Chinese FDI in the French and Australian wine industries: Liabilities of foreignness, assets of foreignness and interactions with host country institutions

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Abstract

This paper explores the recent evolution of Chinese investment in the Bordeaux region of France and the south-western area of Western Australia (WA). It seeks to identify the key motivations for the investment as well as the difficulties experienced. Drawing on a series of interviews and reviews of press reports, as well as analysis of trade data, the paper highlights the key issues which have emerged following the growth in FDI from China in the two region' wine sectors and interprets these in the light of existing theory of FDI (Dunning, 1993) and Liability of Foreignness (LOF) (Eden and Miller, 2004; Zaheer, 1995). We find that the key motivation for the FDI is resource seeking, although strategic asset seeking is also important, especially in the case of Bordeaux. In terms of LOF we find evidence of all three of the categories of hazards identified by Eden and Miller (2004) although the key hazard was unfamiliarity. The paper concludes with some recommendations for investors and public authorities to reduce LOF.

1. Introduction

Foreign direct investment (FDI) by Emerging country Multinational Enterprises (EMNEs) is growing in importance while at the same time changing in terms of its industry focus, the role of private investors and the relative scale of many investments. It is also posing new questions for international business theory as the motivations and trajectory of EMNEs often differ from those of traditional MNEs. As Meyer and Thaijongrak (2013) recently point out, although EMNE internationalisation may not require new theoretical explanatory bases, it does orient research towards relatively under researched aspects of the phenomenon.

This paper will explore a specific recent example of expanding OFDI by EMNEs – Chinese investment in the wine industry. We chose to explore this question through a comparative study of investment in two different world wine regions – West Australia (WA) and Bordeaux in France. The wine industry is an economically important and iconic sector in both areas. In both it is also reliant on exports for its long term survival, with the Chinese market considered a strategic market focus. Moreover, developments in these two countries reflect the changes occurring in Chinese OFDI, although there are also some interesting differences which can help to tease out the motivations for investment and identify the important drivers underpinning decision-making.

The paper is structured as follows. Section 2 will review the relevant literature. This will consider theoretical work within the international business (IB) literature which deals with FDI and the Liability of Foreignness (LOF), as well as the increasingly important issue of EMNEs and their evolution as strategic players in the global economy. This will be followed by a brief overview of empirical studies dealing with Chinese OFDI, particularly in the agricultural and natural resource sectors, and will also consider relevant developments in the evolving Chinese wine industry. Section 3 explains our methodology while section 4 provides an overview of the wine sectors in the two regions under consideration, focusing specifically on recent trends in international trade and investment. Drawing on this work and our interview data section 5 discusses the key motivations for Chinese investment in the wine sector in each country, as well as the difficulties experienced and highlight the extent to which these conform to existing theory. We will also identify some key interactions between this investment and the host country institutional environment in each case and identify similarities and differences across the regions. Section 6 draws some conclusions for theory as well as companies and policy makers.

2. Literature review

2.1. Motivations and difficulties for Foreign direct Investment (FDI)

The literature on the motivations and evolution of FDI is extensive and we do not seek here to do an exhaustive literature review of the subject. We will focus on the key contributions to the generic question of what motivates FDI and the difficulties which may be experienced in the process. The specific question of how EMNEs internationalise, especially those from China, the difficulties they face and the questions they may pose for existing theory will also be addressed.

Early theoretical approaches to FDI focused on the theory of MNEs, large companies with market power. It was argued that firms needed “ownership advantages” such as product differentiation, managerial expertise, new technology, patents, or scale economies to successfully undertake FDI (Hymer, 1976; Caves, 1971). Buckley and Casson (1976) argued that many markets for intermediates goods or services, including production techniques, management skills and components, were characterised by high risk and uncertainty. As a result firms were often better off by internalising some business functions rather than leaving their provision to the open market.

Dunning (1977, 1979) brought together various strands of the theoretical work to formulate what is termed the “eclectic paradigm” of FDI, synthesising the reasons why firms internationalise, where they operate and the entry mode decision. This approach allows for a variety of factors to be considered in assessing the determinants of FDI decision making. The “type” of investment has also been considered to influence the factors that would be relevant in any particular situation. Dunning

(1993) considered that FDI could be characterized as resource seeking (pursuit of natural, physical or human resources), market seeking (firms pursuing entry in to markets or expansion within markets) , efficiency seeking (looking to rationalise production processes in order to exploit economies of specialisation or scope, often across various markets) or strategic asset seeking (investment to access an asset which is key to the company's strategy).

2.2. Liability of Foreignness (LOF) as a barrier to successful FDI

Benefits for firms from FDI need to be such as to offset the LOF, the fact that firms face social and economic costs when they operate in foreign markets. The concept, developed by Zaheer (1995) seeks to explain the relatively lower performance of foreign compared to indigenous companies and has been the subject of extensive scholarship. This body of work is well summarised in the extensive literature review of Denk et al (2012) outlining the work that has been done over the past two decades, both on the theoretical foundations of LOF and its determinants, as well as its impacts on MNEs. The current study seeks to highlight the ways in which this concept can help to better understand the difficulties encountered by EMNEs in their international business activities.

One of the key contributions to the LOF literature, which we draw on in this paper, is the work by Miller and Eden (2004) which distinguishes between unfamiliarity, discrimination and relational hazards. Unfamiliarity hazards refer to the lack of knowledge and understanding of the host country business environment which tends to disadvantage the foreign firm. Discrimination hazards relate to the potential for governments or consumers to discriminate against a company or its products simply because it is foreign. Finally relational hazards reflect the higher costs of managing a business across distance; these include such things as, lower levels of trust and the added costs of supervision.

