

Problems and Countermeasures of FDI of Shandong Province Multinational Company under the Background of the "Belt and Road"

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ABSTRACT

Shandong Province is not only a province with large agriculture, economy and population, but also has convenient transportation and strong infrastructure, which encourages Shandong multinational companies to participate in FDI under the "Belt and Road" initiative and has certain advantages. Therefore, it is very necessary for Shandong multinational companies to better participate in the construction of the "Belt and Road" and study the influence factors of FDI of Shandong multinational companies under the background of the "Belt and Road". Based on the analysis of the scale, location distribution and industry selection of FDI in Shandong Province, this paper specifically explains the current situation and existing problems of FDI in Shandong Province. Finally, through the previous series of FDI in shandong province, put forward the corresponding Suggestions, namely the "Belt and Road" in shandong multinational companies should further expand the scale of FDI, improve the industrial structure, the government should timely update the economic and trade information along the the "Belt and Road", and give enterprise guidance, under the joint efforts of the government and enterprises to further promote the rapid economic development of Shandong province.

Keywords: multinational companies, FDI, the Belt and Road

1. INTRODUCTION

With the proposal of the "Belt and Road" initiative, all provinces hope that multinational companies can drive the rapid and sustainable development of the provincial economy by actively participating in the construction of the "Belt and Road".^[1] Shandong Province is no exception. Therefore, under the context of the "Belt and Road", for the sake of better friendly exchanges and cooperation between multinational corporations in Shandong Province and countries and regions along the line, it is very necessary to discuss the influence factors of FDI of Shandong multinational companies under the background of the "Belt and Road".^[2]

Based on the analysis of the scale, location distribution and industry selection of FDI in Shandong Province, this paper expounds the current situation and existing problems of the multinational corporations' FDI

in Shandong Province. This paper summarize the influence factors under the context of the "Belt and Road" and put forward some suggestions.

2. CURRENT SITUATION AND EXISTING PROBLEMS OF SHANDONG MULTINATIONAL COMPANIES' FDI

2.1. Current Situation of Multinational Companies' FDI in Shandong Province

2.1.1. FDI scale of Shandong multinational companies

Although Shandong Province's participation in FDI started relatively late in China, the development level of FDI has achieved rapid growth since the reform and opening up.^[3] It can be seen from Figure 1 that the flow of FDI in Shandong Province was expected to gradually increase in 2017 every year. When the global financial

crisis occurred in 2008, the scale of FDI in Shandong Province also achieved a growth of 67.5%. FDI flow increased from 580 million dollars in 2007 to 10.97 billion dollars in 2017, and reached an all-time high of 26.53 billion dollars in 2016. In 2017, the stock of FDI in Shandong Province reached 75.81 billion dollars, that is 28 times that of 2007. However, compared with other provinces in China, the foreign direct investment of multinational corporations in Shandong Province began relatively late, the scale of foreign direct investment flow is relatively small. Moreover there is still a certain gap compared with other provinces in China. In 2017, China's FDI flow was 158.29 billion dollars, while Shandong province accounted for only 9.1%.

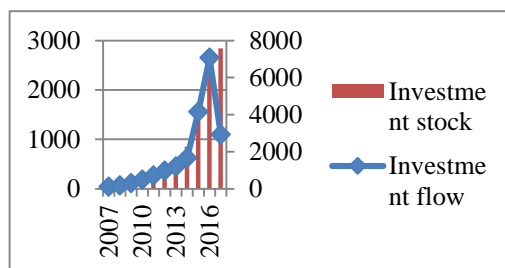


Figure 1 Changes in Stock and Flow of FDI in Shandong Province (2007-2017)

2.1.2. Location distribution of FDI in Shandong Province

As of 2018, the multinational companies participating in foreign direct investment in Shandong Province are distributed in more than 150 countries and regions. It can be seen from Figure 2 that the total number of investment projects in Asia is 2840 by 2018, the cumulative investment in Shandong province was 30.277 billion dollars, accounting for 39.3% of the total volume; The number of investment projects in Africa is 581, the cumulative investment in Shandong province is 5.1 billion dollars, accounting for 6.75% of total; The number of regional investment projects in Europe is 690, the cumulative investment in Shandong province was 5.7 billion dollars, accounting for 7.5% of the total; The number of investment projects in Latin America is 274, the cumulative investment in Shandong province is 5.3 billion dollars, accounting for 6.9% of the total; The number of investment projects in North America is 983, the cumulative investment in Shandong province was 19.6 billion dollars, accounting for 25.9% of the total volume; The number of investment projects in the Oceania region is 285, the cumulative investment in Shandong Province was 9.7 billion, accounting for 12.8% of the total.

