

# The Trend of Multinational Companies' Wholly Owned Investment in China and Its Effect on Local Firms

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**Abstract.** The using of foreign capital is an important content of China's reform and opening up, with the development of economic globalization, many multinational companies involve into the Chinese market gradually, the investment in China is increasingly common. Since the late 1990 s, foreign direct investment in China presents the sole proprietorship tendency. The article analyses the causes of this phenomenon and the influences on local companies, points out the rational knowledge of multinational company owned tendency and takes measures actively.

## Introduction

Along with the increasingly deepened reform and opening up, China's huge market potential and lots of cheap labor resources attracted a mass of international direct investment (FDI), over the years, the achievements of the foreign direct investment attraction are visible in our country .

According to the data shows from the Commerce Department that 24925 new foreign investment enterprises were set up in the whole year of 2012, the actual use of foreign capital amount is \$111.72 billion; 2422 new foreign investment enterprises were set up In December, the actual use of foreign capital amount is \$11.7 billion.

At the end of the 2012, China keeps the highest records of utilization foreign capital in developing countries for 20 years, it suggests that China is still the most attractive investment destination in the world.

## The trend of multinational companies wholly owned investment in China

With the pouring in of the foreign investment, a phenomenon caught our attention, that is the wave of the wholly owned foreign direct investment in China. That is to say, the model of FDI obvious has been changed in today's China. the most outstanding of the performance is the FDI amount, the protocols, the actual amount, the proportion of joint venture decreased significantly in it, while the proportion of the wholly foreign-owned way is rising, and replace the joint venture is the primary way of FDI.

The trend gradually appeared in the 1990 s. after entering the 21st century, it continues to be unabated, joint venture in 2001 accounted for 34% of the actual use of foreign capital amount, then declined year by year, it fell to 21.3% in 2010, and 18.2% in 2011; in 2001, the cooperative enterprises accounted for 13.4%, it fell to 1.5% in 2010; Enterprises accounted for 51.5% in 2001 ,it rose to 73.8% in 2006, and in 2011, it reached 77.5%, it can be seen that the proportion of wholly foreign-owned enterprises was rising, the Chinese-foreign joint venture company were falling, the wholly owned foreign investment becomes the main way is in China,

The entry mode is an important strategic decision for the foreign investors to enter the national market, it is directly related to the risk, the controlling and the profit allocation for the foreign capital enterprise, it affects the enterprise's competitive advantage, It is an important content of controlling of FDI's ownership proportion for the governments, particularly for the developing countries, it relates to whether that we can better achieve the host country's interests.

## **The causes analysis of multinational company owned investment in China**

### **The foreign investment industrial policies easing and the market access areas expanding**

In the earlier, foreign investment's opening to the outside world was in the low degree, joint venture, and cooperation was the best choice for foreign investors in China.

With China's accession to the WTO, in the guidance catalogue of foreign investment industrial in 2002, the restriction of the foreign-funded equity was further eased, the restrictions of the bank, the insurance, the telecommunications, the transportation, the tourism, the legal consultation and the services further relaxed for the wholly foreign-owned enterprises, more industries were allowed for the foreign-owned enterprises holding more than 51% of the controlling interest in the joint venture. This policy changing has played an important role in encouraging the wholly foreign-owned enterprising, it not only prompted the new rising proportion of wholly foreign owned enterprise in foreign investment, but also made the joint foreign venture by the helpless way used in order to enter Chinese market originally that is changing into a wholly-owned enterprises.

### **The confliction for the both sides of joint venture in the management and cultural**

In the past 20 years, despite many successes, the internal friction case of the Joint ventures enterprise increased dramatically, due to the unacceptable management idea or the differences of culture.

According to an international report of the joint venture, the chances of success were only one third. The most prominent problem of many international joint venture enterprises is enterprise management and cultural conflict. wherever have a joint relationship, it must take great strength to coordinate management system and style, the cost is very high.

### **Keeping the ownership of the multinational company advantage**

According to John Harry Dunning's Eclectic theory of international production, the enterprise's foreign direct investment has the ownership advantages, Internalization advantages and location advantages. Among them, the ownership advantage includes two aspects, one is the exclusive advantages generated by intangible assets, and the other is the enterprise scale economy advantage. Multinational company ownership advantage is mainly manifested in such aspects as technology, enterprise scale, organization and management, etc. In them, the advanced technology is the most important, these are comparative advantages that are relative to the host country's competition, they are the core of enterprise gaining long-term competitive ability. If the foreign direct investor accepts the form of contract investment to establish joint ventures with partners in host countries, it will result in spreading of intangible assets exclusiveness. When the joint venture's income is not enough to make up for the enterprise to guard against the "know-how" cost, the multinational companies prefer to have higher degree of controlling, the form of sole proprietorship.