On the specific issue of the internationalisation of EMNEs, although interest in this issue is increasing in the IB literature (Contractor, 2013; Guillen and Garcia-Canal, 2009; Kim et al, 2010; Kothari et al, 2013; Kumar et al, 2013; Perez-Batres and Eden, 2008; Ramamurti, 2012; Yiu et al, 2007) especially in relation to activities in developed markets (Deng, 2009; Filippov, 2010; Knoerich, 2010; Milelli et al, 2010), there has been relatively little exploration of the difficulties they face. In the context of this work, there is a rising recognition that they may use different strategies to traditional MNEs for competitive advantage (Contractor, 2013; Kothari et al, 2013). In such cases, therefore, traditional management theory may need to be adapted or reviewed (Child and Rodrigues, 2005; Guillen and Garcia-Canal, 2009; Fornes and Butt-Philip, 2011; Ramamurti, 2012; Meyer and Thaijongrak, 2013; Meyer, 2014). However, as Denk et al (2012) highlight, relatively little work has been done on the LoF of EMNEs expanding into developed countries (Garg and Delios, 2007; Miller et al, 2008).

We have identified several recent articles on EMNEs of relevance to this study not included in the literature review provided in Denk et al (2012). Klossek et al (2012) looked at the LOF of Chinese MNEs in Germany and the mitigation strategies they adopted, using a multiple case study approach. Differences in mode of entry (acquisition or greenfield,) the use of prior experience, reputation building and reliability enhancement were all identified as likely to reduce LOF. In another case study, Huang and Huang (2013) look at LOF for a Chinese MNE investing in mining in Australia and found that the company suffered from all three of the types of hazards identified by Eden and Miller (2004), resulting in significant costs for the company. Gaur, Kumar and Sarathy (2011) underline the likely importance of institutional distance, as well as ownership structure in the LOF of EMNEs. Eden and Miller (2009) provide an extensive theoretical analysis of likely sources of LOF for Chinese companies investing in the US and propose some strategies to address this issue. One of their key observations was that institutional costs are likely to be problematic for Chinese companies in developed country markets because of the high institutional distance between home and host countries.

With the exception of several recent studies on EMNEs, much work that has been done on LOF takes a strongly quantitative approach, seeking to explore the effects of LOF on key indicators such as MNE survival in the host market (Li et al, 2008), as well as key performance indicators related to profitability and efficiency (Miller and Eden, 2006; Elango, 2009). There has been limited research seeking to explore more qualitatively how a specific hazard has impacted on a specific group of MNEs and how they have reacted. As Luo and Mezias (2002) point out, better understanding of LoF requires investigation of specific situations. This paper takes such an approach.

The case of investment by Chinese MNEs in French and Australian vineyards has two particular characteristics which are likely to impact on LOF. Firstly in the wine industry one of the key entry modes – greenfield – is usually closed to potential investors, as most available land in the key 'appellation' regions is already cultivated. Thus the potential entry modes are joint venture or alliance with a local partner, part ownership or acquisition. As we will see below, the latter is the most popular strategy adopted. This strategy has been identified by Child and Rodriguez (2005) as particularly susceptible to LoF. Secondly, the investors are generally not seeking to develop the host market, but rather to secure supply for the development of the home market. Therefore issues of negative perceptions by local customers or distributors leading to discrimination on the host market (Moeller et al, 2013) are not, generally, an issue of major concern. Thus unfamiliarity with the host country business context and regulations and discrimination by sellers or government seem more likely to be sources of LOF in the particular case of FDI in the wine sector.

Finally some writers have pointed out that foreignness is not always a disadvantage and that MNEs can sometimes have internal resources that help them to better read the international environment and adopt appropriate strategies for competitive advantage (Sethi and Guisinger, 2002; Nachum, 2010). Sethi and Judge (2009) coined the term Asset of Foreignness (AoF), which they define as: '…… *those unique benefits enjoyed by an MNE subsidiary that are unavailable to host-country rival firms'*. (op cit: 409). In the context of this paper, Chinese investors are clearly in a better position than foreign vineyard owners to export wine back into the Chinese market. Indeed benefitting from knowledge of the Chinese market has been identified as a key motivator for German companies selling to Chinese buyers (Knoerich, 2010)

2.3. Studies on Chinese FDI in France and Australia

Chinese OFDI in both Australia and France, while growing in importance in recent years, is still relatively under researched. In Australia, investment has been concentrated in the natural resources sector over the past two decades as part of the Chinese government's strategic priorities aimed at ensuring stable, long-run access to energy and mineral resources. This, like much early Chinese OFDI, was dominated by Chinese state owned enterprise (SOEs) (Morck et al, 2008). More recently, capital outflows from China have accelerated as part of a concerted government policy and this has been accompanied by significant change in the nature and range of the sectoral targets of investment, as well as greater participation by private investors (Hendrischke and Li 3013).

In France, Chinese investment is more widely spread across the economy, but has been little studied. In a rare recent book on the subject, the author considers that official figures under report the extent of FDI and estimates that 200 Chinese enterprises are active in France, with a stock of €5,4m in investment. The book highlights 4 sectors where FDI is particularly strong – luxury real estate, milk, manufacturing and wine (Chen, 2014).

In one of the few recent Australian analyses, Ferguson and Hendrischke (2013) have identified four key drivers of Chinese ODI in Australian agriculture and agribusiness. These are: access to diverse and high quality agricultural products to serve a growing and more sophisticated home market; a desire by investors to integrate Australian production and processing into domestic supply chains back in China (to package and market finished products); to obtain access to local knowledge and IP (including brand and marketing assets); and to achieve capital growth and risk diversification, investing across different sectors. While State Owned Enterprises (SOEs) have tended to dominate investment in Australia to date, private companies are seen as important players in the investment now under way in the agribusiness sector. It is estimated that they accounted for around 70 per cent of recorded transactions over 2006-2012 (Hendrischke and Li, 2013). These investors also prefer to take majority stakes in contrast to the historical experience in the large scale projects associated with energy and mining ventures.

