

# The Role of Digitalization in Enhancing Outward Foreign Direct Investment: New Advantages for Chinese Enterprises

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**Abstract:** With the rapid development of big data, cloud computing, artificial intelligence, and other technologies, digital construction has gradually become a crucial means of enterprise development, significantly impacting the operation and management activities of enterprises. Outward Foreign Direct Investment (OFDI) is one of the key pathways for Chinese enterprises to “go global,” contributing to improved economic efficiency and promoting national economic development. Therefore, studying the advantages of digitalization in OFDI activities will aid in exploring effective methods for Chinese enterprises to engage in OFDI within the digital economy and provide an important foundation for strategic enterprise planning and national policy formulation. This paper combines the current state of OFDI among Chinese enterprises, analyzes the advantages and roles of digital construction in OFDI, and explores relevant countermeasures, aiming to provide theoretical references for enterprises’ OFDI activities in the context of digitalization.

**Keywords:** Digitalization; Outward investment; Advantages

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## 1. Introduction

The digital economy represents a new economic model driven by digital technology, offering advantages such as high efficiency, convenience, and sustainability. Currently, the digital economy has become one of the key development strategies for the country, playing a crucial role in promoting its innovation-driven development strategy. The Outward Foreign Direct Investment (OFDI) activities of enterprises can enhance their economic efficiency, which also has a positive impact on promoting China’s economic development. Combining digital technology with OFDI allows enterprises to fully capitalize on the benefits of digitalization, thereby improving the overall effectiveness of OFDI activities. General Secretary Xi Jinping emphasized the importance of utilizing digital technology to overcome time and space limitations, achieve cross-border development, and promote the development of both domestic and foreign economic cycles <sup>[1]</sup>. Therefore, exploring the new

advantages of digitalization and OFDI holds great significance for China's economic development and the implementation of supply-side reforms.

## **2. The current situation of OFDI by Chinese enterprises**

From the perspective of geographical distribution, most of China's OFDI enterprises are located in more economically developed cities, with a general east-west imbalance, where the majority are concentrated in the eastern regions. In terms of provincial and municipal distribution, most OFDI investments are concentrated in economically developed regions such as Guangdong, Shanghai, Zhejiang, Beijing, and Jiangsu, with these five provinces and municipalities accounting for over half of the national total. In terms of outward investment destinations, Chinese enterprises primarily focus on the Asian region, particularly Japan, Singapore, and Malaysia. In addition, investments are made in developed regions of Europe and the United States, with a focus on advanced manufacturing countries like the United States and Germany. However, investment in Latin America, Africa, and Oceania remains relatively low, unable to achieve significant scale.

In terms of enterprise types, limited liability companies and private enterprises account for more than half of China's OFDI, making them the main drivers of these activities. Limited liability companies enjoy flexibility in equity structure, benefit from tax incentives, and have certain advantages in capital operations, making them particularly suitable for OFDI. The profit-driven nature of private enterprises also leads to increased OFDI as they expand in scale and seek to meet growing market demands. Foreign investments help private enterprises expand their overseas markets, resulting in the continuous expansion of their OFDI scale. Additionally, state-owned enterprises tend to be more stable in their OFDI activities and play a significant role in this domain <sup>[2]</sup>.

From an industry distribution perspective, Chinese domestic investors display clear diversification. Apart from the specialized financial investment sector, manufacturing and wholesale/retail industries have traditionally dominated OFDI activities. In recent years, with the advancement of Chinese tech enterprises, the OFDI scale in the information and communication industry has notably increased. Companies like Tencent and Huawei generally adopt a strategy of investing in overseas R&D and production bases to capture foreign markets, which has significantly boosted the scale of OFDI in the sector <sup>[3]</sup>. Chinese enterprises are gradually shifting their focus from traditional industries to emerging industries in terms of foreign investments, resulting in an optimized and diversified investment structure.

## **3. Advantages of digitalization for OFDI by enterprises**

### **3.1. Data as a production resource and enhancing competitive advantage**

Due to factors such as the global pandemic, the rate of global economic growth has been low. In this context, the pressure on foreign direct investment for Chinese enterprises has increased significantly. Currently, while many Chinese enterprises are making direct investments overseas, there remains a considerable gap between their total investment scale and the average investment scale compared to developed countries. As a result, China's OFDI activities exhibit strong scale effects but fail to enhance its position in the international investment market through scale advantages <sup>[4]</sup>. Additionally, Chinese enterprises face high technological risks in OFDI activities, with a lack of independent development, product revenue-related capabilities, and competitiveness in the international market.

In the digital era, the generation and application of data have gradually become vital production resources,

and the operational data generated by mobile terminals offer valuable insights for enterprise operations management. The organic integration of data with production factors such as capital and technology can significantly improve the production and operational capacities of enterprises, thereby consolidating their market competitiveness. Through data, enterprises can adopt more dynamic approaches to address various challenges, and technologies like big data analytics and artificial intelligence can enhance the scientific accuracy and reliability of decision-making. This, in turn, improves the level of service, as well as the operation and management capabilities of enterprises, allowing them to gain a competitive edge in the international market.

Thus, digitalization enables data to serve as a crucial resource, allowing enterprises with data advantages to secure a strong position in international market competition<sup>[5]</sup>. Under the influence of digitalization, Chinese enterprises can explore new avenues, utilize data as an essential production resource, fully leverage their data advantages in the digital economy, and gain substantial benefits in foreign direct investment activities.

