

A Study on the Location of China's Foreign Direct Investment

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Abstract

Since the reform and opening up, China has actively participated in international trade, the scale of foreign investment has been expanding, and the scope of investment is wide. In recent years, the international situation is grim, the phenomenon of anti-globalization is constantly emerging, the global economy is shrinking under the influence of the COVID-19 epidemic, and China's foreign investment is constantly facing new challenges. Based on the international economic and social development trend and China's national conditions, Based on the modern location theory and modern agglomeration theory, this paper summarizes the location changes and characteristics of China's foreign direct investment, analyzes the influencing factors of China's foreign direct investment location choice, and puts forward comprehensive suggestions on the formulation of location strategy, so as to provide some reference for China's external direct investment location choice under the new situation.

Keywords

Foreign direct investment; Location selection; Influencing factors; The Belt and Road Initiative.

1. INTRODUCTION

The location choice of foreign investment is to choose where to invest after evaluating the economic, political and social environment of various countries. Since Chinese government introduced economic reform measures in 1979, the embryonic form of China's foreign direct investment has appeared. With the deepening of China's opening up, domestic enterprises began to take a broad view of the world market. Foreign direct investment (OFDI) is a way to help enterprises quickly open up markets abroad and achieve profits, and its total amount is growing. Foreign direct investment is influenced by the differences of national politics, economy, culture and other aspects, and it has great risks. Its success is closely related to the location choice.

2. THE DETERMINANTS OF LOCATION CHOICE OF CHINA'S FOREIGN DIRECT INVESTMENT

Target tracking technology has an important application value in both military and civil fields [1]. In 1937, the first tracking radar station (SCR-28) appeared in the world [2]. Since then, with the continuous development and progress of sensor technology, target tracking systems based on radar, laser, infrared and satellite appear more and more in various fields.

Wireless sensor network (WSN) is a set of sensor nodes with sensor detecting, communication and event processing capabilities deployed in the monitoring area. These nodes form a multi-hop and self-organizing network system by wireless communication way [3-5]. It is put forward and studied by the US military for military needs. With the rapid development of wireless communication technology, micro computer technology, system on chip and low-power embedded device, the application field of wireless sensor network is wider and wider.

Because of its wide coverage and self-organizing ability, wireless sensor network has made great changes in information sensing field by adopting the advantages of wireless communication, low energy consumption and high reliability [6].

2.1. Host Country Environment

2.1.1 Market environment

Dunning's eclectic theory of international production summarizes the location advantages of the host country to attract investment, which emphasizes that the size of the market is one of the important factors to attract foreign direct investment. The market scale of the host country plays an important role in the realization of economies of scale. The market scale of the invested country determines the realization of scale economy and the sales of products or services in the local market. The better the scale economy effect is, the more difficult it is to realize the scale economy when the market scale of the invested country is small, which is not conducive to the improvement of the return rate of foreign direct investment and has certain investment risks.

2.1.2 Resources

The resources of the country where the investment target is located mainly include natural resources and labor resources. Natural resources are the reserves of raw materials and fuels needed by local production enterprises. When the resources are abundant and the cost is low, the cost of producing products in the country where the investment target is located is greatly reduced, and the profit is correspondingly increased. Labor resources and price are also important factors that determine the large-scale production of products. Enterprises tend to invest abroad in countries with abundant labor force. At the same time, the wage level of labor force has a reverse adjustment effect on enterprises' foreign investment. In general, abundant and cheap labor resources provide great help for enterprises' production [1].

2.1.3 Cultural factors

The cultural differences between the investing country and the invested country are difficult to achieve integration through simple learning and training. There are significant cultural differences between the East and the West, and it is difficult to coordinate the management mode and thinking logic. It is difficult to balance the integration of local culture and the autonomy of investment enterprises in foreign direct investment. In addition, according to the survey, influenced by Western hegemonism and China threat theory, some capitalist countries have a certain prejudice against China, while some closed African countries advocate self-sufficiency and show a negative attitude towards foreign investment. Therefore, it is concluded that the stronger the cultural inclusiveness of the host country is, the smoother the application of foreign investment is. At the same time, the cultural difference between the host country and the investing country is also an important factor affecting the practical application of foreign investment, and a smaller cultural difference is conducive to the long-term stability of foreign investment.

