

Analysis on the Financing Structure of Chinese Transnational Enterprises——Under the Constraints of Policy System Environment

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Abstract. The reform of economic system, especially the optimization of policy and institutional environment accompanied by the reform of state-owned enterprises, has promoted the development of state-owned multinational enterprises. The preliminary formation of diversified financing pattern in which multiple financing modes coexist proves that the changes of the transnational investment behavior characteristics of state-owned multinational enterprises are accompanied by the changes of financing environment and characteristics. Based on the analysis of the institutional background and development process of transnational investment of state-owned multinational enterprises, this paper classifies and analyses the characteristics of transnational investment status quo. It shows that the attributes of state-owned enterprises have an important impact on transnational investment behavior. Policy and institutional environment are the main factors affecting the transnational investment behavior of state-owned enterprises.

Keywords: State-owned enterprises, transnational investment behavior, Policy system environment.

1. Introduction

In the Tenth Five-Year Plan of 2001, it was first formally proposed to implement the "going global" development strategy. Chinese enterprises opened a new prelude to entering the international market, opened a new milestone for enterprises to invest and operate abroad, and gradually integrated with the international level in terms of strategy, system and talents. With the increasing pace of "one belt and one road" construction, central enterprises, state-owned holding companies and more and more local state-owned or state-owned holding enterprises participate in the overseas market competition, and gradually become the main force of overseas investment in China, leading the transnational investment behavior of enterprises and achieving positive results. The research on transnational investment of state-owned enterprises mainly focuses on the motivation and choice of transnational investment, transnational operation risk and so on. Rujiang Xiaojun (2001, 2006) analyzed the determinants of China's foreign investment during the "Tenth Five-Year Plan" and "Eleventh Five-Year Plan", and predicted the possible scale and structural characteristics. Zhou Jingmo and Wang Guanqun (2011) believe that state-owned enterprises should adhere to the principle of embodying international interests. Liu Jipeng, Liu Yan and Wang Jingjing (2009) pointed out that the risk of financial investment is much higher than that of strategic investment. Therefore, they advocated that the state should lend foreign exchange reserves to state-owned enterprises. Zhou Yimeng, Fu Shihan and Zhuang Pengchong (2012) mainly studied the methodology and re-explained the research paradigm of enterprise internationalization.

The classical research on transnational investment behavior mostly focuses on the generation of transnational investment behavior, its motivation, the choice of location industry. Scholars have a common understanding of the transnational investment behavior of enterprises, that is, the business activities of enterprises and the international market have been linked. If this connection is considered in a dynamic environment and combined with the meaning of the behavior itself. Transnational investment behavior can be understood as the investment reaction of enterprises to the international market situation in the process of investing abroad. Economic indicators can be summarized as follows: investment timing, investment motivation, investment form, investment location and industry choice, investment level (scale) and investment efficiency. Over the past few decades,

China's multinational enterprises' outward direct investment (FDI) has grown rapidly, with a wide range of investment regions and diverse industries. It is contrary to the traditional theory of ownership advantage and other theories of enterprise internationalization. It can not explain the international market expansion of Chinese enterprises without any advantages compared with foreign competitors (Parmentola, 2011). This is due to the special micro-economic subject of state-owned multinational enterprises. It is necessary to take into consideration the specific application of the factors of institutional environment background on the basis of drawing lessons from the traditional economic theory and research paradigm.

2. Macroscopic Background of Transnational Investment of State-owned Enterprises

China's economic policy of opening to the outside world and market-oriented economic system reform, which began in the late 1970s, opened up the process of China's transition from planned economy to market economy and from inward-oriented economy to outward-oriented economy. This transformation is the process of the transformation of the economic operation system from the traditional planned economy to the socialist market economy. After studying the transition practice of the former Soviet Union and drawing lessons from the experience of the Central and Eastern European countries, more and more scholars believe that the transformation of institutions and systems needs to undergo a parallel and alternate process. It can be said that the transformation of institutions, including the change of the behavior of economic subjects, is a gradual process (Kolodko, 1998). In this gradual process, a special form of economic system has been formed, that is, the market economic system with Chinese characteristics, which not only preserves the characteristics of a traditional planned economic system, but also tends to mature market economic system (Lv Wei, 2003). From the reality of China's economic transition and system transformation over the past 30 years, "transition is still an important constraint for China's economic operation" (Lv Wei, 2004). Looking back on the course of economic system reform and opening to the outside world, the transnational investment of state-owned multinational enterprises in our country presents the characteristics of stages.

