage. 1) The founding stage need to have two things: organized group and a central objective that can create a new capability. 2) Developmental stage-the group searches for capability development overtime. 3) Maturity stage- maintenance of the capabilities that are already developed.

COFF (1999) studied the relationship between competitive advantage and performance of a firm and found that competitive advantage may not become performance in an organization. He also asks an important question; why some firms can be more competitive than others? This according to him is based on appropriation of the rent. It is easier to attain competitiveness if it is based on knowledge, because it is hard to imitate such competitiveness. Tseng, Tansuhaj, Hallagan and McCullough (2007) studied firm resource on multinationality. Their study is based on RBV and the resources availability for a firm's international growth. Two points were emphasized: because of the complexity of foreign operations, more resources are needed, and heterogeneity of resources instead of external environment is important for the firm's success.

Dynamic Capability

Augier and Teece (2008) discussed the dynamic capabilities model and the manager's role in gaining competitive advantage. They explained how firms can achieve sustained competitive advantage in a dynamic and competitive environment. The model helps to identify the capabilities needed to enhance the firm's ability to differentiate. The important part of the theory is managerial traits and system as well as the design of the organization that will decipher internal and external environment and constantly develop to create sustained competitive advantage for the firm.

Chinese Auto Industry

Ding and Akoorie (2013), in their study of the internationalization of Chinese auto industry state that, the industry has exhibited impressive annual growth. A combination of the annual growth of 9% with internationalization of production and market through various partnership has influenced the FDI. According to Yan (2000, in Ding and Akoorie, 2013), the role the Chinese government played in addition to introduction of technology from outside has impacted the auto sector. Also, the government policy on Joint Venture has made it accessible for the Chinese companies to learn from foreign auto makers, which helped the sector to grow to their present level. The following is summary of Chinese auto evolution as presented by Ding and Akoorie:

Pre-Chinese civil war (before 1949): The beginning of auto production in china was before the republic is formed in 1949. While there was no production during this period, it was mainly imported from abroad to serve Shanghai market in which only business and elites could own. At a later year, parts makers began operation in Beijing, Shanghai and Tianjin. During this period no foreign companies invested in China.

Early post-civil war (early 1950s): As part of the national policy to transform the industry, after 1949 revolution the government began negotiating with Russian government to bring auto manufacturing technology to China. During this period China relied on Soviet for most of its development. As the result the first car plant, First Auto Works was formed. The beginning of the Chinese auto industry was in 1956, in which the first truck Jiefang (Liberation) was produced (Gallagher, 2006 in Ding and Akoorie, 2013). Later in 58' FAW and Shanghai Automotive Assembly joined the present-day Shanghai Automotive Assembly Plant to produce Hongqi (Red Flag).

Small Scale Industrialization (1958-1960): This a period in which many small-scale auto manufacturing plants were established. The industry had low productivity in the absence of competition and low number of cars getting off the assembly line made it hard to attain economy of scale. In general, the Chinese auto industry was left behind compared to others in the region because of this strategy.

Two decades of independent development (1960s and 1970s): This a period in which the relationship between Russia and China was not working well. As the result China began its own industry development. During the 1966-76 cultural revolution, the manufacturing of luxury goods like sedan cars was shut down. On the other hand, this was a period in which the rest of the world increased production of cars because of growing consumption.

Opening-up ad reform (after 1978): During this period the auto industry begun opening to the outside world. The government was interested in decentralizing and developing the industry to create a competitive market economy. Since the imported cars outnumber the domestic cars, it was the government's plan to strengthen the domestic companies and help them acquire technology and capability to produce cars through cooperation with foreign car makers. According to Gallagher (2006, in Ding and Akoorie, 2013) the first joint venture was in 1978 between BAIC and AMC in which they built Cherokee Jeep. Later in 1984 a second JV was formed between SAIC and VW. There were five JVs during this period between: BAIC & AMC, SAIC & VW, FAW-VW, Tianjin-Daihatsu, and Guangzhou-Peugeot.

Catching up (after 1995): This is a period in which the industry production and sales increased faster. There were two JVs during: FAW and VW, and Dongfeng-Citroen. Over ten years after the first JV, the government decided to implement the first of its kind industrial policy for auto sector. While creation of jobs and tax revenue were the main reason, it was also the beginning of the government's examination of how to find the process of technology and skills transfer.

WTO and after 2001: The entry of the country into the WTO has influenced the beginning of the Chinese government's preparation to enforce regulation of the industry. They had to conform to the trade related intellectual property rights and plan to open the market.