2.1.4 Institutional environment

The host country's system is also an important consideration when investing abroad. The more inclusive the cultural system is, the more open the economic system is and the more friendly the political system is, the more conducive it is to the acceptance and sustainable development of foreign investment. To create a good environment for foreign investment with low risk, good stability and high development expectations. On the contrary, if the degree of openness is low, the political situation is unstable and the cultural exclusiveness is strong, it is not conducive to the entry and development of foreign investment, resulting in high barriers to investment entry, difficult investment and high risk [2].

To sum up, good institutional conditions are important considerations in foreign investment, and countries with good institutional environment are more likely to become the target of a country's foreign direct investment location choice.

2.2. Strategic Objectives of Investors

In the location choice of foreign direct investment, the main body of investment in China takes the realization of higher interests as the fundamental motivation, and to achieve greater interests needs to meet its strategic objectives. If the strategic goal of the enterprise is to expand the international market, it needs to choose a region with sound local sales network and convenient and efficient transportation. If the enterprise is positioned to reduce the cost of products and achieve higher returns, It is necessary to invest in countries or regions with low raw material prices and low labor costs.

3. THE CURRENT SITUATION OF CHINA'S FOREIGN DIRECT INVESTMENT

3.1. Basic Information of Foreign Investment

3.1.1 Steady progress and continuous improvement of investment scale

Since the reform and opening up, China has actively integrated into the international market, implemented the "going out" strategy, joined the WTO, and developed rapidly in foreign investment. According to the statistical bulletin of foreign direct investment, the scale of China's foreign investment has been rising over the years, from 735.08 billion yuan in 2015 to more than 930 billion yuan in 2021, and its influence on global foreign direct investment has been continuously enhanced. New achievements have been made in foreign direct investment.

3.1.2 Focus on developing countries, mainly on downward investment.

Foreign direct investment in developing countries is usually divided into two categories: upward investment and downward investment. Upward investment is to invest in developed countries in order to learn their advanced technology and management methods and expand their markets. Downward investment means investing in countries with similar or lower levels of development than their own countries, making full use of their resources, markets and other advantages.

According to the latest edition of the Statistical Bulletin of China's Foreign Direct Investment in 2020 published by the government, China's foreign direct investment flow in 2020 was 153.71 billion US dollars, ranking first in the world for the first time. Among them, the proportion of foreign direct investment in Asia reached 73.1, followed by Latin America.

Among the investment in Asia, Hong Kong's investment in China was 9.15 billion US dollars, up 1.5% year-on-year, accounting for 79.4% of the investment in Asia. Investment in the 10 ASEAN countries was 16.06 billion US dollars, up 23.3% year-on-year, accounting for 14.3% of investment in Asia. Investment in Latin America is mainly concentrated in Brazil, Peru, Cayman Islands and other countries or regions. It can be inferred that in terms of location selection, Apart from Hong Kong, which belongs to China's territory, China's foreign direct investment is concentrated in developing countries, that is, downward investment.

3.1.3 The total investment of the countries along the "The Belt and Road Initiative" line is stable and progressive, and the cumulative investment is huge.

By the end of 2020, China has launched foreign direct investment in 63 countries along the The Belt and Road Initiative line, with more than 11000 overseas enterprises established, involving 18 industries of the national economy, and the total amount of direct investment in that year reached 22.54 billion US dollars, an increase of 20.6% over the previous year, accounting for 14.7% of China's foreign direct investment flow in the same period. An increase of one percentage point over the previous year.

