The Analysis of China’s Enterprises’ Oversea Investment Strategy
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Abstract
Oversea investment is the major contain of today’s economics’ globalization. This paper, on the base of oversea investment theory, analyses the major motions and regiments of enterprises oversea investment and provides our country's oversea investments’ direction and strategy, by analyzing of our country’s overseas investment current situation, considering our country’s enterprises’ international competition and their issues.

Keywords
Theory of FDI; Current Situation of FDI in China; Problems; Strategic Choice.

1. Introduction
In recent decades, the global FDI has developed rapidly, especially since the 1990s, the scale of FDI has begun to expand rapidly. In 2000, it has set a historical record of US $12000billion. Meanwhile, based on the fact that foreign multinational corporations can increase employment, increase export and tax revenue, or some knowledge brought by foreign companies can spill over to the East Most countries in the world are in line with the trend of world history development, and relax their policies to attract investment from multinational companies, so as to make overseas direct investment enter the fast channel.

With the rapid and steady growth of China’s economy, Chinese enterprises are also growing. Under the increasingly fierce competition in China's domestic market, some enterprises are also making great efforts to invest directly overseas to obtain the world market or the latest international technology. The scale and development momentum of their investment have repeatedly reached a record high! In 1996, the world investment report issued by the United Nations multinational corporations and investment division disclosed the relevantal data of overseas direct investment of Chinese enterprises to the world for the first time. In September 1999, the world wealth forum also discussed the overseas direct investment and internationalization of Chinese enterprises on the theme of "China, the next 50 years". All of these indicate that the process of overseas direct investment and internationalization of Chinese enterprises is having a profound and broad impact on the whole world.

The purpose of this paper is to analyze the current situation and problems of overseas direct investment of Chinese enterprises according to the relevant theories of overseas direct investment of developing countries, and then discuss the major problems faced by Chinese enterprises in the next 10-15 years, and their policy choices.

2. Theoretical analysis of overseas direct investment
Since 1960s, with the rapid development of international overseas investment, the original theory of balance of payments, foreign exchange rate and new classical interest rate theory is difficult to explain the motivation and relevant determinants of international overseas investment under the condition of incomplete market competition. Thus, economists have been constantly engaged in further theoretical research on these issues, resulting in various kinds of related issues. The theory of overseas investment, which provides theoretical guidance for the
foreign investment of multinational enterprises in developed countries, including developing
countries, is provided [4].

2.1. Marginal industry expansion theory
The theory of foreign direct investment, published by Japanese scholar kiyoshiko jima in 1977,
puts forward the theory of marginal industrial expansion according to the situation of Japan’s
foreign direct investment at that time. He thinks that the theory of monopoly advantage and the
theory of product production cycle are based on monopoly advantage, neglecting the role of
international division of labor principle, and can only explain the foreign investment behavior
of American multinational corporations. The theory holds that FDI should be carried out in
order from industries that have been or are about to be in a comparative disadvantage in the
investment countries (which can be called marginal industries). These marginal industries are
also industries with comparative or potential comparative advantages in the host country. The
smaller the technology gap between the investor and the host country, the more easily the
technology transfer caused by international direct investment is transplanted, popularized and
fixed. Thus, the potential advantages that the host country does not play can be excavated out,
and the comparative cost gap between the two countries can be expanded, thus creating more
international trade opportunities [1]. Because Japan’s economic situation in the late 1970s and
early 1980s is similar to that of China, the theory of marginal industrial expansion has a certain
guiding and reference role in the strategic choice of FDI of Chinese enterprises [3].

2.2. Product cycle theory
In may 1966, R. Vernon, an American economist, published his paper "international investment
and international trade in product cycle" in the quarterly economic journal, which proposed
the theory of international trade and investment in the product life cycle theory. He divides the
product life cycle into three stages: innovation, maturity and standardization. In the stage of
product innovation, due to the product specificity or monopoly advantage, the price demand
elasticity is low, and the enterprise has the tendency to choose to produce in China; in the
product maturity stage, due to the diffusion of technology and the participation of competitors,
the cost factors become more important, and the foreign direct investment is more favorable
than the product export, so the enterprise tends to invest in the regions with similar overseas
demand types In the stage of product standardization, technical factors have been retired from
the secondary position, and the basis of competition becomes price competition. Therefore,
enterprises tend to transfer production business to developing countries with low labor cost.
The theory of product life cycle combines monopoly advantage and location advantage of
enterprises. By analyzing the situation of product transfer between different types of countries,
the paper explains the causes of American enterprises’ direct investment to Western Europe
after the war, answers the questions of why enterprises should invest abroad and where to
invest. It also provides guidance for developing countries’ enterprises to invest abroad[2].

