



# Firm Heterogeneity and Regional Choice of China's Outward Foreign Direct Investment: A Review

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**Abstract:** This literature review focuses on the impact of firm heterogeneity on China's foreign direct investment (OFDI) region selection. The research shows that enterprise heterogeneity, such as productivity, technology and capital structure, significantly affects the OFDI decision and regional choice of Chinese enterprises. These findings not only enrich the understanding of the theory of enterprise heterogeneity, but also provide practical guidance for Chinese enterprises to formulate more effective internationalization strategies, optimize the layout of production networks, and improve OFDI efficiency and risk management capabilities. Looking forward to the future, the academic community can further study the evolution trend of enterprise heterogeneity, the role of emerging markets, the specific impact of policy environment changes on OFDI, and how digital transformation affects the role of enterprise heterogeneity in OFDI decision-making.

**Keywords:** enterprise heterogeneity, foreign direct investment (OFDI), region selection, productivity production scale

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## 1. Introduction

With the deepening of global economic integration, OFDI has become a key strategy for enterprise internationalization. OFDI promotes international market expansion, technology and management introduction, resource optimization and risk dispersion, and enhances corporate competitiveness and brand image. Firm heterogeneity affects OFDI decision-making and mode selection, such as productivity, technology, capital structure, etc. High productivity and technologically advanced enterprises are more inclined to OFDI. Heterogeneous factors such as capital structure and management experience affect the choice of investment model. Technology, brand and management advantages help enterprises overcome market entry barriers and enhance their position in the global value chain. Systematic analysis of the impact of enterprise heterogeneity on OFDI region selection is helpful to optimize decision-making and provide theoretical and practical guidance for the internationalization of Chinese enterprises.

## 2. The concept and dimension of enterprise heterogeneity

### 2.1 The concept of enterprise heterogeneity

The understanding of enterprise heterogeneity mainly involves factors such as scale, establishment time, capital intensity, ownership, human capital, organizational structure, and technology selection, which are comprehensively manifested as productivity differences. This theory stems from the new new trade theory, emphasizing that trade is based on enterprise heterogeneity, that is, the productivity of different enterprises. Enterprises allocate resources globally according to development needs and form integrated production and organization. These resources need to be combined with human capital to form a competitive advantage. Enterprise heterogeneity factors

### 2.2 Enterprise heterogeneity factors

#### 2.2.1 Enterprise productivity

Productivity is an index to measure the ratio between output and input of an enterprise, which is usually measured by the output of unit labor force. Enterprises with high production efficiency are usually able to produce more products or provide more services at a lower cost (Liu, 2019). Under the framework of heterogeneous enterprise trade theory, whether an enterprise will enter a country for direct investment depends on its own productivity level and the productivity threshold of the host country. When the productivity threshold of a host country is given, the increase of enterprise productivity may exceed its threshold, which leads to the ability of enterprises to invest in the country. At the same time, the higher the productivity of the enterprise, the more productivity thresholds it exceeds in different host countries, and the more location choices it makes for outward investment (Helpman et al, 2004; yeaple, 2009; chen et al., 2010).

### 2.2.2 Size of enterprise

Through scale expansion, enterprises can occupy a certain monopoly position in the market, so as to improve the market discourse power and bargaining power, obtain various production factors and resist risks, and help to form economies of scale and reduce costs. Therefore, with the expansion of the enterprise scale and the enhancement of its strength, the possibility of expanding overseas is increasing (Helpman et al., 2004).

### 2.2.3 Firm age

The ability of enterprises to carry out foreign direct investment will vary according to the stage of development of enterprises. Generally speaking, with the extension of business time, the enterprise will gradually develop and mature, the management experience will continue to accumulate, the reputation will gradually spread, and the brand will gradually be recognized. At the same time, the older the enterprise is, the stronger its willingness to carry out international operations will be. Therefore, the longer the enterprise operates, the more likely it is to make foreign direct investment (Liu Xiaoning, 2018).

## 3. The impact of firm heterogeneity on China's OFDI region selection and its micro-mechanism

### 3.1 Empirical study on the impact of firm heterogeneity on China's OFDI region selection

Based on the western enterprise heterogeneity theory, Wang Fangfang (2012) extended the enterprise heterogeneity FDI theory by observing the evolution characteristics of the internationalization path of Chinese enterprises. This includes the summary of the ternary extended margin of OFDI location choice of Chinese enterprises, and the establishment of the dynamic mechanism framework of OFDI location choice. The results show that the enterprises with the highest productivity are more inclined to invest directly in the host country, and the number of OFDI increases with the increase of the market attraction of the host country. Qin (2019) discussed the impact of enterprise heterogeneity on the choice of OFDI mode of Chinese enterprises. It is found that enterprises with lower productivity tend to choose cross-border M & A mode, while enterprises with higher productivity tend to choose greenfield investment mode. In addition, heterogeneous variables such as firm size, capital intensity and R & D investment will also affect the choice of OFDI mode.