### **3.2. Digital development facilitating changes in the existing industrial structure**

According to the theory of free market monopoly advantage, in an imperfect market, once an enterprise gains competitive advantages such as technological prowess, production scale, economic efficiency, or organizational superiority, it can exploit these advantages to establish market monopolies. Enterprises with monopoly advantages are major players in transnational overseas investment and typically engage in cross-border operations through these advantages, thereby securing a stronger position in the international market<sup>[6]</sup>. Developed countries have mature international investment practices, and extensive experience, and have essentially formed certain monopoly advantages, creating high barriers to entry in the global investment market. Consequently, Chinese OFDI activities face significant pressure and suppression from the large-scale transnational investments made by enterprises from developed nations.

Digital transformation can combine digital technology with production activities, enabling enterprises to achieve intelligent production, which enhances their productivity and international competitiveness, thereby securing competitive advantages for domestic firms<sup>[7]</sup>. The widespread application of digital technologies can also foster new business models, creating novel forms of cooperation and competition. Digitalization helps break through the material monopolies present in international markets, shifting competition from physical resources to virtual digital competition. This reduces market entry barriers, allowing enterprises to gain new competitive advantages, challenging the existing monopolies held by multinational enterprises from developed countries, and fundamentally altering the industrial structure of the global market. Moreover, digitalization provides enterprises with new developmental directions, fosters competitive opportunities in the digital information sector, and optimizes the division of labor within the international market.

### **3.3. Digitalization creating new opportunities for OFDI**

In outward investment activities, the effective acquisition of market information is crucial to the quality of investments. China has consistently prioritized the study of overseas information. Although some research outcomes have provided support for enterprises' overseas investment activities, problems such as information fragmentation and low transparency still limit the scale of foreign direct investment<sup>[8]</sup>.

With the development of digital technology and advancements in enterprise digital construction, industries are increasingly using information technologies like big data and cloud computing. As a result, the efficiency

and quality of information transmission have improved dramatically. In the information technology era, a growing number of internet users actively share their demand information, improving enterprises' understanding of market demand. This fosters positive interactions between businesses and consumers and provides sufficient information for investment decisions. Additionally, digitalization has led to the emergence of new business models, bringing about significant changes in the market environment. Many consumers are no longer just recipients of enterprise products but also possess valuable market demand information. Consequently, enterprises must utilize digital technology to closely track consumer-revealed market demand and predict investment activities, enabling them to seize new opportunities and challenges in the investment market, thereby improving the overall benefits of foreign investment <sup>[9]</sup>. Furthermore, digitalization shortens the global supply chain and increases the speed at which enterprises can respond to international market demands. This heightened understanding of market demand enhances their cross-border operational capabilities. As a result, the international market environment becomes more open. In such an open and free market environment, Chinese enterprises' digital technology advantages can be fully realized, enhancing their competitiveness in the international market <sup>[10]</sup>.

#### **4. Specific countermeasures for OFDI activities in the context of digitalization**

From the perspective of the enterprise, first of all, it is necessary to regard digital transformation as a key development strategy, enhance awareness of digital transformation, integrate digital construction with various business management activities, and improve the enterprise's overall digital level. Additionally, enterprises should fully leverage digital technology to optimize the allocation of existing resources and enhance management capacity through digital tools. This would reduce the communication costs between the enterprise and international markets, thereby strengthening its competitiveness in the global market <sup>[10]</sup>. Moreover, enterprises should use digital technology to optimize resource allocation, improve management capacity, reduce international communication costs, and strengthen their information advantage in foreign investments. Finally, the enterprise should tailor its digital construction to its specific characteristics, taking into account its business direction, equity structure, and production resources, to expand its competitive advantages and market position through digital technology.

On the government side, it is essential to enhance supervision and management in the field of digital information, establish a robust data management system, recognize the value of data mining, and build a well-regulated data trading market through legal frameworks and daily supervisory activities, to fully realize the potential of data in commercial activities. Simultaneously, the government should introduce relevant policies to strengthen support for digital construction by offering tax incentives, government subsidies, and other forms of assistance to aid the digital transformation of enterprises. The government should also focus on fostering talent, advancing technology research and development, and protecting data to support digital construction within Chinese enterprises. In addition, the government should maximize its role in providing strategic guidance by investing in infrastructure, scientific research, and technology development necessary for digital construction, while upgrading existing infrastructure to create a strong foundation for digital growth. Actively participating in the development of digital technologies such as big data, cloud computing, artificial intelligence, and the Internet of Things will further elevate China's level of digital application. The government could also establish an integrated digital platform system that centralizes and optimally allocates enterprise resources from a macro perspective, thereby improving the efficiency of digital construction and providing significant momentum for



China's outward foreign direct investment activities.

## 5. Conclusion

In summary, the effective integration of the digital economy and the real economy helps enhance the OFDI benefits of domestic enterprises and promotes their healthy development. With the support of digitalization, new opportunities can be created for enterprises' foreign investment activities, while also leveraging the data advantages of Chinese enterprises. This can improve the competitiveness of Chinese enterprises in the international market by optimizing the global industrial landscape and promoting the healthy development of the domestic economy through transnational business practices. This demonstrates that digitalization holds great significance for China's economic development.

## Disclosure statement

The authors declare no conflict of interest.

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