Table 1. Regional Composition of China's Outward Direct Investment Flows in 2020

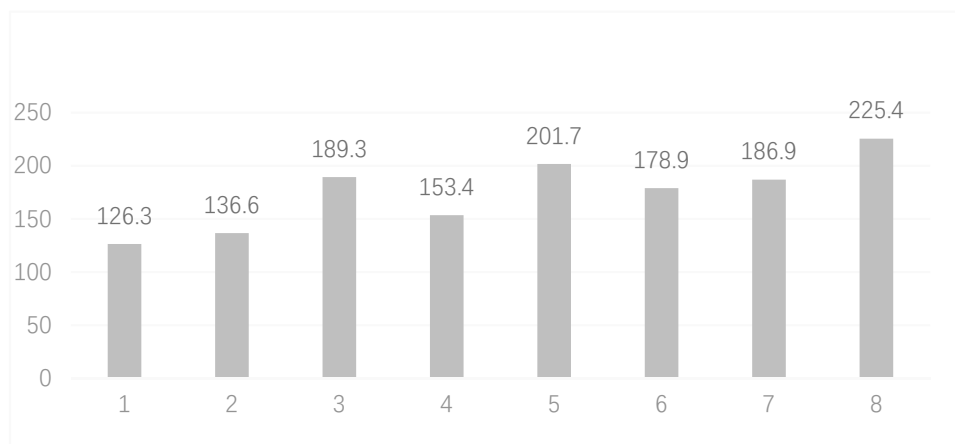
Unit: US \$100 million

Continent	Amount	Year-on-year (%)	Specific gravity (%)
Asia	1123.4	1.4	73.1
Europe	126.9	20.6	8.3
Continent	Amount	Year-on-year (%)	Specific gravity (%)
Africa	42.3	56.1	2.8
North America	63.4	45.1	4.1
Latin America	166.6	160.7	10.8
Oceania	14.5	-30.3	0.9
Totally	1527.1	12.3	100.0

In the Statistical Bulletin, China's investment in the countries along the "The Belt and Road Initiative" line from 2013 to 2020 is compared. From the data in the table, it can be seen that from 126.3 billion US dollars in 2013 to 225.4 billion US dollars in 2020, China's overall investment in the countries along the "The Belt and Road Initiative" line shows a steady and progressive trend.

Table 2. China's Investment in Countries along The Belt and Road Initiative from 2013 to 2020

Unit: US \$100 million



3.2. Reasons for Location Selection

3.2.1 Under the guidance of "The Belt and Road Initiative" policy, investment in countries along the line has increased.

After General Secretary Xi Jinping proposed "The Belt and Road" Initiative in 2013, he held high the banner of peaceful development, actively developed economic partnerships with countries along the line, and jointly built a community of interests, destiny and responsibility featuring political mutual trust, economic integration and cultural inclusiveness. Various documents and policies have been issued to promote the establishment of economic exchanges with countries along the "The Belt and Road Initiative" line. As of April 2022, China has signed cooperation documents with 149 countries and 32 international organizations. Under the guidance of "The Belt and Road" Initiative and the leadership of the state, China has continuously expanded its direct investment in the countries along the line, and has increasingly close economic relations with the countries along the line. To achieve a community of common destiny of peace, mutual benefit and economic integration.

3.2.2 The impact of the Sino-US trade war continues, and the tide of anti-globalization prevails in some developed countries.

The trade friction caused by the Sino-US trade war has worsened the Sino-US trade relations, has a negative impact on the economic development of both sides, and is not conducive to China's direct investment in the United States. With the rise and development of the wave of anti-globalization, some developed countries have shown resistance to the entry of international trade and international capital, and nationalism has risen. Economic policies have changed from the original tendency of diversified transactions to inward orientation, restricting international investment and trade by means of trade management and technical barriers, which also promotes the change of the amount of investment in different locations of China's foreign investment.

3.2.3 Grasp the location advantage to maximize the investment benefit.

Location advantage refers to the choice advantage of enterprises in foreign investment location, such as resource endowment advantage, labor advantage, technological advantage and so on. Through these advantages of the host country, enterprises can learn from each other and maximize economic benefits. At present, China's economy has changed from high-speed growth to high-quality growth. They are more inclined to transfer some primary product industries to foreign production, while developing countries in Asia and Latin America have geographical advantages and are suitable for appropriate industrial transfer and development.

4. PROBLEMS IN THE LOCATION CHOICE OF CHINA'S FOREIGN DIRECT INVESTMENT

4.1. Uneven Distribution of Investment in Different Regions

From the data analysis, we can see that China's foreign direct investment is mainly concentrated in Asia and Latin America, adding up to more than 80%. Among them, it has invested more in Hong Kong, Cayman Islands and other regions of China. Most of these countries or regions are close to China in culture and system, have good regional or national relations, have few obstacles to the development of foreign direct investment, and are convenient for investment. In general, The risk of regional investment is small, which can give full play to the advantages of location and realize the expansion of interests. However, the foreign direct investment in Europe, America and other regions is relatively small, the focus of investment is in Asia and Latin America, and the distribution of regional investment is uneven.