Period of fast development (2001-2008): According to Ding and Akoorie (2013), all auto companies, small or big had plan to increase their production. While production of most Chinese automakers is around 10000 cars a year, and had limited models, and struggled with low capacities. This has a big impact on their plan to create economy of scale and become competitive in the marketplace.

Xi, Lin, and Guisheng (2009), also explained the 50-year evolution of the Chinese auto industry and divide the development into 3 separate periods which overlaps with Ding and Akoorie (2013). The periods are: 1956-1983; 1984-1997 and last one from 1998 to the preset. Nevertheless, they stated that the industry has grown rapidly with in short period of time. It has been ranked third in the world and has produced 7 million cars a year.

According to the Congressional Research Service (2009) when the market is opened to foreign auto makers, it was expected to suppress the domestic competition by Chinese auto makers. Because of that the ownership was capped at a 50% control hoping that the locals can gain experience from the venture. Instead, the foreign auto makers benefited more than their counter parts. Another strategy was to explore to allow the purchase of foreign brand in which MG Rover was bought by SAIC and Nanjing Automotive in 2005. Later the same year, SAIC purchased the property right to Rover platform in which they used this platform to produce Roewe brand cars. The Chinese auto market is still dominated by foreign makers and many are subsidized, 2/3 of the top 25 are owned by the government.

National Culture

In his seminal work on how national culture influences business and organizations, he defined culture as, "the collective programming of the mind which distinguishes the members of one category of people from other" (Hofstede, 2001). So, when managers make decision, they must be cognizant of the cultural differences or similarities for the decision to work in the way it is intended. Hofstede presents 5 cultural dimensions to explain the paradigm. 1) Power distance- this explains that the unequal distribution of power in an organization is acceptable. 2) Individualism versus Collectivism- this signifies the individual's relationship with others, such that in individualistic society, the person is to look after him/herself. In collectivist society, they are integrated into strong group. 3) Masculinity versus Femininity- this reflects the way the society accepts the gender role. In some society men are more assertive and competitive and some they are as caring and modest as women. 4) Uncertainty avoidance- In some society people are tolerant to uncertainty, who are also more tolerant and accepting to the unknown future. In society that avoids uncertainty, everything needs to be clear through the laws and rules, so it is not left for guess. People in such society tend to be emotional. 5) Long Term Versus Short Term Orientations- In this dimension the long term is related to thrift and perseverance while the short term is related to upholding the role tradition plays once social obligation and saving face.

In the discussion of how the culture influences multinational firms, Hofstede acknowledges the role an organization's culture and national culture plays with in a business line or division. He also suggests the use of organizational structure to coordinate corporate activities in implementing common practice to keep the MNEs together. In addition, the matrix structure can be used as a solution for better functioning organization, but this may be more expensive to implement it. While greater integration of the MNEs makes it easy to create a competitive structure, it is important to know that the firm needs to have skilled management group that can bring together all stakeholders, create training and development model attuned to enhancing the cultural diversity.

Cultural Differences and Decision Making

Cultural distance can be explained as the amount shared norms and value in a nation compared with other nations (Chu and Hu, 2002; Hofstede, 2001; Kogut and Singh, 1988, in Drogendijk and Slangen, 2006). Ghemawat (2001) also listed four factors that explains the distance between two countries. 1-Cultural distance –People's communications with each other and organizations is determined by the national culture. Also, such things as religion, language, ethnicity and social norms can create greater difference between countries at the same time influences the trade between those countries. 2-Administrative and political distance – Any previous relationship or developing of a recent political or administrative one can help countries trade well. It could be colonial relations such as old British, French colonies or a recent disintegration of borders like Eastern European countries. Another example can be when countries force to break relationship like India and Pakistan. 3- Geographic distance- distance away from a country can a hindrance to do business but this is not only physical distance, the size, distance from border, landscape and being land locked can cause the same effect on relationship between nations. 4-Economic distance- this can be differences in individual income or national GDP and can have distinctive impact on the amount of trade and pattern of trade between the nations. Firms need to adjust their trading plan and location based on the economic analysis performed prior to entering locations.

Morosini, Shane, and Singh (1998), explained routines and repertoires that are used by firms to structure their operations. While these routines are things like environmental scanning, R & D processes, and managerial procedures, they are influenced by the difference in national culture and the distance between them.

Podrug (2005- in Podrug, 2011), in his study of the impact of culture on managerial decision, he stated how different cultural environment warranted different decision-making behavior. In addition, he explains lack of cultural knowledge in international business can result in failure and the management need to understand the alignment of the firm, its activities and strategy with the cultural aspect of the marketplace.