2.4. Research on China as an actor in the global wine industry

As China has emerged only recently as an important wine market, research on China as an actor in the world market is in its infancy. There is some limited research on the development of the Chinese wine sector (Jenster and Cheng, 2008) and the domestic market (Lee et al. 2009), while others have focused on the impact of emerging Chinese demand on the world market (Anderson and Wittwer, 2013; Thorpe, 2009). However much of the work has focused on developments within the domestic market and especially on the characteristics and motivations of Chinese wine consumers.

Liu and Murphy (2007) have undertaken some qualitative research on the perceptions and motivations of Chinese wine drinkers. A key point that they identified was the importance of the Chinese concept of face - 'mianzi' - in wine consumption. Consumers are seen as favouring relatively more expensive – usually French – wine for special occasions and as gifts to impress others. This notion of face was also identified by Somogyi et al (2011) as an important driver of purchasing behavior. At the lower quality end of the market, Liu and Murphy (2007) found very limited knowledge of wine in their sample of consumers – most did not know that wine could be other than red or that Australia produced wine. Camillo (2013) found that over half of his sample of Chinese consumers considered that wine, especially red wine, was a healthy drink, a perception mirrored in research by Somogyi et al (2011) and by Liu and Murphy (2007).

Balestrini and Gamble (2006) explored how country of origin (COO), brand and price of wine impact on Chinese consumer behavior. They find that COO is the key defining element in choice, particularly for gifts. Hu et al (2006) had similar findings in their survey, where foreign wines were preferred in these situations. More recently, Camillo (2012) identified taste, COO and quality as the most important motivating factors in the choice of wine in China. Yu el al (2009) also explored COO in China, and found that French wine has a considerable advantage over its competitors in terms of consumer perception.

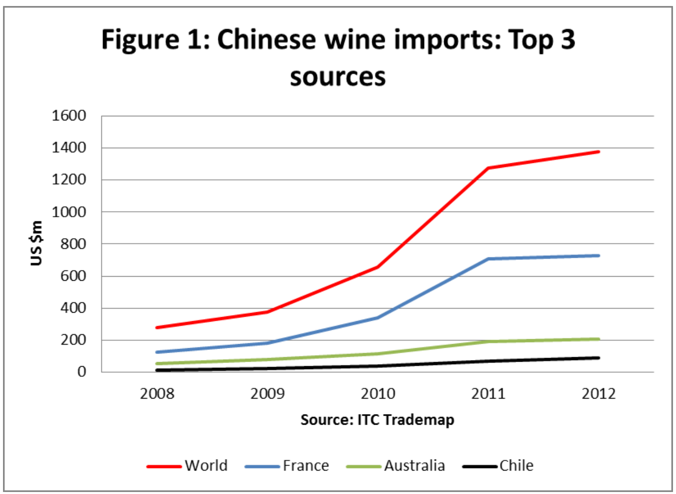
3. Methodology

This paper will use a combination of analysis of quantitative data, primarily trade data, and qualitative data from interviews and press articles. We chose to focus on two regions with rather similar market positioning – Western Australia's wine region which is based in the south-western part of that Australian state and the Bordeaux region in France. WA is relatively new to the Chinese market and indeed relatively new to export. Bordeaux is a much more established exporter to China and the level of Chinese investment is higher. Some issues are similar, but others, particularly the institutional environment, are different. We endeavor to explore these similarities and differences and assess the implications for EMNEs expanding abroad, as well as for the targeted companies.

We undertook both face to face and telephone interviews in Australia and France over the period from December 2013 to March 2014. In Australia we spoke to the WA industry association, local government officials, representatives of two wineries which were wholly or partly owned by Chinese investors, a Chinese investor who had invested in two wineries and two real estate agents. In France we spoke to three industry experts (consultants and researchers), two journalists who were wine market specialists, two representatives of the local Chamber of Commerce and Industry (CCI), one ex-manager of a Chinese owned group of wineries, one manager of a wine merchant part owned by Chinese investors, two Franco-Chinese businesspeople and an oenologist working with a dozen Chinese investors in Bordeaux to improve wine quality. These interviews were supplemented and informed by extensive reviews of press reports on Chinese investment in the regions in question from both the national press – primarily The Australian, the Figaro and Les Echos – and the regional press – the West Australian, Sud Ouest and Objectif Aquitaine.

4. Trade with China and investment flows into the wine sector

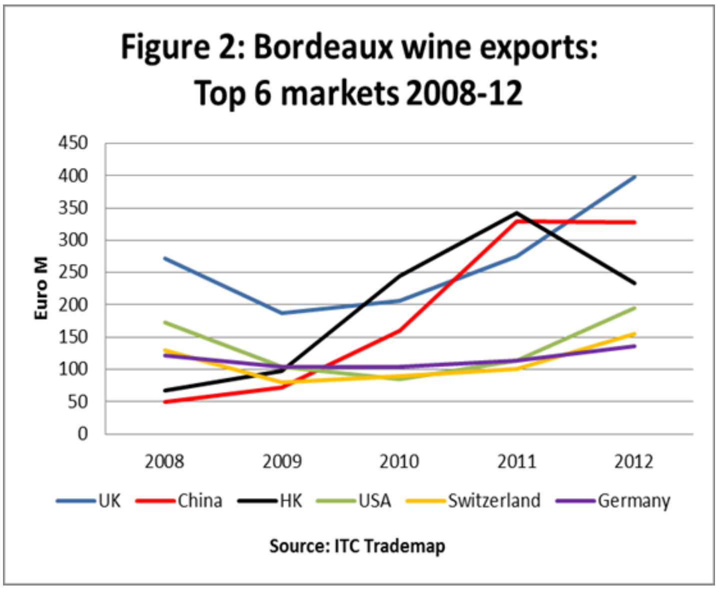
The figure below shows the evolution of the Chinese market for bottled still wine