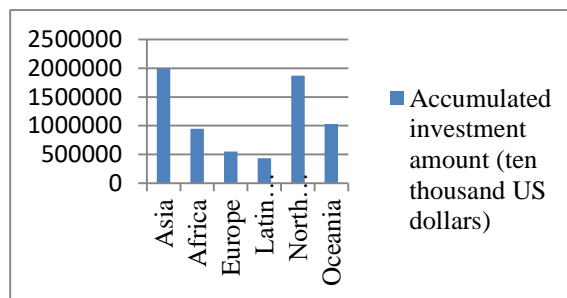


Figure 2 Continental distribution of accumulated FDI in Shandong Province (2017)

From the perspective of the investment location distribution, the scale of FDI in Shandong Province has developed rapidly, and the FDI in all regions is on the upward trend. The region of FDI of multinational companies in Shandong Province is still focusing on Asia. The reasons mainly have the following three points: first of all, because of other countries in Asia are close to China in geographical location and similar in cultural customs, thus shandong multinational companies' FDI tend to Asia. Secondly, because of the labor cost in Asia is low and has a large number of natural resources urgently needed by Shandong Province, moreover in terms of industrial structure, Shandong Province has a certain comparative advantage compared with other Asian countries. Therefore, Asia has become the best choice for multinational corporations in Shandong Province to develop labor-intensive industries and marginal industries. Finally, due to the needs of economic development in Asian countries, it provides a variety of preferential policies for multinational enterprises in various countries, and also provides many opportunities for multinational corporations in Shandong Province. The main characteristics of investment are direct investment in North America is the second key area. Less investment in some developed countries and regions in Europe but large scale. Direct investment in Latin America is mainly concentrated in Brazil, Chile and Bolivia, and foreign direct investment in Oceania is mainly concentrated in Australia and New Zealand to develop and utilize the rich local natural resources.^[4]

2.1.3. Industry distribution of FDI in Shandong Province

As a large agricultural province and a large foreign trade province, the FDI industry involves various fields. First of all, because of the unique advantages of labor and natural resources in Shandong Province, the textile industry and agriculture have become the two advantageous industries for Shandong multinational companies to participate in FDI under the background of the "Belt and Road". Secondly, the information technology industry and the mechanical and electrical manufacturing industry are innovative industries with FDI in Shandong Province. In recent years, with the

rapid development of the information technology industry and the mechanical and electrical manufacturing industry, the international influence has been enhanced greatly. In particular, home appliances and agricultural machinery have great influence in domestic and foreign markets, among which the output of home appliances accounts for 80% of the national total output; the rapid development of information technology industry led by Dongfang and Inspur has laid a deep foundation for the upgrading of international direct investment in Shandong Province.^[5]

2.2. Problems Existing in FDI in Shandong Province

2.2.1. The overall scale of external direct investment is relatively small

Due to the FDI of multinational companies in Shandong Province started late, and the enterprises lack of advanced production technology, lack of sufficient funds and efficient enterprise management experience, the scale of multinational enterprises' FDI is generally small, and the economy of scale by reducing the production cost cannot be formed.^[6] By the end of 2018, the investment of Shandong's multinational companies was 54.91 billion dollars; while the investment of Guangdong's multinational companies was 200.54 billion dollars; the total investment of Shanghai's multinational companies was 118.06 billion dollars, so there is still a gap between the scale of FDI in Shandong Province and other provinces.

2.2.2. The investment location distribution is concentrated, and the industrial structure upgrading of Shandong Province is not taken into account

By the end of 2018, Asia accounted for 39.3% in Shandong multinational foreign agreement, while 6.75% of Africa, 12.8% of Oceania, 25.9% of North America, 7.5% of Europe, and 6.9% of Latin America. FDI in Shandong Province is mainly concentrated in Asia and North America. The excessive concentration of investment areas will not be conducive to the effective management and distribution of resources and increase the risk of FDI of enterprises.

The problems existing in the process of FDI of Shandong multinational companies also include the irrationality of industrial structure.^[7] First of all, most of the FDI enterprises of multinational companies in Shandong Province are traditional foreign trade enterprises, while there are fewer working capital enterprises. Secondly, the FDI industry of Shandong multinational companies mainly includes the processing and import and export of primary products such as agricultural and textile industries, which is at the bottom

of the whole value industry chain, with less FDI in high-tech fields such as electronic communication and information technology. Therefore, Shandong multinational companies are mainly engaged in FDI in the processing and investment of primary products with very low profits, and rarely involve direct investment in high-tech industries.