2.3. The formation of compromise theory
Compromise theory is a typical theory in the current theory of FDI. In 1977, J. h. dunning, a
professor at the University of Redding, proposed the theory of international production
compromise. The theory holds that the ownership specific advantages, internalization specific
advantages and location specific advantages should be considered in FDI. The ownership
advantage includes two aspects: one is the advantage of monopolizing intangible assets, the
other is the advantage of enterprise scale economy. Internalization advantage refers to the
ability of multinational companies to use ownership advantage to save or eliminate transaction
costs. The root of internalization lies in the failure of external market. Location advantage is the
advantage of host country, and enterprises can only adapt to and use this advantage. It includes
two aspects: one is the advantages of the non mobile factor endowment of the host country,
such as abundant natural resources and convenient geographical location; the other is the favorable conditions and good infrastructure formed by the political and economic system, flexible policies and regulations of the host country[5].

The main conclusions of compromise theory can be summarized as follows: first, multinational companies are the product of market incompleteness, and the market does not completely lead to the specific advantages of ownership of multinational companies, which is the necessary condition for FDI; the second is the internalization advantage of enterprises, which explains why FDI is superior to license trade; third, location advantage shows that enterprises have better ownership advantages; third, location advantages explain the enterprise The fourth is the ownership advantage, internalization advantage and location advantage owned by the enterprise, which determines the motivation and conditions of the enterprise's foreign direct investment [6].

3. The current situation and problems of overseas direct investment of Chinese Enterprises

3.1. The current situation of China's overseas direct investment

China's overseas direct investment has been growing rapidly and unprecedentedly. According to the 2003 annual report on China's direct investment abroad issued by the Ministry of Commerce and the State Statistical Bureau, the total foreign direct investment of Chinese mainland in 2003 was US $2 billion 900 million, which deducted the reverse investment of the foreign direct investment enterprises to the domestic investors, with a net investment of US $2 billion 850 million, an increase of 5.5% compared to the same period last year, ending in 2003. At the end of the year, a total of 343 Chinese foreign direct investment enterprises accumulated a net foreign direct investment of US $33.4 billion, excluding the reverse investment of FDI enterprises to domestic investors, and the accumulated net foreign direct investment was US $33.2 billion. In 2004, China's non-financial FDI amounted to 3.62 billion US dollars, an increase of 27% year-on-year; by the end of 2004, China had accumulated nearly $37 billion in foreign direct investment. In 2004, there were 829 overseas investment enterprises approved and filed by the Ministry of Commerce, with the agreed investment amount of US $3.712 billion.

![Figure 1. Overseas M & A amount of Chinese enterprises in 2015-2019 (US $100 million)](image)

In recent years, China's foreign direct investment has maintained steady and orderly development. According to the data of the Ministry of Commerce, China's foreign investment in 2015 was US $145.7 billion, up to US $196.2 billion by 2016, and that in 2019, China's total industry wide FDI reached US $117.12 billion. The investment structure is more balanced, mainly to leasing and business services, manufacturing, wholesale and retail industries. One belt, one road to China’s Southeast Asia, Africa and Europe, has been the most popular area for overseas investment in China. The scale of investment has been rising. Therefore, overseas investment in Chinese enterprises has declined significantly in Europe and North America.
Asia and its surrounding countries and regions are the main concentration of China’s overseas direct investment. As of 2003, over 80% of Asian countries and regions have Chinese overseas investment enterprises, with a stock of 33.2 billion US dollars in China’s foreign direct investment, and US $25.66 billion in Asian region, accounting for more than 80% of the total foreign direct investment stock, of which Hong Kong region has 24.6 billion US dollars, accounting for 74% of the total. In 2004, the total foreign direct investment in Asia was US $1.396 billion, accounting for 38.6 percent of the total, and Latin America was 4.62 billion US dollars, accounting for 14 percent.

In recent years, especially in 2019, the increase of overseas trade barriers and the uncertainty of geopolitics have had an impact on global business confidence and economic activities. In early 2020, China and the United States signed the first stage trade agreement. The United Kingdom confirmed that the European uncertainty was further increased, especially by the influence of New Corona virus. The market situation of China’s overseas investment is not optimistic. But the future is bright.