## **The impact on local companies of the multinational companies' wholly owned investment in China**

### **Reducing the spillover effects from the advanced technology and management experience**

FDI technology spillover mainly refers to transnational corporations in transnational direct investment, because of the setting up of subsidiaries or joint ventures and other forms of international production in the host countries, the voluntary or involuntary technology diffusion to the host countries promotes the host country enterprise technology level, management level and the talent quality, promotes the innovation ability raising and the productivity progress of the host country enterprise, it is a kind of economic externality.

The technical spillover effect is one of the important factors to impact on local companies. However, as the strengthening of the sole proprietorship tendency and the self-owned intellectual property, the advanced technology and management experience diffusion channels have also been blocked off and weaken the positive spillover effect, it make the domestic enterprises face more difficult to learn to imitate, it hinders the domestic enterprises to obtain advanced technology.

## **Hindering the development of domestic superior enterprises, occupying the domestic market share**

Through the past years of competition, our country has formed a batch of local companies which have strong technology, development capabilities, famous products, a strong competitiveness, and a high share of both in national and international market.

However, due to many constraints, these local companies have the obvious gap compared with the multinational companies, the wholly-owned multinational companies improve the product technology content, enhance the product competitiveness, and further expand the domestic products instead of the gap, occupy the absolute dominant position in the market, crowd out the local enterprise products from the market, and even monopoly in some areas, so as to control the domestic market by establishing a good enterprise image.

At present, the domestic local enterprises have been occupied by the foreign holdings in some sectors, especially in light industry, chemical industry, medicine, machinery, electronics and other industries, many commodities have been possessed about a third of the market share by the foreign investors.

## **Leading to the talent competition, domestic enterprises have more difficult to retain talent**

The competition between the enterprises is talents' competition in the first place, then the land, the labor, and the capital one by one, the human capital marked by the knowledge is becoming the critical factors for the fate of the enterprise production, it is also the focus of competition for resources among enterprises.

After entering China, the multinational companies can absorb many domestic talents work for them, relying on the good reputation, the superior soft hard working environment and the competitive salary treatment. On the other hand, domestic companies, especially the state-owned enterprises, stand obviously at a disadvantage position in the aspect of attracting talents, mainly because the employing mechanism is not alive, the paying is not high,

## **The conclusion**

Through the analysis above, first of all, we should properly treat the phenomenon of wholly foreign owned and its nature, a wholly foreign owned phenomenon is not unique to China, it is a worldwide trend. Whether the wholly owned or joint venture, on essence it is a kind of enterprise behavior, the results of the multinational company in China keeping a balance between the law of market economy and policy. If we make some restrictions simply, it is obviously not in line with the overall goal of the utilization of foreign capital policy in China. Therefore, on the choice of operation mode, as long as it is not illegal in our country that related to the policy and regulations, government can not intervene directly, there is no need for too much of them.

Second, we need fully estimating the potential negative influences of multinational company. In an era of joint venture, the power of using the advanced technology relatively is insufficient for the multinational company, it is not conducive to learning advanced foreign technology for China. In recent years, foreign investment in high-tech projects increase significantly, a batch of capital technology intensive enterprises with foreign investment in China has to say something about the foreign partners. But we also must recognize that multinational company with monopoly characteristics, on its essence, it is to obtain the monopoly profits of maximum, their behavior may be related to national interests, and even endanger the country's economic security, cause certain negative effects to our country economy.

We should deal with the sole proprietorship tendency to give enough understanding and coping measures actively. The government should reasonably make industry planning, and formulate the well-defined industrial policies; Local companies should make more efforts to independent research and development, on the one hand, we should strengthen the construction of its own brand, on the other hand, we should take the initiative to strengthen ties with the foreign companies, use the mobility of the foreign capital enterprise, the spreading of information, such as opportunity to learn the advanced technology and management knowledge, etc. In the joint efforts of government and the enterprises, we should make it toward our direction.

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