

Research on Chinese Enterprises' Outward Foreign Direct Investment

Linian Guo

Jiangxi Normal University, Nanchang 330022, China

Keywords: OFDI, Going out, Necessity

Abstract: This article aims to study the influencing factors and existing problems of OFDI scale of Chinese enterprises. By combining China's foreign direct investment scale data for the past nearly five years of and the history of the development of Chinese foreign economic quantity and factor analysis, it is founded that the host country and trade relations are the main factors influencing the Chinese enterprise foreign direct investment, and the necessity of China's foreign investment is deepest stimulation to the expansion of foreign direct investment scale of China. Finally, based on the status of Chinese enterprises in international investment, it is concluded that China's OFDI still has problems such as single investment mode, unbalanced investment region and other problems, and based on which some suggestions for Chinese enterprises are put forward.

1. Introduction

OFDI (Outward Foreign Direct Investment) is an investment activity in which residents invest in another country with a certain factor of production and acquire management rights accordingly. It is generally believed that FDI is a long-term investment with good stability and will not easily withdraw when the international environment is turbulent or the host country's domestic economic and political conditions are adversely changed, so FDI is also more popular internationally. According to the report of relevant UN organizations, in 2014, the scale of FDI inflows into China exceeded the United States for the first time, becoming the world's largest foreign capital inflow. According to data from China's National Bureau of Statistics, China has become the second largest country in terms of foreign investment flows in 2018, but China's cumulative net outward direct investment ranks only third in the world, lower than the United States and the Netherlands. China's actual use of foreign direct investment amounted to 885.6 billion yuan, an increase of 0.9%, equivalent to US \$ 135 billion, while China's outward foreign non-financial direct investment amounted to 797.4 billion yuan [1]. Compared with the previous year, it is 1.6% lower, equivalent to 120.5 billion U.S. dollars, and it is in the international direct investment surplus. It is worth noting that China and the countries along the "Belt and Road" Inter direct investment at a significant deficit position.

2. Analysis of Factors Affecting the Scale of China's Outward Direct Investment

2.1 Self-condition Factors

China's reform and opening up in 1978 made it possible for Chinese companies to invest abroad. However, at that time, the Chinese economy really started to take off, the domestic market had not yet been developed, and the low level of corporate management did not support Chinese companies to conduct large-scale direct foreign investment exchange in the short term. With the development of China's economy, the domestic market is becoming saturated, and the strength of enterprises is expanding. The need for Chinese companies to go global is becoming more and more obvious. In 1992, Chinese state leaders clearly proposed that while using foreign capital to develop themselves, Chinese enterprises were required to Going abroad. China's outward foreign direct investment started late, and the scale of outward foreign direct investment began to increase significantly after joining WTO in 2001. This is also an important reason why China's cumulative outward foreign direct investment is far less than that of the United States [2].

2.2 Trade Relationship Factors

Asian countries clearly occupy the forefront in China's relations with foreign friendly partners. Similarly, Asian countries occupy the main part of China's outward foreign direct investment. Among them, Central Asian countries have become China's outward foreign direct investment due to the "Belt and Road" strategy. In the context of the rapid decline in the global FDI scale, China's stock of direct investment in the countries along the Belt and Road continued to grow continuously to reach \$ 172.77 billion in 2018.

2.3 Host Country Factors

2.3.1 Market Size

This is a factor that will be considered by almost all companies' outward foreign direct foreign investment. The size of the market directly affects the profit of outward foreign direct investment. The main reason why China remains attractive to foreign investors in the long run is that it has market potential that no single country or region can replace. According to economic principles, the larger the market size of the host country, the easier it is to achieve economies of scale, reduce the marginal cost of production of the enterprise, and maximize the benefits.

2.3.2 Resources and Their Costs

This can be found from the main countries of China's outward foreign direct investment. In 2018, two of the countries with the largest foreign direct investment in China were Canada and Australia. It is precisely because these two countries are widely scattered and rich in resources. For China, this factor has a greater influence. On the one hand, because China is a country with a large population, its external resource dependence is relatively high. On the other hand, the development of China's domestic industrial structure is based on the development of manufacturing industries, Chinese companies will also be more concerned about resources and their costs. Secondly, the large scale of direct investment in ASEAN and African countries is also partly due to the abundant human resources and low labor costs in these regions, which is conducive to manufacturing investment.

2.3.3 Government Policies

In order to attract more foreign investment to their countries, most countries will introduce attractive conditions. For example, in the 1980s, in order to introduce international investment, China provided free land and factories for foreign companies investing in factories, and a preferential tax system. Chinese companies have less direct investment in developed countries, which means that some countries lack preferential conditions and are wary of setting up more investment barriers.

3. Analysis of the Necessity of Expanding Outward Foreign Direct Investment

3.1 Reduce Trade Barriers and Open Up New Markets

One of the main manifestations of direct outward investment is new investment, that is, investing in a new enterprise or new factory in the host country. Today, with trade frictions constantly emerging, new investment has become an important way to occupy new overseas markets. Development and the appreciation of China's renminbi, the competitiveness of China's export trade products has been declining, and expanding new markets through overseas direct investment is a feasible way to respond to changes in the current trade environment.