since 2008. Clearly French wine dominates the market. Its share of imports has actually increased from 46% in 2008 to 53% in 2012, although the peak market share was 55% in 2011. Over the same period Australia has seen its market share fall from 20% to 15%, although it remains the second most important supplier to the market– with the other leading 4 sources each having shares of around 5-6%. In 2012 the growth in imports slowed and several respondents from both Australia and France expected a fall in 2013. This was because of a combination of high stocks, due to overestimation of demand in 2012-13 and the impact of the new Chinese government's anti-corruption drive. This policy hit sales of all luxury products, including wine, which had been a common present for officials (Thomson, 2013). The recent austerity drive in particular has impacted significantly on the global market for luxury goods, including wine (China Business Review, 2014). As a result sales of high quality wine have fallen sharply since 2013.

4.1. Chinese trade and investment in the Bordeaux region

In France overall, recent years have been difficult for the wine export sector. International Trade Centre (ITC) figures indicate that the leading two export markets - the UK and the US - have fallen in value over the last five years, while China has seen its importance increase markedly, from the sixth market in 2008 to the third in 2011. However, here was a marked plateauing of export growth in 2012. For Bordeaux wine exports, shown in Figure 2, the top export markets are slightly different. The UK was the most important market in 2012, although Hong Kong and China were both larger markets in the previous year. In addition the recovery from the financial crisis in 2009 was quicker in Bordeaux than in France overall, not only in China and HK, but also in the UK. The very rapid growth in exports to both China and HK over the period since 2008 – up by 568% and 251% respectively – is clearly a striking market development, although respondents expected a fall in 2013.



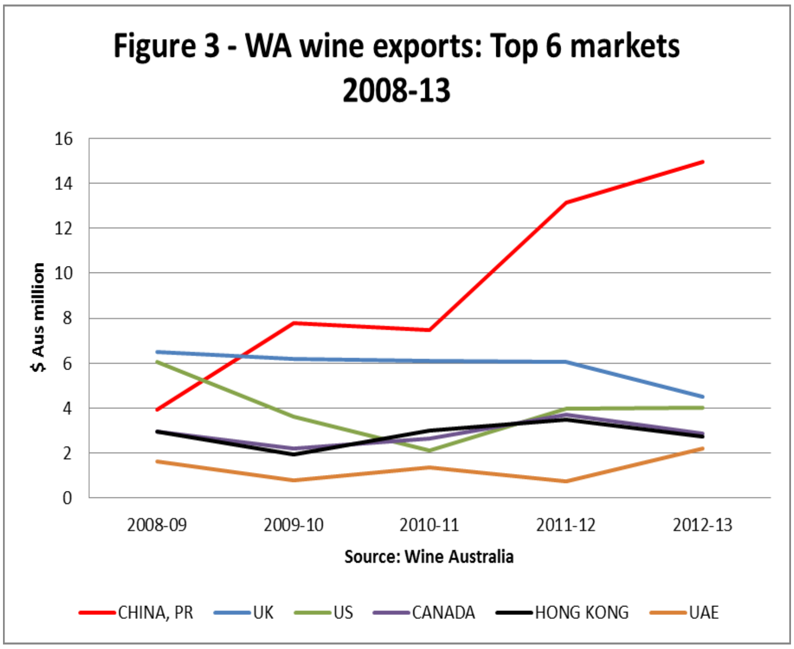
French FDI figures do not provide details of investment by sector and by country. We can therefore only get a general view from aggregate figures. Although its importance is growing, China still is a relatively marginal investor in France overall (5% of FDI projects in 2012 and 1% of stock). Most FDI in France still comes from the traditional partners within the European Union, especially Germany (AFII, 2013). In addition, the agro-food sector attracts relatively little FDI. Only 6% of FDI projects in 2012 were in the sector. However there has been some recent investment in the sector outside wine, for example the investment by Synutra in a milk factory in Brittany (AFII, 2013).

In Bordeaux, the context is rather different to the French economy as a whole. Chinese investment in the Bordeaux region is much more extensive than elsewhere. The database which we developed for this research, based on press reports and indications from local experts, includes 64 vineyards, although there are certainly some others which have not been reported in the press. The CCI estimates that there are 70-80 vineyards in Chinese hands, out of a total of over 7000 that exist in the region – thus about 1% of Bordeaux vineyards are in Chinese hands (Chen, 2014). Although their relative importance remains small, several interviewees noted that the unprecedented speed of acquisitions has caused concern. As one journalist commented: '*A movement as rapid and important as the arrival of this Chinese capital is unique in the history of wine' (Author interview. 13.03.14)*. Such rapid expansion, together with the sheer size of the Chinese market, fuels concerns about long term impacts (Chen, 2014).

It was also pointed out that the size of Bordeaux chateaux, which are rarely above 100 ht, is a disadvantage in terms of the volumes needed for the Chinese market. This explains why some Chinese groups have bought several vineyards. The largest of these is Haichang group from Dalian. This highly diversified MNE includes operations in petroleum and theme parks. They are reported to own 24 chateaux in Bordeaux covering 150 ht. The You brothers, whose main business is pharmaceuticals, also own at least six chateaux, while the supermarket group Dashang owns at least two. These multiple acquisitions, although individually small, increase the impression of scale.

