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The Investment Trend Analysis of Multinational Corporation in China

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Abstract. As the Director-General of the World Economic Forum Maccabees says, "Any company that claims to be a global multinational company, but no major initiatives in China, cannot be called a global multinational company. " This paper analyzes the trend and reasons of multinational investment in China. Meanwhile, it learns and absorbs so advanced experiences that try to make the adjustment of investment strategy in China. Based on the adjustment of China's economic restruction and industrial upgrading, it will lay a solid foundation for sustained and stable development of Chinese economy in the post-WTO era.

Key worlds: multinational corporation, investment in China

1. Introduction

Multinational investment in China can be roughly divided into three stages: Firstly, 80s in the 20th century investigation and trial stages, which mainly for commodity trade and technology trade; secondly 90s large-scale into the phase of investment, mainly for concentrating on manufacturing field; thirdly since the late 90s, with the prospect of China's accession to WTO, multinational adjustment and rectification, full access, investment in China enters the stage of development. China is becoming an important production base for many multinational companies, procurement and R & D base, which shows that many multinational companies come to realize that the last piece of the world's great untapped market is Chinese market. As multinational corporations, they are not really the implementation of global strategy without a firm strategy in China.

China and situation changes of the world economy are the main reasons why multinational companies promote to adjust the investment strategy in China[1]. The development of transnational companies in China shows a new trend in order to occupy and expand market in China as China's major investment approach: through a variety of ways and means of enhancing control over the investment enterprise in China; to a number of fronts, the rapid expansion of the industry; Products Localization of production and research and development, driven parts manufacturers moved to China to form a complete production chain and greater control of the technology spillover.

Transnational Corporations Strengthen the view to the monopoly of the market, which led to the development of China's economic dependence[9]. We advocate legislation means to break the monopoly of transnational corporations, take positive measures to encourage technological innovation, create national brands and reduce dependence on multinational corporations.

2. Changes of Investment Trends in Multinational of China

In the early, the stages of foreign capital into China were establishing joint ventures, because China's degree of openness and the market are relatively low, the investment environment and poor. From 1979 to

1998, the share of Sino-foreign joint ventures and wholly foreign-owned enterprise was 44.88% and 30.96% respectively. By the following table I[6] we can see that from 1994 to 2004, foreign-owned trend continued to rise. Especially after China's accession to WTO, this change was more evident. In 2002, China's newly established foreign-owned enterprises reached 22,173; the number is 2.1 times of joint ventures[4]. In the 10 years from 1994 to 2004, the contract amount of sole proprietor increased from $ 21,949,000,000 to $ 117,275,000,000, turned 5 times. In 2004, foreign joint ventures and foreign investment amounted to $ 27,641,000,000, the ratio of increase was 8.37%, foreign-owned enterprises and foreign investment amount - $ 117,275,000,000, 43.7% more than last year, the actual use of Both foreign investors were $ 16,386,000,000 and $ 40,222,000,000, an increase of the rates were 6.46% and 20.49%[2]. Visible way of using foreign capital in China to gradually shift to foreign-owned business based.

Actually, FDI inflows to China are not a new phenomenon. In the pre-communist China, Western multinationals had been extremely active surprisingly in the same geographical locations. Thus, the current FDI inflow is a repetition of the past[10][16].

3. Motivation Analysis

By Hymer (Hymer, 1976)[11] of the "dominance theory" as a starting point of the main multinational companies act theory is the micro level of enterprises from foreign direct investment motives, which should have the condition and the location choice[3]. The classical theory usually takes general advantages as a specific reason for foreign direct investment enterprises, Dunning in British University (John H1Dunning, 1977) theory of the three advantages (Eclectic Theory of International Production) --- ownership advantages, location advantages and internalization advantages is the most famous one. As for Porter (Porter, 1990) in his theory, competition is highlighted the competitiveness of places, he believes although global competition is more and more serious, resources are often keys to competitive advantage or locations [5]. According to the above theory, Direct Investment in China's strategic location choice, generally speaking, can be divided into geo-economic strategy, resource seeking strategies, efficient search strategy and market strategy.

Although multinational companies in different countries investment in China's strategic location choice due to its own circumstances vary, on the whole, along with the post-WTO era, multinational investment in China from the initial resource seeking, and the efficiency seeking, turns to the emerging trends of current market seeking[12]. With China's economic development and deepening of trade liberalization, the influx of a large number of multinational companies, cheap production factors have gradually become cheaper. Moreover, since competitors are using the same resources, cost advantages become more and more weak. Attractive to multinational corporations decreased, while the attractive of market factors for multinational companies is to strengthen. Foreign investment behavior of multinational corporations may also be seen as its global value chain within the division's needs. A study of multinational companies in China survey shows that 80% of multinational companies consider that market factors are the primary factor in their investment in China, and cheap labor factor is reduced to a relatively minor position[18][19].

Secondly, China's policy environment is improving; it gradually reduces restrictions on foreign investment. In reform and opening up, the Chinese government’s limits foreign party equity ratio is stricter[17]. However, Chinese government encouraged joint ventures tend. In this case, in order to reduce the risk of external costs to China made of local resources, most multinational companies chosen joint ventures [4]. By way of joint ventures, multinationals can reduce barriers to entry, to enjoy the tax breaks, national treatment even super-national treatment.