2.1 The Stage of Planned Investment under Planned Economy (1949-1978)

Transnational investment in this period should be reviewed from the establishment of diplomatic relations between China and Africa in the 1950s. Since state-owned enterprises were the only economic entities that went abroad at that time and mainly undertook foreign aid projects to Africa and other underdeveloped countries. Therefore, the transnational investment of state-owned enterprises at that time should be unilateral assistance from China, supplemented by less trade exchanges. This is because of the low degree of opening up and marketization, the state-owned enterprises have not operated under the company system, but for the purpose of obeying the political needs of the country, without consideration of remuneration and profits. Therefore, they can not be regarded as enterprises' internationalization in a real sense, and thus there is no real state-owned transnational enterprises.

2.2 The Stage of Encouraging Foreign Investment after Reform and Opening-up (1979-1995)

In 1979, the Fifteen Measures on Economic Reform put forward the policy of "Running Enterprises Abroad", and Chinese enterprises began to call for foreign direct investment accordingly. At this time, there are many policy restrictions, and the government and state-owned enterprises have no experience of transnational investment. Therefore, Chinese state-owned enterprises began to explore overseas investment. At this stage, the situation of enterprises is mainly aid-oriented, and most of the areas covered by limited investment are trade-oriented. Since 1984, more normative approval systems have been gradually established, and the power of approval in some areas has been delegated. With the gradual relaxation of the policy environment, more enterprises begin to make transnational investment. This period is the embryonic stage of the formation of state-owned

multinational enterprises, but their transnational investment mainly meets the needs of the government to expand foreign economic and trade.

2.3 The Stage of Development of State-owned Enterprises and the Multi-pattern of Investment under the Open Economy (1996-2004)

With the deepening of China's reform, China's economic system reform has entered a new stage. In this context, although the investment level, business scope and investment level of state-owned multinational enterprises are not big enough. At this time the main body of multinational investment began to diversify, the region of investment is more extensive, and the industry choice began to appear. It can be said that at this stage, transnational investment has achieved a certain degree of development. In order to better promote the "going global" of state-owned enterprises, the Chinese government has entrusted such banks as the Export-Import Bank of China to provide necessary concessional loans for state-owned enterprises to expand overseas business. The relaxation of the bank credit industry has stimulated the tendency of Over-investment of state-owned enterprises, and there is a lot of investment in projects unrelated to production (Huang, 1996).

2.4 The Stage of Rapid Development of State-owned Multinational Enterprises in an All-round Open Economy (2005-2013)

After 2005, in a good policy environment and economic environment, state-owned multinational enterprises began to expand overseas, and gradually formed a true sense of multinational enterprises. State-owned multinational enterprises have accelerated their investment process, improved their scale and efficiency to a certain extent, widened their location and industry choice, and diversified their investment types. Overseas mergers and acquisitions have become a new situation of transnational investment and also the main way of transnational investment. According to the statistics from 2005 to 2013, state-owned multinational enterprises have always played a major role in foreign investment, and gradually made transnational investment based on market behavior to obtain returns. With the further deepening of economic system reform, non-state-owned enterprises have gradually participated in international competition and developed into multinational enterprises, and their proportion has been increasing.