The further increase of overseas investment by Chinese enterprises has created thousands of jobs for the country where the project is located and the third country, and has driven the export of Chinese equipment and materials to a large scale, which has become a win-win result. Therefore, it has been welcomed by many countries in the world, including China.

3.2. Main problems of overseas direct investment of China’s Enterprises

The scale of foreign investment is small and its strength is limited. At present, the proportion of SMEs in the composition of FDI enterprises is quite large, and the scale is small and the
strength is limited. On the contrary, the scale of investment enterprises in developed countries is relatively large, and the large and large multinational companies are mostly. From the scale of overseas direct investment, the average investment of a project in developed countries is 6 million US dollars, that of developing countries is 4.5 million dollars, that of CIS and Eastern European countries is $1.4 million, while China only has $1.13 million. Small scale enterprises have no scale advantages, so it is difficult to adopt advanced equipment and carry out effective research and development, and also unable to establish a complete sales and after-sales service system. The result is that Chinese enterprises are in a disadvantage in the fierce international competition, and most of the products enter the low-end market.

The macro management system is not sound. International experience shows that enterprises often rely on the powerful force of government to promote policies to succeed in the early stage of overseas investment. Although the management of overseas investment projects is constantly reformed by relevant government departments in China, it is still lagging behind the development speed of foreign investment. The procedures of setting up foreign investment, foreign exchange and personnel approval are cumbersome, and the time consuming is long. The enterprise’s foreign direct investment is still under long-term management. Besides, the national foreign direct investment policy and regulations are imperfect and incomplete, and the policy support system is not perfect. Moreover, the existing foreign exchange management system is not flexible, which is not conducive to the expansion of production scale and reinvestment of enterprises. Moreover, the enterprises lack the support of government finance, credit and tax in overseas direct investment, which is often difficult to support the strong pressure of overseas competition and go on the "no return road".

Compared with developed countries, China’s foreign investment has a significant gap. Since 1990s, the scale of international direct investment has accelerated, and a historical record was set in 2000. The total amount of international direct investment reached 12000billion US dollars. In 2001 and 2002, due to the impact of the Asian financial crisis, the scale of international direct investment has changed greatly. But the investment volume still reached US $71.4 billion and $647.4 billion. According to the 2003 World Investment Report issued by the United Nations Conference on Trade and development (UNCTAD), the total outflow of global FDI in 2002 was US $647 billion and the stock was US $6866billion. Based on this, China’s foreign direct investment in 2003 was equivalent to the global FDI flow respectively, The stock is 0.45% and 0.48% respectively. It is in the second stage of Dunning investment cycle theory. Most of China’s FDI is processing trade type, and most products enter the low-end market. Because our country’s technology level is generally behind developed countries, in the fierce international competition, the product technology content is low, so we can only take the road of processing trade, and the products can only enter the low-end market of developing countries temporarily. Of course, with the improvement of the technical level of Chinese enterprises, This situation will change.

4. The countermeasures to accelerate the overseas direct investment of China’s Enterprises

Continue to maintain and increase the investment in resource development

The choice of the key points of FDI industry is a dynamic development process. International experience shows that resource development industry is the key investment industry in the initial stage of FDI. Most developed countries have experienced the development process of resource development - manufacturing industry - the third industry as the main industry. From the perspective of China’s national conditions, FDI activities are still in the initial stage, which is in line with the development law of the choice of international direct investment industry.
Expanding investment in developed countries and regions. Developed countries have been the main area of international direct investment. They have concentrated the advanced technology, management and long history of overseas investment. These are valuable wealth for developing countries. Many countries and regions in the world have obtained advanced technology and management experience from developed countries through this way, which has accelerated the technological progress, industrial upgrading and economic development of their own countries. Strengthening the investment of developed countries in China is conducive to using the platform of overseas companies to obtain advanced technology in developed countries, accelerate the progress of China’s industry and catch up with the advanced level of the world. Strengthen investment in modern service industry. With the development of international high-tech and the acceleration of industrial division in recent years, some modern service industries have become the hot spots of international investment, such as foreign engineering contracting, ocean transportation service, satellite launch service, tourism service, especially the emerging software outsourcing service. Although the service industry in China is generally or at a certain level behind the developed countries, China has comparative advantages in labor-intensive, resource intensive and technology intensive, such as software development, so the development of modern service industry has a great opportunity for foreign investment and broad prospects.

References