

A Summary of Studies on Cultural Conflict, Cultural Interaction and OFDI

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Abstract

As we all know, the world is in the rapid development stage of economic globalization, and the rapid flow of global capital has become a common phenomenon. While cultural globalization brings opportunities to countries going global, it also faces challenges. How cultural factors such as cultural conflict and cultural interaction affect corporate OFDI has attracted much attention from the academic community. However, due to the unpredictability of culture itself and the differences in research objects, the research in this field is still inconclusive. At present, it mainly focuses on the impact of cultural differences on OFDI's location selection, entry mode, innovation performance, etc., as well as the impact of Confucius Institute, which promotes cultural exchange and mutual learning, on OFDI. From the perspective of cultural conflict and cultural interaction, this paper combed and briefly evaluated the relevant literature at home and abroad, aiming to explore the development process of research on the impact of cultural factors on OFDI, grasp the current pattern, and better serve the enterprises going global.

Keywords

Cultural Distance; Confucius Institute; OFDI.

1. Introduction

In 2000, China formally put forward the "going global" development strategy. During this period, the government introduced a series of preferential and incentive policies to encourage Chinese enterprises to respond to the call of the "going global" strategy. So far, China's foreign direct investment has shown a steady upward trend. According to relevant data from the Ministry of Commerce, only about 5000 Chinese enterprises participated in international investment in 2003, but the number of enterprises participating in foreign direct investment is increasing year by year. In 2012, there were about 16000 OFDI enterprises in 179 countries (regions) around the world. However, by 2015, China's OFDI stock had exceeded 1 trillion US dollars for the first time. In 2016, China had become one of the largest capital exporting countries in the world, second only to the United States and ranking second in the world. In this context, many scholars at home and abroad have turned their attention to OFDI, analyzing OFDI from the macro level and micro level respectively. Some scholars focus on macro level research, focusing on the impact of the host country's economic environment, natural resource endowment, political turbulence, home country's institutional environment and the gap between the two countries in terms of politics, economy, culture and system on the investment decisions of going global enterprises. Some scholars focus on the role of individual characteristics of going global enterprises in OFDI based on the micro level of enterprises. Based on the literature review, many scholars have paid attention to the impact of cultural factors, including cultural distance and cultural exchange interaction, on capital flows between the host country and the home country, focusing on the analysis of the impact of cultural differences on foreign direct investment and conducting empirical tests in this regard. However, there is no consensus on whether cultural differences promote or hinder enterprises' foreign direct investment. Therefore, it is necessary to understand the research progress of cultural

factors and foreign direct investment, and systematically discuss the role of cultural differences, cultural exchanges and interactions in foreign direct investment by combing the relevant literature of cultural differences, cultural interactions and foreign direct investment.

2. Research on the Relationship between Cultural Differences and OFDI

Whether any enterprise can survive and achieve good development depends not only on its own resources and capabilities, but also on the operating environment. However, for transnational enterprises, the unfamiliar external environment of the host country will make enterprises face greater survival crisis and experience risk. Therefore, the difference in the overseas investment environment has become an important reason for enterprises to make foreign direct investment and where to invest. In recent years, scholars pay more and more attention to the impact of cultural differences on OFDI, but there are differences in research results. Through literature review, this paper classifies studies on the impact of cultural differences on OFDI into the following categories:

2.1. Cultural Differences Inhibit Enterprises' Foreign Direct Investment

At present, most studies on cultural differences and OFDI believe that cultural differences hinder enterprises from making foreign direct investment. Based on the transaction cost theory, some researchers believe that the greater the cultural gap, the more difficult it is for enterprises to communicate with local residents in the host country, which makes it difficult for both sides to accurately understand each other's expressions, so that the cost of information communication increases and it is difficult to transfer technical capabilities. Zhou Lingxiao (2006). Xu Helian and Li Lihua (2011) used panel data at the national level and gravity model to test the impact of culture on the location choice of foreign direct investment. They found that cultural distance significantly inhibited OFDI of Chinese enterprises. The greater the cultural difference between China and the host country, the less investment. Zhang Jipeng and Li Ning (2014) used enterprise panel data and a negative binomial regression model to study the impact of cultural differences and overseas Chinese networks on China's OFDI location selection, and also concluded that cultural distance hinders enterprise OFDI, but overseas Chinese networks help mitigate the negative impact of cultural differences. In addition, Han Minchun and Jiang Congcong (2017) took Chinese enterprises as research objects to analyze the impact of countries along the "Belt and Road" on China's foreign direct investment in terms of politics, culture and bilateral relations. The results show that China prefers countries with high political risks and close cultural distance, indicating that cultural distance has a negative impact on China's foreign direct investment along the "Belt and Road".