3.2 Alleviate the Contradiction of Domestic Industrial Structure and Promote Industrial Structure Adjustment

In 2017, Chinese Prime Minister Li Keqiang raised the goal of capacity reduction in the government work report. Capacity reduction refers to the unfavorable situation caused by the

overcapacity of many domestic heavy chemical companies due to excessive competition in products, and seeks to transform and upgrade production equipment and products. Among them are typical iron and steel enterprises. The steel output of Chinese steel enterprises has exceeded more than half of the world's total steel output for a long time, and the number of employment contributed by steel companies is quite huge. It is not realistic to completely weaken the removal of production capacity in the short term. Direct investment in the Belt and Road countries and the construction of infrastructure have greatly consumed domestic steel production capacity. Through the consumption of external production capacity, China can seize the opportunity to adjust the domestic industrial structure, further develop the service industry, and heavy chemical enterprises through the pain of cutting capacity.

3.3 Improve Corporate Management and International Competitiveness

For a long time, Chinese companies have relied heavily on low labor costs and government support, which is difficult to last. Taking the life of Chinese private enterprises as an example, the sample survey shows that the average life of Chinese private enterprises is only 3.7 years, which is much shorter than the average lifespan of small and medium-sized enterprises in the United States and Japan. Through international direct investment, Chinese private enterprises can learn advanced management experience from outstanding peers in the world, and improve their international competitiveness. The Chinese national minority automobile company Geely Group is a low-end production company. The car company, nine years ago, the value of the Volvo brand that Geely acquired for \$ 1.8 billion has now soared tenfold. At the same time, Geely Automobile also took the opportunity to take the lead in the automotive market. No matter in China or abroad, Geely Automobile has been favored by more consumers, and it has fought a turnaround.

3.4 Promote the Balance of Payments and Enhance the International Image

Due to the developed export trade, China's trade balance has been in a surplus for a long time, which has brought the pressure of high foreign exchange reserves and the pressure of RMB appreciation, while also making other countries feel more imbalanced. On the one hand, Chinese companies can expand their capital deficits. Promote the balance of payments and maintain the stability of the local currency exchange rate. On the other hand, it has also improved its international image and is beneficial to achieving win-win results with other countries.

3.5 Promote the Internationalization of RMB and Increase the Country's Comprehensive Influence

While Chinese companies going global will inevitably increase the international influence of the RMB, it will be more common to use the RMB for settlement. On the other hand, China has long been the largest importer of foreign direct investment, and the proportion of foreign investors' assets has reached a very high level. According to the research of relevant scholars, the actual market value of China's current introduction of FDI is much higher than China's huge foreign exchange reserve scale, and much higher than China's net external claims. Once the international situation changes, the potential risks are huge, China in recent years, through the continuous expansion of outward foreign direct investment, its own countermeasures have been greatly enhanced, and its ability to allocate resources has also been significantly improved, which has greatly improved China's right to speak internationally and demonstrated China's growing influence.

4. Problems in China's Current Outward Foreign Direct Investment

4.1 Single Investment Model

Chinese companies' outward foreign direct investment is too much pursuit of holding and sole investment, and too much attention to one-step investment, which will easily cause the host country to be vigilant and uncomfortable. It can appropriately increase the proportion of non-equity participation in investment methods to achieve mutual benefit and win-win results for both parties.

4.2 Poorly Established Image of Outward Foreign Direct Investment Enterprises

In January 2018, tens of thousands of Russians wrote in the name of environmental protection asking the government to cancel the establishment of drinking water plants by Chinese companies on the shores of Lake Baikal, indicating that the international image of Chinese companies needs to be improved. It has done very well for neighboring Japan and is worthwhile China learns from it, relying on high-quality products and responsible responsibilities, Japanese companies have been universally welcomed by the world. Chinese companies should strengthen their social responsibility, take the initiative to shoulder their social responsibilities in the target areas, and leave the Chinese companies responsible to the people of the host country through practical actions Image, reduce the risk of overseas investment, and lay a good foundation for enterprises to further expand foreign direct investment.

4.3 Imbalanced Choice of Direct Investment Locations

Data show that China's outward foreign direct investment target countries are mainly Asian and Latin American countries, and less direct investment in developed countries. On the one hand, some politicians in developed countries have threatened China with hype, which has blocked and restricted Chinese investment in the region. On the other hand, the market competition in developed countries is very large, and it is difficult for general enterprises to enter into a foothold. This also shows that there are fewer companies with core technological advantages in China. However, in recent years, a large number of companies in China have entered the markets of developed countries and get a foothold, such as Fuyao Glass, Huawei Communications, etc.

5. Policy Recommendations for China's Future Outward Foreign Direct Investment

First, China must adhere to and further expand outward foreign direct investment, and policies to promote enterprises to go global, continue to increase the stock of foreign direct investment, and strengthen their ability to allocate resources internationally.

Second, China need to use more diversified investment methods, change the mentality of quick success and immediate benefit, shape a good overseas image of Chinese companies, and achieve mutual benefit for both parties.

Third, China must make a more balanced choice of investment locations, adapt to the more intense market environment and strict investment regulations in developed countries, and go out to learn from advanced management companies while going more creatively.

6. Conclusion

In summary, since China joined the WTO, the scale of foreign direct investment of Chinese enterprises has grown rapidly and has now reached the top rank in the world. The changes in China's domestic economic situation require Chinese enterprises to speed up OFDI and achieve balanced development at home and abroad. However, while the scale is growing rapidly, we still find problems in the quality of China's OFDI. How to solve these problems and gain the recognition of the world's peers requires further efforts of Chinese enterprises and government, so as to promote Chinese enterprises to make greater contributions to the global village.

References

- [1] Cai Haoyi, Han Huishi, FDI stability decline and macroeconomic risk prevention [J]. International Finance Research 2012 (3): pp.77-84.
- [2] Yan Fumei, Wen Yaran, Research on Location Choice of China's Foreign Direct Investment under the New Normal [J] .Shopping Now 2019(21):pp.77-84.