### 3.2 The micro mechanism of enterprise heterogeneity in China's OFDI

Wang Fangfang (2012) extended the FDI theory based on enterprise heterogeneity, analyzed the internationalization path with Chinese characteristics, and put forward the ternary extended margin and dynamic mechanism framework of OFDI location selection. The study finds that high-productivity enterprises are more inclined to OFDI, the number of investment is positively correlated with the attractiveness of the host country market, and low market access threshold attracts more OFDI. Trade-induced OFDI tends to choose regions with large market potential.

Liu Juan (2019) used China's industry OFDI data to verify the impact of industry characteristics on OFDI. The results show that in the leading industries and tertiary industries of non-state-owned enterprises, total factor productivity is negatively correlated with OFDI breadth, while wage level, scale and added value are positively correlated, and fixed asset investment is negatively correlated in some industries.

Zhong Zuchang et al. (2021) studied how the diversified location layout and network structure of "going out" enterprises affect innovation capability. Through social network analysis, it is found that the influence of OFDI network centrality and density on innovation ability is inverted U-shaped, and network strength has a positive effect. Under different investment motives and industry characteristics, these effects are different.

## 4. Discussion and outlook

### 4.1 Impact analysis

Literature review shows that firm heterogeneity, such as productivity, technology and capital structure, significantly affects the OFDI decision of Chinese enterprises. Enterprises with high productivity are more inclined to direct investment, while enterprises with low productivity may be more inclined to mergers and acquisitions. The heterogeneity of enterprises also affects the OFDI choice of Chinese enterprises in different regions. For example, technology-intensive firms may be more inclined to invest in regions with advanced technology or high market potential, while resource-intensive firms may be more inclined to invest in resource-rich regions.

### 4.2 Theoretical and practical implications

The theory of enterprise heterogeneity provides a new perspective for China's OFDI region selection and enriches the

theory of international trade and investment. This theory focuses on the differences in productivity, technology and capital structure of enterprises, which helps to explain the OFDI decision-making of enterprises in the context of globalization. The introduction of the concept of enterprise heterogeneity helps to understand the allocation of resources and investment mode selection, deepen the understanding of enterprise internationalization behavior, and contribute to the development of international trade and investment theory.

The analysis of enterprise heterogeneity has practical guiding significance for Chinese enterprises to formulate effective internationalization strategies. By analyzing the characteristics of productivity, technology and capital structure, Chinese enterprises can better understand their own advantages and disadvantages and formulate differentiated competition strategies. Enterprise heterogeneity analysis also helps to optimize the layout of production networks and improve OFDI efficiency and risk management capabilities. Enterprises can find and allocate resources globally according to their own characteristics, maximize cost-effectiveness, and effectively identify and manage market risks, political risks and operational risks related to OFDI.

### 4.3 Potential research directions and problems to be solved in the future

As the global economic environment changes, the impact of enterprise heterogeneity on OFDI may change in emerging markets and countries along the " Belt and Road, " affecting regional economic development. The influence of policy environment on heterogeneous OFDI decision-making and how to shape the global economic pattern are the future research directions. Digital development may change the role of enterprise heterogeneity in OFDI, and its impact needs to be studied. Future research can explore how heterogeneous factors such as productivity, technology, and capital structure jointly affect corporate OFDI decisions and regional choices.

## 5. Conclusions

Firm heterogeneity is crucial for understanding and optimizing China's OFDI region selection. It helps companies develop effective OFDI strategies and improve efficiency and risk management capabilities. Policy makers can formulate corresponding policies according to the heterogeneity of enterprises to promote the internationalization of enterprises. The heterogeneity of enterprises determines their OFDI capabilities and investment mode selection, including productivity, technology, capital structure and other factors. By analyzing these characteristics, enterprises can optimize resource allocation and cost-effectiveness in the global market, while assessing and controlling risks and formulating differentiated competitive strategies. Policy makers should consider the heterogeneity of enterprises to optimize the regional selection of China's OFDI and support the internationalization of enterprises.

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