

Analysis of the External Factors Influencing the Direct Investment of Chinese Enterprises in the "One Belt and One Road" Initiative

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Abstract—The theories on external motivation of FDI include location theory, marginal industry theory, etc. With regard to the choice on location when Chinese enterprises decide to invest abroad in the "one belt and one road" initiative, this paper analyzes the important factors that affect the foreign investment of enterprises in the light of the current investment situation in these regions. The theories on external motivation of FDI include location theory, marginal industry theory, etc. With regard to the choice on location when Chinese enterprises decide to invest abroad in the "one belt and one road" initiative, this paper analyzes the important factors that affect the foreign investment of enterprises in the light of the current investment situation in these regions.

Keywords—direct investment, external motivation, "One Belt and One Road" strategy, factor

I. INTRODUCTION

After 20 years of implementing the policy of encouraging and attracting inward foreign investment, in 2000, China put forward for the first time the strategy of "going out". On September 7, 2013, President Xi Jinping put forward the initiative of jointly building the Silk Road Economic Belt in his speech at Nazarbayev University in Kazakhstan; and on October 3, 2013, in his speech to the Indonesian Parliament, he put forward the initiative of jointly building the 21st century Maritime Silk Road. The formation of strategy put forward by China in 2013, the establishment of the Silk Road Fund and signature of the Asian Infrastructure Investment Bank in 2014 and a continuous extension of "One Belt and One Road" initiative in 2015 show that this strategy has entered into the stage of substantive cooperation from conception to fulfillment.

At present, the academic research on FDI generally includes study on the relationship between investment and trade, the motivation of investment, the factors influencing investment and the effect of investment on home country. This article is concerned with the external factors that influence the outward foreign direct investment of Chinese enterprises under the "One Belt and One Road" strategy.

II. A SUMMARY ON THE THEORY OF EXTERNAL MOTIVATION OF FOREIGN DIRECT INVESTMENT

Since the 1960s, a large number of research achievements have emerged in the theory of foreign direct investment with the research literature being quite rich. Monopoly advantage theory, product cycle theory and location advantage theory have contributed to the development of the theory of foreign direct investment from different perspectives. Among them, the external motivation theory of FDI includes location theory, marginal industry theory and so on.

A. Location Theory

Location theory initially studied the characteristics of agricultural location distribution. Weber's industrial location theory, based on the price theory under the perfect competitive market structure, is regarded as the optimal location decision of an industrial enterprise in a country. The location choice is based on the minimum cost. The factors that determine the location of an industrial enterprise are divided into location factors reflecting industrial agglomeration effect and regional factors including transportation cost, raw material cost and labor wage. With the development of transnational direct investment, enterprises pay more and more attention to the distribution of business activities in the international space, so location plays an increasingly important role in foreign direct investment. The location selection theory on foreign direct investment introduces more and more location factors beyond the internal conditions of enterprises, and integrates other theories to explain the foreign direct investment.

B. Marginal Industry Theory

Kojima's marginal industry theory is based on the theory of comparative advantage and the actual situation of Japan's foreign direct investment. The theory holds that FDI should be carried out in turn from the industrial sector in which the industry is already or will be in a comparatively disadvantage, namely the marginal industrial sector. Because of the shortage of raw materials, the rise of labor costs and the limited capacity of the domestic market,

a certain industry has gradually lost its advantage in China. However, the host country has enjoyed comparative advantages in raw material supply, labor cost and market prospect, and disadvantages in capital supply, production technology and management skills. In this case, the investors can transfer the marginal industries which are at a disadvantage in their own country to the host country, and develop the industries which have a dominant position with the profits obtained, so as to optimize and upgrade the industrial structure, while the host country can use these comparative advantages to expand domestic production and export. After World War II, Japan's foreign direct investment (FDI) showed the characteristics of gradual withdrawal from marginal industries and sequential foreign investment.

C. *Compromise Theory of International Production*

The theory of international production compromise, put forward by Dunning, is believed that the advantages of ownership and internalization of enterprises are the necessary conditions for foreign direct investment, while the location advantages of host countries are the sufficient conditions for foreign direct investment. The location advantages of the host country include natural resources, human resources, market capacity and government incentives and restrictions, such as production cost advantages determined by the specific resource endowment structure, advantages connected with the policies and regulations such as taxation, subsidies, etc. This theory takes into account both the advantages of enterprises and the location advantages of host countries, and then becomes the origin of location selection theory of FDI.