Chinese Government Policy

Guo, Jiang, and Yang (2017) studied roles a government play and its involvement in corporate entrepreneurial outcome. In doing so, they took the example of how Chinese government influenced the Chinese auto industry. Their study took into consideration policy implementations from 1980-2016. Chu (2011) also examined how Chinese government promoted the auto industry through various policy implementations since 1978. Guo et al. state that the Chinese auto industry has similar growth stages to developing nations like Brazil and India (pp. 8). They divided the development in the following three stages:

Early 1980-Late 1990: The initiation stage was challenged by lack of technological know-how and investment. **Late 1990-2005**: A fast and significant development of the auto industry happened during this period. **2006-Prsent**: This is a new stage in the transformation of the Chinese auto industry.

Methodology:

The purpose of this research is to study Chinese investment in US and specifically to find the intention of the Chinese auto companies' investment in the auto parts market. The study requires us to find how the research matches the existing theories and models of international business and need to investigate data that is collected to show the pattern and amount of investment. Looking into the purpose of the study, we need to have a tool that can give us a way to find the answers to our question. Accordingly, we used two methods: quantitative and qualitative. Therefore, our method is considered a mixed method.

Kallet (2004) explained the research concept. A research design is when one controls and manipulates the data to provide response to the research questions with the possibility of cause or effect and any presence of relationship. He also presents the following definitions: Validity- credibility of the result and its application to the general population; Internal validity refer to the credibility of the conclusion has correctly describing the study; and External validity refer to generalizability of the study.

Creswell (2003) explains the above methods in the following: A quantitative approach is the use of postpositivist claim and use predetermined tool to collect data. This can be a new data or an existing secondary data. A qualitative approach is when the researcher makes knowledge claims, use of narratives, cases, literature review and so on…Finally, the use of mix-method approach is when researcher use both qualitative and quantities methods.

The qualitative data is mainly an in-depth literature reviews and use of theories and models used by previous researchers in the field. Publicly available sources and data from previous studies is compiled. The quantitative data are graphs, tables and charts that are acquired from government data bases, international organizations such as OECD, UNCTAD, IMF, and various annual reports and analysis produced by consulting agencies. A secondary data sources were used for both the methods from both Chinese and US MNEs including available international sources. In addition, reports prepared by non-profit research institutions were utilized to complete the final project. To ensure the reliability and validity of the sources we used only officially published documents and peer reviewed journal related to the subject matter. While some of the quantitative data may be reanalyzed using standard statistical process and use of excel, most will be adapted as it may fit.

Result and Discussion

In this section we will present the result and discussion of the questions listed at the beginning of the study. Each question was examined based on the extensive literature review of the theories, concepts and models written as well as data by various authors in the specific areas as summarized in the review section.

Question 1: What are the driving factors for Chinese MNEs investment in USA?

As presented by Child and Rodrigues (2005) the Chinese companies are going abroad because of disadvantages at home, but IB theory states as; market seeking, technology seeking, resource seeking. While the government's policy of "go global" is a strong case, it also has different goal than a natural business procession. This could be for buying brand names, finding strategic resources, or political motives. The government has influenced the firms' decision by allowing access to credit without which some of the firms may not have invested abroad. As the study indicated, only few of the firms are privately owned, most are state owned corporation. The firms' entry mode is predominantly through Merger and Acquisition and Greenfield. Our finding indicates some firms were not able to freely decide on investment issues while in domestic market, which is another reason for going abroad.

Question 2: Considering that we know Chinese government supports the companies by giving them access to financial/credit resources; can having access to resource alone give them competitive advantage in the new market?

The government policy is strongly endorsing the auto investment since the beginning of the industry. Guo, Jiang, and Yang (2017) and Chu (2011) studied how the Chinese government policy influenced the auto industry and the investment decisions in domestic market or abroad.

The important part of this question is the fact that resource alone will not give the Chinese firms a competency that will make them competitive compared to others in the industry. For example: Augier and Teece (2008) discussed the dynamic capabilities model and the manager's role in gaining competitive advantage. Cavusgil, Seggie, and Mehmet (2007) also explained that, the theory of dynamic capabilities points out that, competitive advantage is not coming from the firm's resource, but based on how it is manipulated by the manager. In addition, Wernerfelt (1984) emphasized the managerial skill, development, and manipulation of the resources as an important part of gaining competitive advantage.

Cultural difference is greater treat to Chinese MNEs as presented by Morosini, Shane, and Singh (1998), routines and repertoires that are used by firms to structure their operations. While these routines are things like environmental scanning, R & D processes, and managerial procedures, they are influenced by the difference in national culture and the distance between them. So, there are a lot of factors that could influence the competitiveness of Chinese firms. In the way we understood how Chinese firms are working, some of the firms may take longer time to achieve competitive advantage because the learning and experience curves may be slow in adapting to the global marketplace.