2.2. Cultural Differences Promote Enterprises' Foreign Direct Investment

However, some literature also found that transnational corporations can arbitrage to obtain cheap factor endowments and market forces of host countries through differences between countries. Obviously, cultural differences can also be used by outsiders to gain benefits. On the one hand, the greater the cultural differences are, the more diversified the products will make multinational enterprises more favored by the host country when they are producing and operating in the host country, thus reducing the competitive pressure of production and operation in the host country with similar cultural environment; On the other hand, the cultural conflict between the host country with greater cultural differences and the home country enterprises will often stimulate more creative thinking, which is conducive to enterprise innovation. In addition, the employees of multinational enterprises can also improve their transnational competitiveness by learning the host country culture, management methods and organizational skills different from the home country. Thomas and Gross (2001) studied the impact of OECD countries on Mexico's direct investment, and found that multinational

enterprises prefer to invest in countries with large cultural differences. Kang and Jiang (2012), taking China as the research object, studied China's investment in East and Southeast Asia, and found that Chinese multinational enterprises are also keen to invest in countries with large cultural distance.

2.3. There is a Non-Linear Relationship between Cultural Differences and OFDI

With the in-depth study of the relationship between cultural distance and OFDI, some scholars found that cultural differences may bring "foreign disadvantage" to multinational enterprises, thus hindering enterprises from making transnational investment; At the same time, cultural differences may also bring "outsiders' benefits" to transnational enterprises, thus promoting transnational investment. Therefore, some scholars proposed that the combined effect of "outsiders' benefits" and "outsiders' disadvantages" would make the impact of cultural differences on OFDI not only a simple linear relationship, but also a complex nonlinear relationship. For example, Yin Huafang and Lu Minghong (2011) proposed that the impact of cultural differences on OFDI is not only a simple linear relationship, but also a complex nonlinear relationship. For example, Yin Huafang and Lu Minghong (2011) proposed that there is an S-shaped relationship between cultural differences and international direct investment. By collecting the international direct investment data of 49 important countries (regions) from 1993 to 2006 for research, they found that there is indeed a non-linear horizontal S-shaped relationship between cultural differences and international direct investment. In addition, Qi Jianhong and Yang Li (2012) used the panel data of China's direct investment in 40 countries from 2003 to 2010 to study the impact on OFDI from the perspective of geography, culture and other differences, and found that cultural distance and geographical distance negatively affect Chinese enterprises' foreign direct investment in general. However, when further grouping the samples, they found that cultural differences have a threshold effect on China's OFDI, and cultural distance is small, With the increase of cultural differences, foreign direct investment increases significantly. When cultural distance is large, with the increase of cultural differences, the impact on OFDI is not significant.

3. Research on the Relationship between Cultural Interaction and OFDI

3.1. Cultural Interaction Bridge - Confucius Institute

In 2004, the Office of the National Leading Group for Teaching Chinese as a Foreign Language started to establish a non-profit educational institution - Confucius Institute, which aims to promote and disseminate Chinese language and culture, increase interaction frequency and deepen friendly relations between China and other countries. Confucius Institutes have developed rapidly. By the end of 2016, China had established 513 Confucius Institutes and 1073 Confucius Institutes in 140 countries across five continents. The Confucius Institute is a major measure for China to play an "active" cultural role and enhance its own cultural soft power. On the one hand, the Confucius Institute, through the dissemination and training of Chinese language and culture in the host country, enables the host country to know and understand Chinese culture and enhance its sense of identity with Chinese culture, thus reducing the transaction costs caused by cultural differences. On the other hand, the Confucius Institute is also an important stage and realization form of government diplomacy, public diplomacy and non-governmental diplomacy, and an important channel to spread the voice of China and show the image of China as a peaceful, friendly and open country. With the rapid development of Confucius Institutes, the academic community began to pay attention to the influence of Confucius Institutes on politics, economy, culture, society and other aspects. For example, Li Qing and Han Yonghui (2016) used the trade data of countries along the "Belt and Road" to test the role of Confucius Institutes in foreign trade. The results show that Confucius Institutes are conducive to trade development between China and countries along the "Belt and Road". In

addition, the author further grouped and regressed the sample data to further analyze the impact of Confucius Institutes on trade development. The results show that compared with countries along the "Belt and Road", The Confucius Institute has significantly increased the foreign trade of countries along the "Belt and Road". Lin Hang, Xie Zhizhong and Ruan Lide (2016) paid more attention to the impact of Confucius Institutes on overseas cultural tourism in China. The empirical results show that Confucius Institutes play a positive role in overseas cultural tourism in China. The establishment of Confucius Institutes not only has a certain impact on trade and tourism, but also has an impact on overseas education in China. As the establishment of Confucius Institutes enables overseas students to learn Chinese language and culture in their own countries, theoretical analysis from this perspective shows that the establishment of Confucius Institutes will hinder overseas students from studying in China. Some researchers also focus on the impact of Confucius Institutes on the export of Chinese cultural products. The establishment of Confucius Institutes will give host countries the opportunity to understand Chinese culture, learn Chinese culture, and identify with Chinese culture, which will help promote the export of Chinese cultural products. Lian Daxiang, Wang Lu'an and Liu Xiaou (2017) qualitatively analyzed the effects of the Confucius Institute on education and economy by sorting out the relevant literature of the Confucius Institute, and believed that the establishment of the Confucius Institute has enabled the world to further understand China, increased the spread of Chinese culture in the international arena, and at the same time, through the exchange and mutual learning of language and culture, established a bond of trust between China and the world, which is conducive to economic exchanges between China and the world. In recent years, the research on the impact of Confucius Institutes on foreign direct investment has gradually increased, focusing on the field of international investment. So will Confucius Institutes, as a bridge for cultural interaction, really have an impact on China's foreign direct investment? If so, what will be the impact and how?