D. *A Review of the Theory of External Motivation of Foreign Direct Investment*

The external motivation theories of foreign direct investment analysis the conditions for foreign direct investment from the external environment, such as host country's location advantage, economic development, industrial development. In fact, an enterprise's outward direct investment pursues profit maximization under certain conditions, but profit maximization is not the sole purpose of the enterprise's outward direct investment. Different enterprises hold different strategic motivations to implement outward direct investment. Therefore, enterprises engaged in outward direct investment will have different location orientations.

III. AN ANALYSIS OF THE EXTERNAL FACTORS INFLUENCING CHINA'S FOREIGN DIRECT INVESTMENT TO COUNTRIES INVOLVED IN THE "ONE BELT AND ONE ROAD" INITIATIVE

As far as the "one belt and one road" strategy is involved, the external factors affecting enterprises' foreign direct investment include the political and market factors of the host country.

A. *The Political Situation, Policy in the Host Country and the Relations Between the Home Country and the Host Country*

Compared with other potential investment destinations, the political stability in the host country and the better preferential or incentive measures provided including tax, are undoubtedly attractive significantly for investment enterprises. Therefore, the political stability in the host country and the national treatment given to the investment enterprises are all important factors that affect the investment activities and become a soft environment to attract the enterprise development in other countries.

In addition to policy factors, good economic and trade cooperation between host and home countries and close ties in language, culture, customs and historical origins will also attract the development in foreign investment.

B. *Market Factors in the Host Country*

The main external economic factors affecting enterprises' outward direct investment should be linked with the economic development, income, market scale, market potential and market pattern in the host country. In the situation of fierce competition and saturation in the domestic market, seeking and exploiting overseas markets is one of the important motives for enterprises to make foreign direct investment.

The market size in the host country determines the number of companies it can accommodate, which is usually measured by the population and income. The faster the economic development, the higher the per capita income, the larger the market scale and the more diversified the demand, the greater the host country is attractive for foreign investment. In case the economic shows a rapid growth with the potential in large-scale market, such countries will also become potential target destinations for foreign investment.

Some Chinese enterprises overcome saturation which restricts the development in domestic market by investing in countries with strong market location advantages. Some countries along the "One Belt and One Road" not only enjoy huge market size, but also high economic development speed or strong economic development potential. Such host countries are greatly attractive for Chinese enterprises.

C. *Factors of Production in Host Country*

The factors of production include land, labor force, capital, technology and entrepreneurship. The abundance of production factors in the host country will also promote enterprises' foreign investment activities.

To obtain the resources through outward direct investment for the traditionally abundant mineral resources and fuel energy is more stable and attractive for energy and resource-based enterprises than through foreign trade. China's energy enterprises' direct investment in Africa, the Middle East and other places can prove it.

The economic development, scientific and technological development and R&D strength that can reflect the host country's technology have become important factors affecting enterprises' foreign investment. For example, acquisition and utilization of high and new technology in the host country is a very important factor affecting the outward FDI for Chinese telecommunication enterprises.

In addition, the search for strategic assets resources including patents, brand reputation and marketing channels, has become an important factor influencing enterprises' outward direct investment. Many investment partners in EU countries and regions along the "One Belt and One Road" are world-renowned enterprises. Through foreign direct investment, Chinese enterprises can acquire relevant strategic assets of investment partners. Through learning advanced and mature management concepts and experience of their partners, Chinese enterprises can enhance their comprehensive strength and global competitiveness.

D. Factors on Trade Barriers

In an export-oriented economy, more attention has been paid to foreign trade and investment. It is generally believed that foreign direct investment can promote foreign trade as well as have alternative effects. The impact of trade barriers on trade can promote the development of foreign investment to some extent. Some people believe that the choice of outward investment in order to avoid trade barriers is also a major motivation for many enterprises to invest in foreign countries.

To sum up, the external factors affecting China's direct investment in these countries include their economic development, opening conditions, political environment and natural resources and so on.

IV. INDUSTRY OF CHINA'S FOREIGN DIRECT INVESTMENT TO COUNTRIES ALONG THE "ONE BELT AND ONE ROAD"

Under the strategy of "one belt and one road", the investment of Chinese enterprises in such countries is affected by many factors, among which the global competition of a country cannot be ignored. According to the proportion, China's outward FDI to these countries is distributed in leasing and business services, financial industry, wholesale and retail, mining, transportation and other fields.

Because of the differences in factor endowments, economic development level and existing comparative advantages, the development of industrialization is also at different stages. On the whole, the industrialization of Central Asian countries is in the early and late stages of industrialization; most countries in Southeast Asia and South Asia are in the early stage of industrialization; and most countries in Central and Eastern Europe, Western Asia and Middle East are in the late stage of industrialization. While China's direct investment in the "one belt and one road" area is increasing, China's direct

investment in such countries also shows the different features in the distribution of investment in different regions, that is, uneven distribution.