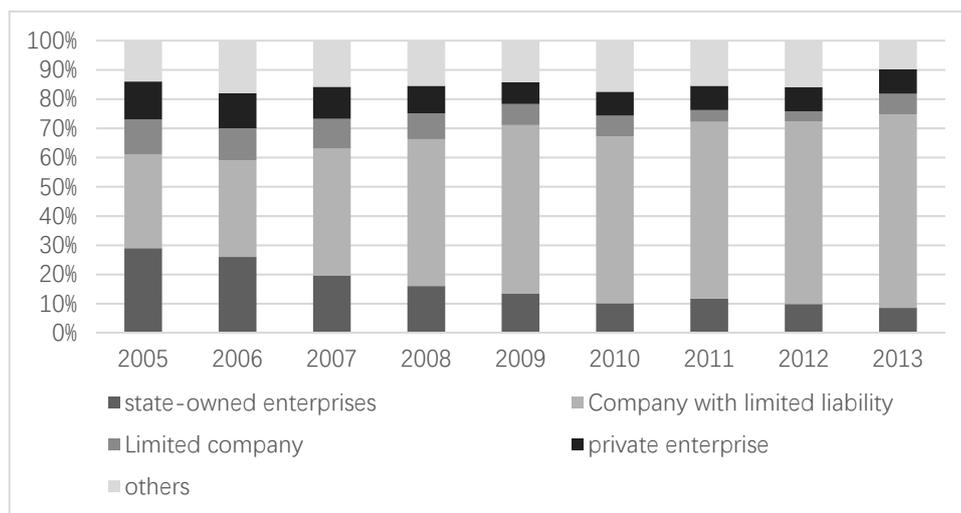


Fig. 1 Composition of the main body of foreign investment

Data Source: China's Statistical Bulletin on Foreign Direct Investment (2005-2013).

2.5 The Stage of Targeted Expansion and Multi-stage Subject under the Initiative of "One Belt and One Road" (2014- present)

Since 2013, President Xi Jinping proposed the "one belt and one road" initiative, China's enterprises have steadily promoted investment cooperation among the countries along the "one belt and one road". Foreign investment structure has been continuously diversified, foreign investment

has been continuously innovating, private economy has been more active in foreign investment, and foreign investment of non-public economic holding entities has reached 554 in 2018. US\$120 million, accounting for 57.4%. With the steady progress of the construction of overseas economic and trade cooperation zones, and the contracting projects to foreign countries, the host country's economic development has been promoted.

From the above analysis, we can see that the economic system reform, especially the optimization of the policy and institutional environment accompanied by the reform of state-owned enterprises, has promoted the development of state-owned multinational enterprises. But it also played a role in promoting the transnational development of non-state-owned enterprises. With the increasing proportion of non-state-owned enterprises' foreign investment, a comparative group can be formed for the research object of this paper, which is more reasonable for the study of related issues.

3. Overall Trend of Transnational Investment of Chinese Enterprises

The background and course of the formation of state-owned multinational enterprises show that state-owned multinational enterprises started relatively late and developed gradually with the "going global" policy of the country. After years of development, they have become the main body of transnational investment. However, with the emergence of investment efficiency problems and the development of other forms of ownership enterprises, this situation is changing. In the context of Chinese enterprises' "going global", after the "one belt and one road" initiative was put forward, "seeking win-win" has become the common goal of Chinese enterprises to go abroad. The development of state-owned multinational enterprises into truly meaningful multinational enterprises is in the last two stages of the above analysis, that is, after 2004, based on the relevant data of Chinese enterprises' transnational investment from 2005 to 2018, this paper describes the current situation, trend and characteristics of China's transnational investment. According to the data from 2005 to 2018, Chinese enterprises have entered the strategic pattern of "global market" from the initial "trial overseas". Since 2014, the concept of "one belt and one road" and the reform of foreign investment management system have promoted the pace of Chinese enterprises going abroad.

3.1 Global Investment Trends

Firstly, global FDI declined again in 2014, and global FDI flows recovered strongly in 2015. The outlook is cautiously optimistic. After a slight rebound in 2013, global FDI inflows fell by 16% in 2014. According to the statistics of the United Nations Trade and Development Organization, the number and cash holdings of multinational enterprises in 2014 are 40% higher than those in the financial crisis of 2008, which shows that the operation of multinational enterprises is expanding globally and more enterprises are participating in international competition.

Secondly, investment inflows from developing countries continued to increase, reaching \$681 billion in 2014 and \$741 billion in 2015. For the first time in 2014, China surpassed the United States as the largest investment inflow country. And according to the global think tank data, under the promotion of China's policy, the investment of the 2015 developing economies in China's developing economies is up to 528 -100, which will continue to increase the FDI inflow of developing economies and further strengthen their position in the global economic structure.