4.2. Chinese trade and investment in WA

The Australian wine industry had total revenues estimated at AUD 5.7 billion in 2012-13, with exports valued at AUD 1.8 billion (Ibisworld.com.au). By value, the top wine export destinations are the US, UK, China and Canada. While export performance has underpinned the development and expansion of the industry over the past decade, a decline in exports has been experienced in recent times. This has been to a combination of the global economic downturn of 2008-09, a sharply rising Australian dollar, overcapacity and rising international competition (Anderson, 2010; Somogyi, 2013). ITC figures indicate that exports to the US and UK fell significantly over the last five years, by 40% and 46% respectively. In contrast, exports to China and Hong Kong have seen impressive growth – up 165% and 66% respectively over the same period.



Western Australia (WA) accounted for just over 14 per cent of Australia's wine production by value during 2012-13 and has exhibited the fastest growth nationally. Overall, about 20 per cent of WA wines production is exported and WA is responsible for 5 per cent of Australian exports to China. As shown in Figure 3, the export profile of WA is rather different to that of Australia as a whole. Exports have increased by 11% over the five years to 2012/13, with the Chinese market the key motor for this growth. Exports to China increased by 282%, although in contrast to Australia as a whole, exports to HK fell. Since 2009/10 China has been the key export destination for WA wine.

There are various databases of Chinese investment in Australia. The Australian Bureau of Statistics (ABS) provides aggregate level data on FDI inflows into Australia by source country. There is no breakdown of where the investment is flowing within the country. The government's Foreign Investment Review Board (FIRB) publishes detail on proposed (not necessarily realized) investments, by country and by sector. However this does not capture investments which fall under significant thresholds (AUD 244 million for foreign private business acquisitions) and therefore ignores a lot of the actual investment being undertaken. KPMG and The University of Sydney have a database of investments over USD 5 million and is the most up-to-date data on Chinese ODI in Australia.

This data indicates that, overall, China ranks as the ninth largest investor in Australia with only 3% of total FDI. This compares with the United States (24%), the UK (14%), Japan (10%) and Singapore (4%). Chinese investment in Australian agriculture is also relatively small and only a recent feature of the economic landscape. Over 2006-2012 China's investment in the sector was just 2% of its total stock in Australia, with mining and energy responsible for the majority of Chinese FDI. It is estimated that Chinese companies own less than 1% of Australian land (KPMG, 2013). WA, meanwhile, attracted only around 5 per cent of the Chinese ODI in Australian agribusiness over 2006-2012.

None of these databases provides us with information at industry level – so wine is usually included in 'agriculture' or 'other' categories. In addition, what statistics do exist, tend to be at national, rather than regional, level. Mapping Chinese investment in the region, therefore, requires a more qualitative approach. The Ministry of Agriculture of WA has indicated that there were three substantial investments in WA wineries, two of which were by the same company – Grand Farms

Group. The third investment was in a significant winery – Ferngrove – the second biggest in WA representing 5-7% of the industry output in that state. They acknowledged that there may be smaller scale investments that have not been officially recorded.

5. Motivations and difficulties for Chinese FDI in the wine sector

The motivations for investment in the wine industry which emerged from our interviews mirror in part those identified by Ferguson and Hendrischke (2013) in relation to Australian agribusiness in general – especially security of supply, diversification of business, combining brand acquisition and their own marketing expertise to integrate wine production into their supply chains. Both French and Australian respondents referred to Chinese consumer concerns about the security of the agro-food supply chain and the general atmosphere of fear and distrust around the potential risk associated with food supply. This concern can be linked to the baby milk scandal where several Chinese babies died in 2008 due to adulterated domestic milk supplies. Fears were expanded beyond local supply chains when the New Zealand company Fonterra had to recall 420 tonnes of baby formula found to be contaminated with botulism in 2013 (Moore, 2013). In addition the wine sector is subject to extensive counterfeiting in China, further undermining consumer confidence. Thus the advantages provided by ownership of vineyards were often linked to the traceability of supply and the assurance that companies could provide to customers regarding the authenticity of the product (Le Roy, 2013).

Another motivation, cited more often in the French than the Australian context, was the desire to avoid long complex supply chains involving many different actors. Bordeaux wine, in particular, is marketed in a quite complex, traditional manner. Vineyards are often relatively un-involved in marketing, which is the specialty of wine merchants and 'courtiers'. In addition, most fine wine from the region is sold through the 'Place de Bordeaux' (Anson, 2007), a system of selling wine forward that provides cash flow to chateaux and secures supply for the key wine merchants. However it involves costs, which Chinese investors seek to avoid. As a representative of the CCI commented '*The Chinese don't like middlemen in general…' (Author interview. 21.02.14)*. Another industry expert who worked with Chinese investors was more negative: *'They don't want to enter into the French system' (Author interview, 27.02.14)*. This aspect of Chinese investment – that it uses a parallel distribution system and orients essentially all production to the home market, is new, compared to previous foreign investors, who adopted the local system.

One recent evolution, which could be significant in this context, is the acquisition of 70% of an important Bordeaux wine merchant – Diva – by Shanghai Sugar Cigarette and Wine (SSCW), a subsidiary of the SOE Bright Foods (Letessier, 2012). This move up the value chain to distribution was seen as important by several observers, including the CCI. Interviewed for this research, Diva indicated that their investor interfered little in the business and concentrated on upgrading distribution in China which was not yet adequate to secure effective distribution of fine wines.

The desire to diversify, both in terms of sectoral coverage and risk, was mentioned by several respondents. Many investors in wine in both regions under discussion are not from the agro-food sector and indeed are often from very different sectors. Wine was seen as a profitable opportunity and a good long term investment. The growth in the home market inevitably attracted businesses from outside the industry. At the same time, investing outside China in order to reduce reliance on the domestic market and government regulation was seen as a motivation by several observers. This mirrors findings in other sectors (Deng, 2009).