Since 1992, China introduced a series of policy reduced legal restrictions on foreign investment, as "Foreign Investment Enterprises Holding Company Act", promulgated in 1995. From 2000 to 2001, has promulgated the "Foreign Law," "Law of the PRC Sino-foreign Joint Ventures", "Foreign Equity Joint Ventures Law." These laws regulate the behavior of foreign investors, in order to their legal rights are protected, but also relaxed certain provisions of foreign investment in equity. In 2002, China promulgated a new "Foreign Investment Industrial Guidance Catalogue," which further relaxed the restrictions on foreign equity investment; cancel the differences of exchange rate and other aspects of the policy. Relaxation of government policies helped to create a fair competitive environment for multinational corporations, and increased the enthusiasm of a sole proprietorship in China.

In addition, maintaining technology monopoly, preventing spillover and reducing coordination costs, improving economic efficiency are also very important reasons.

4. Measures of Reply The Sole Proprietorship

4.1. Improve the scientific and technological development and create the new products with independent intellectual property rights.

How to developed our intellectual property rights in Chinese enterprises, gain breakthrough of new product development capabilities is worthy of concern. Hyundai and Daewoo's story is an excellent example[7]. Daewoo is taking complete line of joint venture. Today, Daewoo basically lost effective control. But the main reason of Hyundai Motor success is that they began to pay close attention to control their own intellectual property. Therefore, faced with wholly-owned multinational corporations in China and the tide of monopoly on technology, Chinese enterprises must increase scientific and technological development and set up their own R & D center, attracting a large number of outstanding talents, and built their own product and technology research system[8]. Create new products with independent intellectual property rights, continue to meet market changes and demands, effectively resist technological monopoly of transnational corporations.

4.2. Draw up relevant laws and regulations, standardize the investment behavior of multinational corporations in China

In the short term, multinational corporations with their own advantages, may be monopolize certain domestic industry. For the "sole" of foreign capital, China should develop "Antimonopoly Law" as soon as possible, and it should also set up relevant laws and regulations to regulate the investment behavior of multinational corporations in China, to weaken foreign control over the capital on the market, and to promote and protect all kinds of enterprises growing and developing in a fair competition[13][12]. In addition, since subsidiaries in China for multinational companies pass through transfer pricing, tax evasion and avoidance behavior, China should improve the relevant laws and regulations to strengthen the supervision over multinational financial[9].

4.3. Further open the capital market

China's current capital project management system, both in terms of capital inflows and capital outflows have many deficiencies, so it cannot meet the development needs of the new situation[15]. On the one hand, relaxing capital controls can not only provide foreign investors and wholly-owned multinational corporations in China with more direct, and more flexible way of joint venture to curb the tendency of development, but also promote the standardization of the stock market. On the other hand, open capital markets can facilitate the financing of domestic enterprises, solve the problem of shortage of funds of many Chinese enterprises, meanwhile, the markets can train and support some potential domestic enterprises to go abroad for local enterprises financial basis[14].

5. Discussion

Multinational Corporations strategic adjustment is the inevitable trend of economic globalization. On the other hand, the adjustment impacts China's economy. This has two sides, positive and negative. Mainly in the positive aspect, promotions of domestic technological progress, high-tech industries and regional economic development, train a large number of international personnel. While the negative aspect is China's infant industries targeted, high-tech and specific enterprises. Therefore, China should seize the historic opportunity of multinational companies to adjust its global strategy. Through the international mobility of production factors, the industry transfers to promote the upgrading of its industrial structure optimization; another respect is, to pay close attention to a brief transition period, and to actively promote the management innovation, system innovation, organizational innovation and market innovation, to foster their core competitiveness of enterprises. China should also develop a global perspective to enhance the overall competitiveness, and to use the opening principle to grasp the steps, methods and approaches[20].

6. Conclusion

From the above analysis we can see that multinational companies in China in recent years, the adjustment of investment strategy has a positive and profound impact for the future economic growth in China, both for business opportunities to add investment in China, but also enable Chinese enterprises to face more severe challenges.

Traditional FDI theory has ignored the role of the host government, in fact, as Gross and Bellman puts it: the host government is not interested in foreign investment; the Government's interest is to bring foreign investment the distribution of welfare. Therefore, accelerate the legal and institutional construction after into WTO, keep relative stability of foreign investment policies and laws, continuity and operational, maintenance, and improve a fair and open market environment. At the same time, encourage and guide domestic enterprises to actively participate in the cooperation with foreign enterprises and Competition for China's economic participation in the global competition winning weight.

year	joint adventure		cooperative business operation		individual proprietorship	
joint adventure	capital amount	hundred million dollar / joint adventure	capital amount	hundred million dollar	joint adventure capital amount	hundred million dollar
1994	27890	401.93	6634	203.01	13007	219.49
1997	9001	207.26	2373	120.66	9602	176.59
2000	8378	196.48	1757	811.67	12196	343.09
2003	12521	255.06	1574	747.90	26943	816.09
2004	11570	276.41	1343	77.78	30708	1172.75

Table I [6]

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