2.2.3. Enterprise's FDI information is asymmetric

When Shandong multinational companies make foreign direct investment, the investment risk will even cause investment failure due to the asymmetry of information of enterprises. The cause of enterprise information asymmetry is mainly as follows: First, lack of understanding of the political environment, foreign policy and certain constraints of the host country causes political obstacles; secondly, due to lack of effective local market research, lack of understanding of local consumption habits and effective needs, it is difficult to form an accurate positioning of local consumers. In addition, when the enterprise direct investment investment goal is developed countries, due to their own technical restrictions, lack of management experience, low brand awareness, multinational enterprises compared with local enterprises lack of comparative advantages. If the multinational enterprises lack of fully market research, it would lead to multinational enterprise investment failure. Therefore, under the background of the "Belt and Road", Shandong multinational companies should fully understand the market demand, consumption habits and culture in FDI, and it will further improve the success rate of FDI in Shandong multinational companies.^[8]

3. SUGGESTIONS ON FDI OF SHANDONG MULTINATIONAL COMPANIES UNDER THE BACKGROUND OF "BELT AND ROAD"

3.1. Gradually Expand the Scale of FDI

At present, the average scale of FDI of multinational companies in Shandong Province is small, and most of the FDI enterprises are rarely small and medium-sized enterprises involving large multinational companies to participate in FDI. As a large agricultural province, there is a minority of outstanding enterprises. By learning from the successful experience of transnational operation in other provinces in China, Shandong Province will further expand the proportion of state-owned enterprises to participate in FDI. At the same time, the government should further increase the multinational companies' policy support and financial support, and improve the competitiveness of enterprises in the international status. It not only can further drive

other enterprises in Shandong province to participate in international direct investment, but also can promote the rapid development of FDI in Shandong province.

3.2. Improve the Industrial Structure

Because of the FDI of Shandong multinational companies is relatively concentrated, most of them are the manufacturing and processing of textile, agriculture, machinery and other primary products, and few involve high-tech industries such as electronic communication. At the same time, the FDI of multinational companies in Shandong Province is also unbalanced. On one hand, the traditional advantage industrial in Shandong province which spending a lot of natural resources and labor could transfer to developing countries, promote the traditional advantage industrial structure in Shandong province. On the other hand, through transnational direct investment in developed countries, we can obtain local product brand awareness, introduce local talents and advanced management technology, further realize the balanced investment in developed countries and developing countries.^[9] At the same time, Shandong Province should also further strengthen the support for high-tech industries to promote the rapid upgrading and development of its industrial structure.

3.3. Timely Release Economic and Trade News Along the "Belt and Road" to Give Correct Guidance to Enterprises

The 64 countries and regions along the "Belt and Road" initiative, due to the different level of economic development, each country has its own consumption habits and market demand. Therefore, under the background of the "Belt and Road", Shandong province's multinational companies' understanding of trade policy, market demand, cultural customs has become the key to the success of Shandong's FDI. The government should continuously deepen the research of the "Belt and Road" along countries and regions, timely update the trade policy and cultural customs information, further avoid Shandong multinational international direct investment macro business risk, encourage enterprises successful "go out", and further drive the development of other small and medium-sized multinational enterprises in Shandong province.

The proposal of the "Belt and Road" initiative has promoted the rapid development of FDI of multinational companies in Shandong Province, and further promoted the diversification of the export products of enterprises in Shandong Province. With the rapid economic development of Shandong province, more and more enterprises could "go out", multinational companies in Shandong province should follow the "Belt and Road" initiative, make full use of the "Belt and Road" initiative to bring new opportunities, strengthen the exchanges and cooperation between countries and regions, so as to

drive the rapid economic growth of the two sides and the upgrading and development of industrial structure.

4. CONCLUSIONS

We draw a conclusion that, there are some problems in Shandong's FDI, such as the small investment scale, the concentrated investment location distribution and the asymmetric information of foreign investment. Therefore, under the background of the "belt and road", in order to promote Shandong multinationals to go out better, we need to do the following things. First, gradually expand the scale of foreign direct investment; Second, Improve the industrial structure; Third, Timely Release Economic and Trade News Along the "Belt and Road" to Give Correct Guidance to Enterprises

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