Question 3: a) Understanding US market conditions, legal environment and labor issues may not be easy; does this knowledge or lack thereof make them less competitive compared to others in the industry?

b) Managerial knowledge and skills need in US are quite different compared to home operation. How do companies deal with such challenges and lack of such skill? After all, there must be good management to change the resources into core competencies and create competitive advantage.

If most of the firms from China are fully or partially controlled by their government, there will be greater implication in the marketplace. The most recent examples are the failing deals of acquisition because of government review and disapproval. Another example is also, the limitations Chinese companies like Huawei are facing because they are labeled as security threat to enter U.S market. According to Morck, Yeung and Zhao (2008), some of the industries are reporting that the rising price, capacity, and market competition is decreasing the overall profit margin. There is also big cultural disparity between the two countries as shown in Table 2. All the above points are reflective of disparity between the two countries based on the lack of knowledge about US market. The lack of knowledge in this case will make the Chinese companies less competitive.

The second part of the question is better discussed with the fact that the managerial challenges are not new and can be dealt with but will take longer time. Chinese MNEs are good in the way they deal with the competition in U. S. market, but it is also because some are hiring managers that are knowledgeable about the companies, the employee unions, or generally handling daily work. Hiring managers will give them better performance that if they did not have skilled ones but will not give the Chinese firms sustained advantage.

Question 4: Are the MNEs intending to use the skills and knowledge learnt in US for competition in home market?

Repatriation of product knowledge and managerial skills acquired overseas is a common institutional practice. The government policy is also noticeably clear in finding competencies that are important to bring it back to domestic market. One of the important reasons for government is pushing the acquisition of strategic firms, brand names is because it is believed to shorten the learning curve and experience curve and establish market advantage for Chinese MNEs. As discussed above, the government required the MNEs to adhere to goals compatible to the need of the national economic development, such as transfer of advanced technology, access to natural resources, an increase in export and increased currency earning.

Question 5: Are Chinese MNEs intent to enter auto manufacturing in the future through mastery of knowledge of market conditions such as managing workers and suppliers? The steps Chinese MNEs are taking to entry US market is very reminiscent of Japanese and Korean MNEs. Although the Japanese and Koreans imported cars before they moved their plants to US, Chinese are betting on learning the ropes by making the auto parts in the US. Considering the Chinese policy is clear in attaining the technology and skills required to build cars, the parts makers are intending to learn the skills, technology, and process to implement in the domestic production systems.

Conclusion

In conclusion, we like to summarize our finding. Chinese companies are aggressively buying American companies through M & A and Greenfield. The main goal is to have control over the asset and shorten the time it takes to learn the technology, organizational skills, supplier management and managerial skills. They also face great challenges such as political backlash from the US policy makers, especially in electronic and technology related firms, agricultural and medical as it is considered security risk. The closeness of the Chinese government to the firms is also an issue as the firms are not motivated by profit but practicing policy mandate from their government.

It is evident that it takes more resources to do business abroad, but it will take even more if the firms have liability such as cultural difference, foreignness, and lack of managerial skills. Our result indicates that some of the Chinese firms are running the risk of marginalization, as they continue to establish themselves in an overseas market but do not follow and participate in their government's financial repatriation requirements. We also have indications of challenges in transforming resources to competitive advantage among Chinese firms may take longer as they lack managerial and organizational competencies to execute such strategies. Finally, the Chinese firms' intentions to enter US market is to learn and experience by starting with parts making. This will allow them to slowly learn the process, organizational and competencies required to participate in the manufacturing of cars. It is our suggestion that a firm level data related to the Chinese firms investing in US should be examined to reach a better result.

International and Managerial Implications

It is evident our study will attempt to fill the gap from previous research in an area of cultural influence, managerial challenges, skills transfer, and resource based competitive advantages. It will also increase the knowledge base in international business and the challenges MNEs from developing nations like China are facing when they invest in developed nations of Europe and North America. In addition to enhancing the scope of research in strategy and International Business, this study will attempt to fill the gap specifically: the challenges faced by Chinese MNEs in such areas as managerial skills, adapting to new technology and learning competitive business environment in USA.

Limitation and Future Research

The limitations for this study are related to the fast changes in global commerce as well as the unstable economy that makes it unpredictable to see how the market reacts to technologies and innovation. Therefore, it important to continue examining the progress of MNEs from developing nations as they usually are not following the traditional IB process of internationalization. The second part of this limitation is the need to study MNE investments from institutional point of view and find institutional level data; that may tell us a lot of things we don't know about firm level decisions and their motivation. Future research should pay attention to the Asian MNEs and their strategy as they seem to follow a new path.

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