Thirdly, the general trend of global foreign investment policy is to be more open and convenient. But countries pay more attention to national security and industrial security. Many countries have introduced open policies conducive to promoting investment, lowering restrictions on foreign investment access and moving towards facilitation. More than 50 countries have revised their models of transnational investment, made efforts to integrate them into international investment rules, and actively participated in the revision of the rules.

3.2 Investment Trend of Chinese Enterprises

Firstly, the number and scale of transnational investment is increasing, but it is influenced by the international environment. As shown in Figure 2 below, since the "One Belt and One Road" initiative

was launched in 2013, the amount of foreign investment has increased significantly. In 2017, against the backdrop of the tide of globalization, global outward FDI declined sharply. At the same time, with the increasingly refined management of China's "going out" by Chinese regulators and the rising entry threshold for Chinese investors in developed countries such as Europe and the United States, the overseas investment of Chinese enterprises fluctuated in 2017, ushering in the first decline in 10 years.

Secondly, the proportion of transnational investment by non-state-owned enterprises has increased. Figure 3 below, "China Global Investment Tracking" (CGIT) database data shows that in 2005-2010, state-owned enterprise investment accounted for 94-100% of total investment. Among the 98 large-scale transactions counted in 2013, 29 were invested by non-state-owned enterprises (accounting for 30% of the total outbound investment transactions in 2013), and the total investment reached 18.84 billion US dollars (accounting for 22.3% of the total annual large-scale transaction investment), and 55.42 billion US dollars (57.4%) by 2018 were invested by non-state-owned economic holders.

Thirdly, China's enterprises have diversified areas of transnational investment. As shown in Figure 4, transnational transactions of Chinese enterprises are distributed in about 130 countries and regions. Countries that received the most investment and contracts from Chinese enterprises during 2005-2014 included the United States, Australia, Canada, Brazil and Indonesia. Along with the development of "one belt and one road" construction, the countries along the belt and road have become the focus of investment. In 2018, the total amount of foreign exchange contracted by 63 countries along the "one belt and one road" project was 89 billion 330 million US dollars, accounting for 52% of the total period of the same period.