4.2. Investment Imbalance Between Developing and Developed Countries

Influenced by trade protectionism and anti-globalization, developed countries set more obstacles to China's direct investment in technology and rules and regulations, which is not conducive to China's foreign direct investment, while developing countries are in need of their own development and hope to accept more Chinese investment to inject momentum into sustainable economic and social development. At the same time, it also attracts China's foreign direct investment with its rich resources and low labor level. In recent years, the amount of China's direct investment between developed and developing countries has been increasing, but the overall trend is to continue to tilt towards developing countries. Although developing countries have certain advantages in terms of resources and costs, However, the excessive imbalance of foreign investment is not conducive to China's absorption of advanced science and technology and management technology from developed countries, and to stimulate the development of related technologies in China.

4.3. Obstacles to the Development of Corporate Global Value Chains

At present, China's foreign direct investment is relatively concentrated in developing countries in Asia and Latin America, which increases the risk of foreign direct investment. If the economic crisis occurs in the investment area, the loss is difficult to measure [3]. Based on the idea of building a global value chain for enterprises, we should try our best to achieve a wider coverage of foreign direct investment, and the investment should not be excessively concentrated in one region. To ensure that the risk of foreign direct investment is low.

5. COMPREHENSIVE SUGGESTIONS ON LOCATION STRATEGY

5.1. Strengthen the Government's Macro-control, Improve the Management System, And Create A Favorable Environment for Foreign Direct Investment

Establish a sound foreign direct investment management system, improve relevant laws and regulations, and provide a good legal protection and management environment for foreign direct investment. At the same time, attention should be paid to clarifying the responsibilities of the NDRC and the Ministry of Commerce, simplifying relevant procedures, avoiding duplication and cross-management, and promoting the efficiency of various departments. We will continue to promote the development of the foreign exchange management system and combine it with practical operations. On the premise of ensuring the consistency of powers and responsibilities and clear functions, we should simplify the relevant processes and promote the efficient and safe conduct of China's foreign direct investment.

5.2. Continuously Improve "The Belt and Road" Initiative and Continue to Increase Investment in Countries Along the Line

The initiative of "The Belt and Road Initiative" has created new development opportunities for China, which is of vital importance to China's economic development and the promotion of its international influence. We should seize the important development opportunities of The Belt and Road Initiative, constantly improve relevant policies based on equal and mutually beneficial cooperation, issue a number of incentive policies to support various industries to "go out", and conduct regular exchanges. Encourage and support enterprises to invest abroad in various ways and digest domestic production capacity [4]. We will promote the development of foreign direct investment by providing public information and increasing policy-based financial support, so as to achieve the docking of development strategies, development plans, platforms and mechanisms, and continue to increase investment in countries along the line.

5.3. Establish an Early Warning Mechanism and Prepare A Crisis Management Plan to Conceive Solutions to the Unstable Factors Under the Tide of Anti-Globalization.

In recent years, the tide of anti-globalization in developed countries has risen and developed continuously, which has brought adverse effects not only in the field of international trade, but also in the field of international investment. When Chinese capital enters the developed capitalist countries with the rise of protectionism, such as the United States and France, it is strictly controlled and examined. It has seriously hindered the development of China's foreign direct investment in these regions. The global outbreak of COVID-19 in 2020 has not yet found a solution, which has had a great impact on the economies of all countries in the world, and has also laid an unstable factor for foreign direct investment. In view of these potential dangers, it is necessary to establish a corresponding early warning mechanism for international investment and make a good risk prediction. Prepare contingency plans for the occurrence of a crisis.

5.4. Pay Attention to Investment Effectiveness, Fully Understand the Actual Needs of Investment Objects, And Rationally Select Investment Objects.

When making foreign direct investment, we should pay attention to the actual investment needs of each investment object and combine its own resource conditions, select the optimal investment country or region within the appropriate range, break through the constraints of geographical distance space thinking, pay attention to the comprehensive consideration of long-term benefits and investment risks, and pursue long-term sustainable development. To ensure mutual benefit between the two sides, we will continue to explore the further extension of the direction of cooperation between the two sides and the mutual matching of comparative advantages of resources, and strive to establish long-term friendly international investment relations.

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