A key motivation in Bordeaux, which is far less present in Australia, is the strategic asset of the brand. The capacity to use the name 'Bordeaux' is a key marketing tool for the Chinese investors and was clearly identified by many respondents as the asset that was the main motivator for their investment. The Bordeaux CCI was unambiguous about the importance that investors attributed to the capacity to use this asset to market and provide legitimacy to their products. The presence of authentic producers from Bordeaux at the annual Dalian Wine Festival was considered vital to providing such legitimacy. Although there was some concern about the long term sustainability of the cachet attached to the brand, the CCI considered that the advantages of the French terroir tradition would persist: ‘*The terroir cannot be offshored’*. In this sense it represents a classic ‘strategic asset’ in that it is difficult to trade or imitate (Amit and Schoemaker, 1993).

Another aspect of the French context that attracted Chinese investors, was the historic buildings that go with the vineyards. The prestige of owning such attractive buildings and using them as a backdrop to business meetings was underlined by several respondents. :‘*They want a chateau that looks like a chateau*’(Authpr interview, 14/01/2014). Some went as far as to say that the wine was secondary, even to business investors and their key motivation was the beauty of the buildings: *'If the packaging was pretty, they didn't care about the wine' (Authir interview, 27.02.2014)*. In Australia, if there is a residence attached to a vineyard, it is rarely historic. As one estate agent put it: ‘*There’s not the wow factor they have in Bordeaux’ (Author Interview, 16.12.2013)*. Although the current anti-corruption drive of the Chinese government has reduced the extent to which Chinese investors provide extravagant visits to their properties to their government contacts, the capacity to provide such hospitality to partners remains an important motivation, in Australia as well as Bordeaux.

In addition, wine is often imported by the Chinese investor to use as gifts to their business relations, or to be used in business banquets. They may also supply other companies in China for the same purposes. This gift and banqueting market has been a major source of demand in China at the higher end. Both Australian and French interviewees noted that gift giving and extravagant hospitality has been negatively impacted by the governments anti-corruption drive, somewhat undermining the value of the vineyard to its Chinese owners. This change in the market is thought to be long term and is a major concern identified by investors and industry observers. Given the importance of China in recent years as a burgeoning export market, a major slowdown in the market could have very negative impacts. The Bordeaux CCI acknowledged that there were concerns about the high exposure to the Chinese market amongst local exporters. Although the anti-corruption drive mainly affects the high end of the market, the mid-level is not yet well enough developed for demand there to compensate for losses at the high end.

In the case of the acquisition by a private Chinese company (Grand Farm) of Amelia Park, a high-end wine producer in Western Australia, a key motivation behind the venture was to maintain an ongoing personal business relationship between individuals which had been established through a joint venture meat export business. When the joint company lost its export license for the Chinese market, the two parties sought to maintain a business relationship in another activity. Wine was the industry chosen, in part because the Australian partner had moved into that area, although the Chinese partner was new to the business. In interviews the representative of the Chinese company highlighted the importance of guanxi – maintaining a key business relationship - as a key driver for the new acquisition.

One institutional factor which may have had an impact on the investment in individual wineries in Australia is the new 'Significant Investor Visa' (SIV) scheme, a means by which overseas investors of more than AUD 5m are able to obtain migration rights to Australia for themselves and their families. The program was said to have been developed with Chinese High Net Worth Individuals (HNWIs) in mind (Loras, 2013). It is difficult to say with certainty that this has had a major impact although one WA real estate agent commented: '*Its a big component. I'd go so far as to say its 50% of the interest*.' (Author interview, 13.12.2013) The representative from Grand Farm observed that, although the visa arrangement was not in place when that company first ventured into Australia, it is likely to encourage the company to further pursue investment. There is no equivalent to the SIV in France and when questioned, none of the respondents considered that the potential for citizenship was a motivation to invest in France.

In terms of potential AOF of Chinese investors, the key one which was identified by many interviewees was knowledge of their home market, considered to be quite complex. Being owned by a Chinese investor and, particularly, having a Chinese partner, provided a clear advantage in terms of export potential. Although much Chinese investment in the sector is wholly owned, increasing numbers of Bordeaux investments are part ownership structures, as are the most successful WA investments. In this context, the Chinese investor may be competing with other potential investors for the asset. This was certainly the case in one of the most recent investments in Bordeaux, where the seller had received several international offers, following recourse to an international investment advisor. The choice to accept the Chinese offer was clearly motivated by the investor's experience of retailing in related sectors in China and established distribution network, as well as their 'long term view'. French and Australian companies recognize that they can benefit from Chinese partners who understand the changing dynamics in the Chinese consumer market and who have established supply chains to bring their goods to market quickly and profitably. In this sense our research mirrors the findings of work in Germany which found that a key motivations of companies selling to Chinese buyers was '…expansion into previously inaccessible market segments'. (Knoerich, 2010: 177)

The industry in both regions also needs capital to realize economies of scale through investment in production and processing and to upgrade their vineyards. This is particularly problematic given the lack of commercial interest by local financial institutions in backing the industry. Foreign capital is often the only option for acquisition or partnership. The recent growth in China and lack of attractive domestic investment opportunities at home, means that such capital is available (Morck et al, 2008).

5.1. The manifestation of liability of foreignness (LOF) for Chinese investors in the wine sector

All three aspects of LOF identified by Eden and Miller (2004) were identified in our research. Of these, unfamiliarity, is probably the most significant and most regularly cited by respondents. Firstly the unfamiliarity with the wine sector has proved difficult for some investors, especially those who seek to micro-manage their investment. In the case of Ferngrove in WA, the investment worked well partly because the Chinese investor focused on distribution in China and interfered little in the Australian side of the operation. While there are examples of such effective synergies in Bordeaux, including in Diva, there are also examples of difficulties due to unfamiliarity with the wine sector. Margins are low and investment needed for the vineyards, many of which were in relatively bad state of repair, is considerable. Several respondents commented that the Chinese investors may have overestimated the likely returns and underestimated their needs in terms of working capital. This has sometimes led to frustration on both sides.