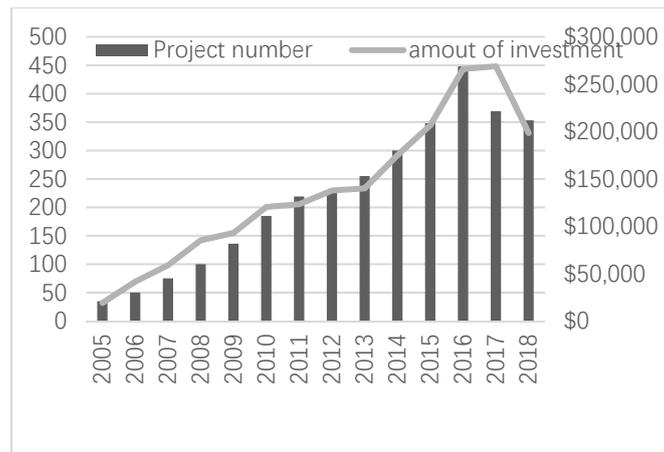


Fig.2 investment projects and amounts of Chinese enterprises

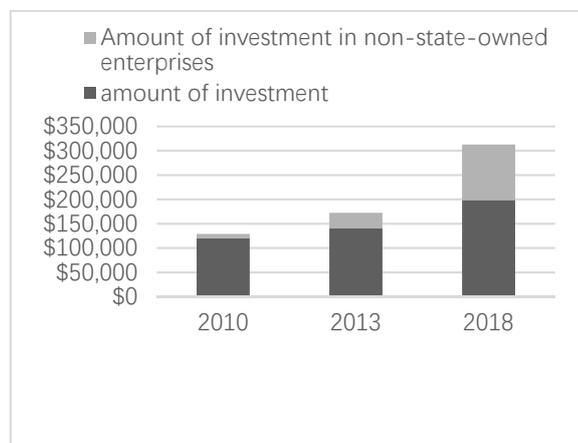


Fig.3 The proportion of investment in non-state-owned enterprises

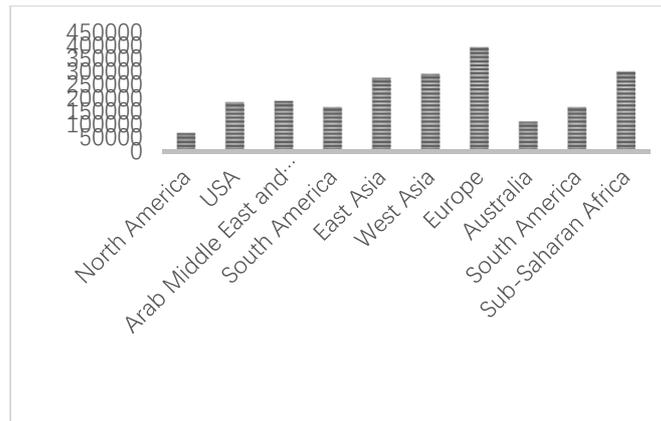


Fig 4. Regional Distribution of Transnational Investment of Chinese Enterprises

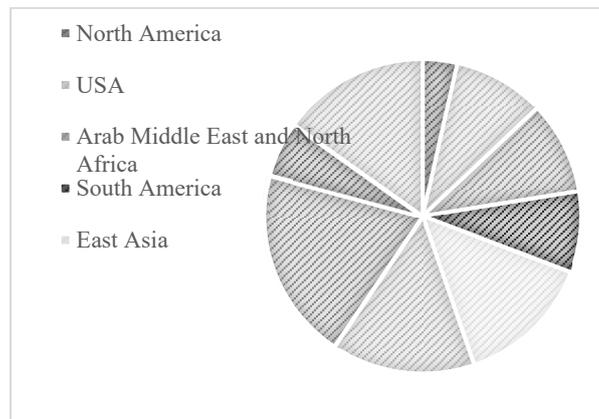


Fig 5. The proportion of regional investment in Chinese Enterprises

4. The Characteristics of Transnational Investment of State-owned Enterprises

State-owned transnational enterprises are the main body of transnational investment of Chinese enterprises. Their investment characteristics are the epitome of the investment characteristics of Chinese transnational enterprises. At the same time, because of their special enterprise attributes, their investment behavior needs to consider the influence of institutional environment factors, thus showing different behavior characteristics from those of transnational corporations in other countries.

Firstly, most of the investment are characterized by stages due to changes in the external environment. From the perspective of the change of the transnational investment of state-owned enterprises, both the transnational investment and the number of projects show an upward trend year by year. From the perspective of the number of projects invested by state-owned transnational enterprises, the number of projects increased from 31 in 2005 to 187 in 2014, which also shows a trend of increasing but accelerating slowdown year by year. After the financial crisis in 2008, some developed countries in the West have emerged a large number of cheap and high-quality assets affected by the economic crisis. European Union countries such as Greece, Spain and so on are eager for Chinese enterprises to rescue their own enterprises. Based on their strong financial strength, state-owned multinational enterprises "copy the bottom" through cross-border mergers and acquisitions, and the reasons for the substantial increase in foreign investment of state-owned multinational enterprises after 2008. Since 2015, the impact of the "one belt and one way" policy has begun to show a trend of rapid growth. In recent years, state-owned multinational enterprises have played an important role in China's transnational investment and even global investment, and to a certain extent enhanced the image of the country.