3.2. Does Confucius Institute Help Chinese Enterprises OFDI

According to the existing literature, relevant studies have proposed that Confucius Institutes will have an impact on OFDI in China, and all agree that Confucius Institutes will promote OFDI in Chinese enterprises. For example, Lian Daxiang (2012) found that compared with export trade, Confucius Institutes have a more obvious impact on China's foreign direct investment. By distinguishing the samples of developed countries and developing countries, it was further found that, compared with developed countries, Confucius Institutes have a greater impact on foreign direct investment of developing countries in the short term. Xie Mengjun (2017) took Confucius Institute as the carrier of "going global" culture, and used GMM and systematic GMM methods to study the impact of Confucius Institute on Chinese enterprises' foreign direct investment. The research results show that Confucius Institute has promoted China's foreign direct investment while spreading Chinese language and culture, and there are significant regional differences in the promotion process. Similarly, Liu Xi, Wang Yonghong and Wu Song (2017) used the panel data of China's foreign direct investment from 2004 to 2014 to analyze the impact on China's OFDI from the perspective of political and cultural exchanges and interactions, and found that the Confucius Institute, as the carrier of cultural exchanges, can increase the frequency of interaction between the two countries, enhance trust and intimacy, thus reducing the investment risk brought by environmental uncertainty.

3.3. How does Confucius Institute Help Chinese Enterprises "Go Global"

Many scholars pay attention to whether Confucius Institutes have an impact on Chinese enterprises' foreign direct investment, and there is little research on how they affect foreign direct investment. Xu Chensheng and Wang Yonghong (2016, In addition, it is found that Confucius Institutes are also constrained by the heterogeneity of cultural differences and institutional quality differences of host countries in the process of promoting FDI. Similarly,

Chen Yinmo, Sun Qiankun and Zhang Xiaoyu (2017) studied the impact mechanism of Confucius Institute on China's OFDI in the countries along the "Belt and Road", and tested it with the Logit model. The results show that Confucius Institute is indeed conducive to enterprises' foreign direct investment, and improves Chinese enterprises' foreign direct investment by reducing the cultural differences between the host country and the home country through language and cultural communication, Not only that, the author also finds that overseas students play an intermediary role in the process of Confucius Institute's promotion of China's foreign direct investment, further explaining the mechanism of Confucius Institute's role in China's foreign direct investment.

4. Conclusion and Outlook

Based on the existing literature, this paper believes that cultural differences, cultural exchanges and interactions are crucial to the impact of OFDI. Systematic induction and analysis can help us to better understand the role of cultural factors in foreign direct investment, and further find and solve problems.

On the one hand, there are more and more studies on the impact of cultural differences on OFDI, but the conclusions are quite different. The mainstream view is that cultural differences increase the cost of information flow between countries, which makes the disadvantage of foreigners more obvious in countries with large cultural differences, thus hindering enterprises from making foreign direct investment. However, some people believe that it is precisely because of the differences between countries that enterprises will conduct foreign direct investment and arbitrage. The greater the cultural differences, the more conducive to stimulating the creative thinking of enterprises, which will help enterprises innovate and increase their competitiveness. Some scholars believe that the superposition of "outsiders' disadvantages" and "outsiders' benefits" will make the impact of cultural distance on OFDI no longer a simple linear relationship, but more complex nonlinear relationships, such as inverted U, S, etc. Based on the above, we can find that different scholars draw different conclusions in the study of the impact of cultural distance on OFDI of enterprises due to the differences in the selection of samples and indicators. With the passage of time, the impact of cultural differences on OFDI of enterprises is also changing with the change of environment. Therefore, it is necessary to analyze the specific research background, and study the impact of enterprises' foreign direct investment under the joint action of cultural differences and cultural exchange and mutual learning.

On the other hand, we found that in terms of the impact of cultural interaction on enterprises' foreign direct investment, the current academic community generally believes that Confucius Institute, as a carrier of cultural interaction, has played a positive role in boosting China's foreign direct investment. To promote Chinese enterprises' foreign direct investment by reducing cultural differences and promoting friendly relations between countries. However, there is little research on the mechanism of Confucius Institutes' role in promoting enterprises' foreign direct investment. In future research, we can further analyze whether there are differences in the mechanism of Confucius Institutes' role in China's foreign direct investment under different environments, so as to help the government better formulate the strategic blueprint for the distribution of Confucius Institutes.

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