There were also clear examples of misunderstanding of the legal framework of the host nation. One investor sought to employ a large group of Chinese labourers to renovate one of their Bordeaux chateaux under Chinese employment conditions: '*They don't understand the rules' (*Author interview, 21.02.2013). Others noted major difficulties negotiating acquisitions, due to very different expectations on the French and Chinese sides. '*It is always a long process'* remarked one respondent (Author interview, 21.02.2013). The CCI indicated that many of the early investors had been misled by owners or estate agents and they saw one of their key roles as educating investors on what to expect, in terms of the regulatory context and expected returns. Different expectations of contracts were also cited by several respondents. There was a perception that respect for contracts is lower in China. The case of a Chinese importer who ordered 120,000 bottles of Grand Crus from the Place de Bordeaux, but refused to take delivery because of unanticipated extra costs, was cited by several respondents and has clearly served to undermine confidence within the small core of actors which controls wine marketing in the region.

Examples of discrimination are less numerous. In terms of public perceptions, Chinese investment in Australia has become the focus of media attention in recent times, driven in part by several prominent and very large investments in the agricultural sector. Some politicians have called for government intervention to stop Chinese FDI in wine (Kelly and Speedy, 2013) and although many press reports have been favourable (Neales, 2012, Speedy, 2012), it remains a sensitive issue. It is interesting to note that Chinese ownership in companies in WA is not actively publicized. In fact speaking to industry representatives and government officials there was uncertainty and lack of clarity as to the nature and extent of Chinese involvement. This is not surprising given there is no required official register of purchases at the levels of investment that are involved (and the preference for a low-key approach by the Chinese investors).

At first glance it would appear that such discretion would be less necessary in France. The Bordeaux region, in particular, has a long history of FDI. Informants have indicated that, in general, FDI was welcomed and those that sold their properties were happy with the transaction. However they also noted that a prestigious chateau has not yet been bought by Chinese investors and that, if that happened, it could change attitudes. At the same time, several informants indicated that no owner of a Grand Cru Classé would sell to a Chinese buyer, indicating that there is discrimination at the higher end of the market.

However, those we spoke to were by nature well informed about the potential advantages of Chinese FDI and the lack of credible alternatives. In her analysis of popular reaction to internet reports of investments in Bordeaux by the Chinese, Chen (2014) found that the vast majority of comments were negative and motivated by sentiments of fear, bitterness and xenophobia. As in Australia, many Chinese investors are very discreet about their involvement and maintain a low profile in the business, such that even the CCI recognizes that their data base of Chinese owned chateaux is unlikely to be complete.

The manager of the Australian vineyard interviewed acknowledged that his peers sometimes commented negatively on his Chinese ownership, but noted no important deleterious effects for his business (Author interview, 17.12.2014). Political interference in investment, although theoretically possible through the Foreign Investment Review Board (FIRB), in practice doesn't impact on the wine industry because of the thresholds applied are far higher than any likely investment in the sector. Even SOEs, which in theory would be subject to review for all investments, are reported not to be concerned about potential government interference. The SOE investor which bought 70% of Diva – Bright Foods – also bought 75% of an Australian food business Manassen with FIRB approval (China Daily, 2011).

In France, at least one respondent indicated that the Chinese owned chateaux were developing a bad reputation, particularly in relation to late or non-payment. This complaint was echoed by a report in a local magazine where a consultant complained that his fees for consulting services to a Chinese investor were not paid (Rabiller, 2013). There are also rumors that some of the funding for acquisitions may be illegally acquired (Chen, 2014). These rumors were fueled by the latest report of the French institution tasked with monitoring foreign investments for money laundering -Tracfin - which noted that the complex structures set up to buy vineyards are often deliberately obscure and pass through off shore financial centers, making it very difficult to monitor the source of funds. They call for vigilance amongst those involved in such transactions (Tracfin, 2013). However, in our interviews negative perceptions were rather limited in general and most respondents underlined the urgent need for investment in the sector and the fact that foreign investment was to be welcomed, regardless of origin.

The final element of LOF identified by Eden and Miller (2004) is relational costs – the cost of managing a faraway asset, which can be high, especially in a context of low trust. We found few examples of such costs in our study. In the case of the actors in two of the Australian vineyards interviewed, these costs seemed to be low and a climate of trust was clearly present amongst the business partners. This is likely to be linked to the fact that they had experience of working together before the acquisition and, especially for Grand Farms, they had a long history of trust. The third Australian vineyard interviewed had installed Chinese management, perhaps in anticipation of such costs, although the manager did not give any judgment on this issue. In the French context, most investors seem to trust the local management to manage the day to day elements of the business, although in at least one case this was not the case and the local manager resigned due to differences of opinion on managerial issues and operational decision making. One industry consultant reported that one of his Chinese customers had come close to buying a chateau, but had pulled out at the last minute precisely because of these anticipated relational costs and the sheer distance involved: '*He didn't trust the French side. He was worried they'd take advantage of him*'.

One aspect which differs between the two regions studied and may have impacts on long term LOF, is the historic distribution system in Bordeaux – La Place de Bordeaux - which does not exist in Australia. As indicated above, Chinese investors bypass the Place, going direct to the Chinese market. In Australia here is no equivalent of the 'Place'. Vineyards depend on their own marketing capacity to sell their output, sell large well-known brands like Hardy's or Penfolds or selling direct to the public through 'cellar door' distribution systems (Bamberry and Wickramasekara, 2012). The fact that Chinese investors adopt very different systems to the domestic industry in Bordeaux could lead to both discrimination and relational hazards over time.