Secondly, the regional distribution of investment shows extensive characteristics. With the policy adjustment, the investment of countries along the belt has increased significantly in recent years. According to Heritage's statistics, in 2009, transnational investment of state-owned enterprises was mainly tax havens such as Hong Kong and Virgin Islands, accounting for more than 70% of the total

investment. Data analysis shows that the host country is an important influencing body of transnational investment of state-owned multinational enterprises. This is related to the tax revenue and preferential policies of the host country or region. Enterprises can use preferential tax policies of tax havens to rationally arrange the allocation of funds between parent and subsidiary companies, and achieve the purpose of saving tax value by establishing a unified profit control center. By 2014, state-owned multinational enterprises have invested in 138 countries (regions) all over the world, covering five continents. In 2014, state-owned multinational enterprises accounted for about 30% of total investment in Asia and 20% in Europe. Since 2016, investment destination countries have been concentrated in Southeast Asia, accounting for 16% in 2017, followed by North Africa, accounting for 9%.

Thirdly, investment is concentrated on energy and infrastructure. From the perspective of industry distribution, transnational investment of non-state-owned multinational enterprises is mostly distributed in many investment fields, including agriculture, chemical industry, minerals, real estate, science and technology (mainly communication technology), tourism and so on. The investment of state-owned enterprises is concentrated on energy investment, which accounts for 49.7% of the total investment by 2015. After 2015, as shown in Figure 6 below, investment in infrastructure construction has increased significantly, and investment in countries along the "belt and road" has increased significantly. By the end of 2018, infrastructure investment banks in Asia had grown from 57 to 93, leveraging nearly \$40 billion in investment. The Silk Road Fund agreed to invest about \$11 billion. The national policy of state-owned enterprises plays an obvious role in promoting the "five links" construction initiated by the "One Belt and One Road" initiative, which effectively promotes the field choice of transnational investment of state-owned enterprises.

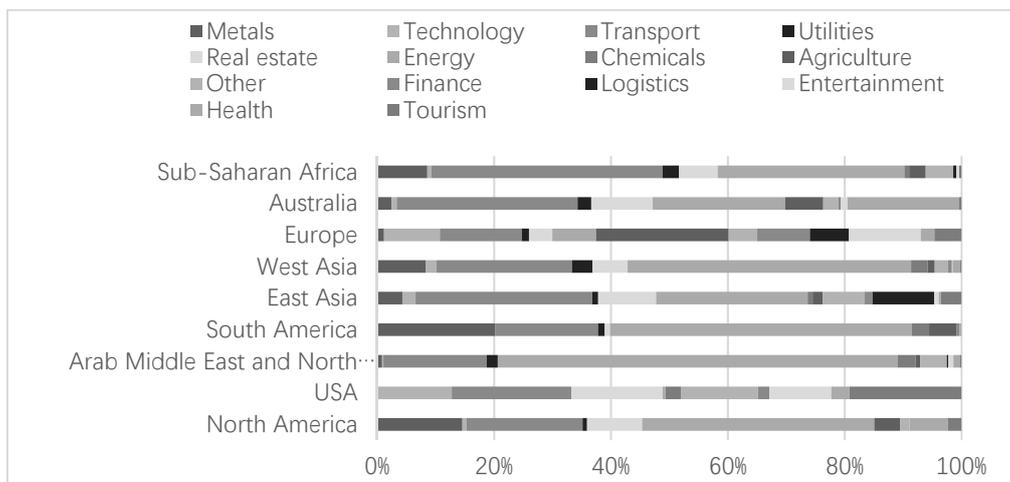


Fig. 6 The proportion of state-owned enterprises in different sections of investment(2015-2019.7)

5. Conclusion

Generally speaking, the theories of transnational investment and transnational corporation in the West are based on the attributes of enterprises in the institutional environment of developed western countries, and are tacitly accepted as a hypothetical premise, such as the perfection, efficiency and freedom of capital market, the general ownership of enterprise managers, or wage elasticity. Perfect and sound bankruptcy mechanism and corresponding legal support, financing channels and ways are diverse and convenient. Therefore, the research on the capital structure of state-owned multinational enterprises in China can not directly apply the existing theoretical conclusions because of different assumptions.

In reality, transnational investment of state-owned enterprises has been widely involved in the international market, and the depth and breadth of internationalization have reached a certain level. However, from the perspective of industry distribution, it is still constrained by the policy purpose of the home country. Regionally, it can not cover up the reality of game between countries. Therefore,

the decision-making and constraints of transnational investment of state-owned transnational enterprises are affected by the whole economic environment.

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