For countries with different levels of economic development and uneven industrial base, China's choice of direct investment in the "one belt and one road" industry should also be differentiated. Different investment strategies and different investment fields should be adopted.

A. The Industry Category of China's Direct Investment in ASEAN

More than one fifth of the population of Southeast Asian countries still lives in the areas where electricity supply is scarce, while China has a strong power in the fields of hydropower and thermal power. Many Chinese enterprises have invested in this industry in Southeast Asia, such as hydropower construction projects invested by China Power Group in Cambodia and Indonesia. At present, China's investment stock in the production, supply and mining industries of power and heat in Southeast Asia accounts for 17% and 15% of the total investment in Southeast Asia, respectively. At the same time, Southeast Asia is rich in oil reserves and Indonesia and Malaysia are rich in natural gas reserves. The direct investment of Chinese enterprises in the region helps to ensure China's energy security, so the region has become an important area for China's energy enterprises to invest outward.

B. The Industry Category of China's Direct Investment in Central Asia

Central Asia is rich in oil and gas resources but relatively backward in light industry. Therefore, China's investment in this area is concentrated on oil exploration and development, mining, transportation and communication construction, chemical industry, agricultural and byproducts processing and other fields. Among them, China's direct investment in Kazakhstan accounts for more than half of the total direct investment in this area. Large-scale investment projects focus on oil development, automobile assembly, agricultural products processing.

C. Industry Categories of China's Direct Investment in the Middle East and West Asia

The Middle East and West Asia, as important energy suppliers in the world, are rich in oil and natural gas resources. Therefore, China's investment in the region is mainly directed to these industries. China's direct investment in Saudi Arabia mainly focuses on infrastructure, urban construction, energy and manufacturing. At present, nearly half of China's 193 overseas institutions (enterprises) established in Saudi Arabia are engaged in construction engineering business. The United Arab Emirates is an important financial center and transit trade center in the Middle East of West Asia besides abundant oil and gas resources. China's direct

investment in this country is mostly in the fields of construction engineering and trade services.

D. Industry Categories of China's Direct Investment in Central and Eastern Europe

Because of the special geographical location of Central and Eastern Europe, China's investment in the region focuses on infrastructure construction, especially land and sea fast with the purpose to open up a new and convenient route. In recent years, in addition to increasing investment in transport infrastructure and municipal construction in Central and Eastern Europe, such as the Belgrade Bridge across the Danube River in Serbia, China has also invested in electrical appliances, automobiles, heavy machinery and information and communications in Hungary, Poland, Bulgaria and Serbia. Meanwhile China's investing enterprises have built industrial parks and commercial logistics parks in Belarus and Poland, which have become important platforms for Chinese enterprises to invest in Central and Eastern Europe.

E. Categories of China's FDI in EU Countries

Some European Union countries have implemented a package of reform plans with the market functions having been continuously improved and the global competitiveness having been greatly enhanced. However, the financing channel is still the usual obstacle to the development of the economy in this area. Therefore, China's direct investment in the region mainly concentrates on leasing, commercial services, manufacturing, real estate and mining industries.

F. Categories of China's FDI in CIS

Among the four CIS countries, Russia is the focus of China's investment in energy resources, mineral resources development, forestry development, construction and material production, textiles, household appliances, communications, services and other fields. For example, Haier's refrigerator plant project in Tatarstan, Russia, was operated in April 2016. The production projects of Volgograd color coated sheet and galvanized color coated sheet have been put into operation in 2016.

V. CONCLUSION

There are great differences in resource endowments, social systems and economic bases among different countries, and even different religious cultures. So, for different enterprises, the external factors affecting their FDI are different. Specifically, Chinese enterprises should be treated differently according to the location advantages of the host country and local conditions, and show diversified characteristics in the field of investment. To some extent, the "one belt and one road" strategy has become an important booster for Chinese enterprises to invest abroad.

Chinese enterprises should be flexible according to the investment environment, industrial structure, resource endowments and infrastructure of all countries along the

"one belt and one road" initiative to select scientifically industries and regions when investing abroad. As stated above, China's enterprises should continue to implement priority investment strategies related to energy resources utilization in energy-rich regions such as West Asia, Central Asia and CIS. In Russia, ASEAN and other industrial developed areas, more attention should be paid to investment in manufacturing industry and gradual extension of the high value-added manufacturing industry. In developed countries of software technology such as India, investment in high-tech and R&D industries should be improved.

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