Overall many of the aspects of LOF identified in this research relate to differences in the institutional context between China and the host countries. This echoes recent work by Eden and Miller (2009), which identified the institutional distance as the likely source of much of the anticipated LOF for Chinese OFDI. Indeed in France in particular, lack of understanding and respect for national regulations and norms were often cited as problematic: '*It's a bit the Wild West where they're from. France isn't the Wild West. We have rules.*' This was less evident in WA. However this may be related to the relatively low level of investment to date. As the numbers of Chinese owned wineries grows, it seems likely that there will be more instances of difficulties adapting to local institutions. In Bordeaux the CCI now anticipates potential problems and puts a lot of effort into prior information for investors. In WA the local government organized a conference in April 2014 to better inform potential Chinese investors in the agro-food sector in the region.

6. Conclusions and implications for theory and practice

Overall, our findings in this study of Chinese investment in the wine sector in Bordeaux and WA resonate with the existing theory on motivations and difficulties with FDI, although the relative importance of different aspects varies. In terms of the motivations for Chinese investment in the sector across the two regions, they conform to fairly classic 'resource-seeking FDI' as defined by Dunning (1993). The key interest is to secure a high quality, sustainable supply of wine for the growing market in China. However, there are aspects of strategic asset seeking in both countries. In Bordeaux, a chateau is viewed as symbolic of achievement and luxury. This strategic asset can be used to entertain business guests and the output of the chateaux can be valorized through gifts to key contacts. The other strategic asset is the name ‘Bordeaux’, synonymous with wine. Most interviewees saw this as the regions’ key competitive advantage and an asset that was permanent, in that it could not be off shored. This element of symbolism and branding is clearly less present in Australia where the strategic asset is more likely to be the SIV and with it access to the Australian way of life and education system for family members.

In terms of LOF, we find clear examples of all of the three types of LOF identified by Eden and Miller (2004), although the key manifestations were related to unfamiliarity hazards and difficulties caused by the large difference in the institutional contexts between the home and host countries. This was more common in France, where investors are more numerous. Efforts appear to be underway with local support services to better educate potential investors to avoid such difficulties. Discrimination seems to be more of an issue in Australia, where it is linked to a recent history of large-scale Chinese investment in mining and other natural resource industries and an historic attachment to the “land”. The debate about Chinese ownership of agriculture is much more intense in that context. Finally relational hazards exist, but seem to depend very much on the extent to which the actors succeed in developing a relationship of trust. The interviewee whose relationship with his Chinese employer broke down underlined this aspect: ‘*They didn’t listen to me and they trust no-one’*.

Finally, what Chinese buyers bring to both contexts is a key AOF, namely their knowledge and links to the growing Chinese market. Most interviewees acknowledged that China is a difficult market, particularly now, as euphoria over the potential has died down and importers find themselves with extensive stocks that they have difficulty distributing within the country. Almost everyone acknowledged that distribution is the big difficulty in China. The market is also increasingly competitive, with a large and growing number of importers vying for business. Even those that had

Chinese partners were often disappointed with the extent to which they had developed or valorized effective distribution systems. In addition, Chinese investors clearly bring finance, some of it with a long term “generational” view, an attitude often lacking in the two regions we explored.

In terms of differences between the two regions, which may impact on long term perceptions of LOF, Australia has a longer history of Chinese investment in the natural resources sector and this could fuel nationalist fears linked to foreign ownership of natural resources, which some politicizes have tried to exploit (Kelly and Speedy, 2013). However, so far concrete difficulties with discrimination in the sector seem to be limited. In terms of the structure of the industry in the two regions, the manner in which wine is brought to market is very different. In Australia, grapes are to a large extent a commodity and wineries buy in grapes to supplement those grown in their domain. Several vineyards do not make wine. In France, particularly in Bordeaux, chateaux use largely their own grapes and vineyards rarely buy grapes. The link from the terroir to the wine is vital and direct.

Perhaps more importantly, the way in which wine is subsequently marketed is very different. Much Australian wine is sold by the few large companies who control the trade – through supermarkets or importers, depending on the market. Fine Bordeaux is sold, for the most part, through the complex system which is the ‘Place de Bordeaux’. Overall, chateaux traditionally focus on producing wines and many do not get involved in marketing their product. This role is played by the courtiers and dealers, who are the link to the market. Chinese buyers bypass this traditional system. This fact may lead to tensions over time if the extent of ownership reaches a level where large quantities of wine are circumventing the traditional distribution networks. This could lead to the type of discrimination hazards (Eden and Miller, 2004) often seen in FDI.

Overall our research indicates that the experience of this group of Chinese companies in the two host countries studied can be explained substantially by existing theory. The motivations and difficulties of Chinese investors can be explained by Dunning’s theories of FDI, as well as more recent theories of sources and nature of LOF. One of the key implications for businesses and policy makers is that much can be learned from existing research, especially that which focuses on overcoming LOF (Elango, 2009; Klossek et al, 2012). Eden and Miller (2009) in their paper on Chinese FDI outline potential strategies for EMNEs to mitigate LOF, including working with a local partner and compliance training.

The fact that several recent acquisitions in Bordeaux are part-owned may reflect an increasing understanding that a local partner brings significant advantages. The key WA investments are very much seen as partnerships by their owners. It is too early to say whether such investments will be more successful than those that are wholly owned, but theory indicates that they should have less LOF. The other potential strategy proposed by Eden and Miller (2009) – training – is something that is increasingly recognized by all actors to be important. The Bordeaux CCI hosts seminars in Hong Kong and Bordeaux for potential investors to ensure that they are well versed in what to expect with a French investment, including in relation to the regulatory framework and ancillary costs. The WA government's 2014 seminar for Chinese agro-food investors has a similar objective. Such initiatives by the public authorities clearly have the potential to reduce unfamiliarity hazards and ensure that new investors have a realistic understanding of what to expect with their overseas venture.

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