Case Analysis of Transnational Investment Project Decision-making

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Abstract - With economic globalization, more and more enterprises begin to consider transnational investment to participate in international business. However, scientific decision analysis must be relied on the financial feasibility report. At first, this paper briefly expounds the main points of the transnational investment project decision-making that need to be focused on, and then analyses the whole process of transnational investment capital budgeting combined with specific case, and provides an analysis method based on the influence of the possible risk on cash flow in the investment, finally gives some relevant revelations received through case analysis.

Index Terms - Transnational investment, Decision-making, Case Analysis

Transnational investment project decisions are made through multinational capital budgeting. Transnational investment budget is a kind of budget system, which comprehensively forecasts aggregate investment, capital resources, and operation cost, revenue and profit of the project after its operation, calculates indicators such as NPV and IRR of the project, makes financial feasibility analysis and research, thus provides scientific decision-making evidences for the financial decisions.

1. The main points of the capital budgeting in transnational investment project

A. The budget of project aggregate investment and capital resources

Transnational aggregate investment needs not only the prediction of investment in fixed assets such as workshop, equipment, but also the prediction of current assets inputs such as raw material and cash. After the project aggregate investment budgeting is completed, capital resources planning should be made, determining the proportion of its equity fund and loan fund. Then the projected balance sheet can be prepared, as well as the debt service plan of the long-term liabilities. The investment costs should be calculated according to exchange rates at that time, and represented by the host country currency.

B. Project profit and loss budget

1) Sales budget: Forecast annual sales quantity, price and sales revenue of the products during the production and operation of investment projects. In predicting price, consideration should be given to the host country currency inflation, and price in each year should be adjusted according to the inflation rate. If the product is sold outside the host country, its sales revenue will be calculated by the host country currency according to the exchange rates forecasted.

2) Cost budget: Predict the annual output, unit variable costs, marketing expenses, administration expenses and financial expenses of foreign enterprises. When determining the unit variable costs, the inflation rate changes should be taken into consideration.

3) Profit and loss budget: Draw up a projected income statement according to the predicted sales revenue, cost and tax bearing of the host country faced by the enterprises, and calculate respectively the earnings before interest and tax, profits before tax and after-tax profits.

C. Project cash flow budget

Cash flow budget is the prediction on the annual cash inflows, cash outflows and net cash flow of foreign investment project during the calculation period. When compiling cash flow plans, the annual net working capital needed and annual additional net working capital during the production and operation period, as well as the net realisable value of multinational enterprise assets at the end of the production and operation should be firstly predicted. The annual additional net working capital should be taken as cash outflow, while the return of net working capital and the net realisable value of assets in the final year of production period as cash inflow.

2. Case Analysis

In the following, S company from China will be taken as an example to illustrate specifically the budgeting process of its transnational investment capital, and make the financial feasibility analysis.

After its evaluation of the investment environment in country A in Europe, S company from China decided to invest in it, setting up a wholly owned subsidiary to produce some kind of product, with the parent company providing a patent technology and the subsidiary paying a license fee of 5% of the sales each year. 20% of the raw materials required for the production is imported from the parent company, while the rest should be gained from country A. Suppose that the subsidiary finishes an operation of 5 years, and then the parent company sells the subsidiary to an investor in country A. A country's income tax rate is 20%, withholding income tax rate 5%, while the income tax rate is 25% in our country. The after-tax return on investment of this product is 15% both in our country and country A.

A. Investment costs and capital source

The total initial investment of the subsidiary is 19 million euros based on the prediction, and its composition is as

follows: 12 million euros for buying workshop, 2 million euros for purchasing equipment in country A, 2 million euros for equipment transported from China, 2 million euros for the raw materials provided by the parent company, and 1 million euros as circulating funds. Subsidiary management has made the following financing decisions: the parent company invests 12 million euros in cash, and also a long-term borrowing of 6 million euros and a short-term borrowing of 1 million euros from banks in country A, signing loan contracts with the bank. The life of long-term borrowing will be 5 years at an annual interest rate of 6%. Repay equal principal at the end of each year, and borrow a short-term of 1 million euros at the beginning of the next year with an annual interest rate of 4%, then repay principal and interest at the end of the year, and borrow again at the beginning of the next year, so repeatedly, until the end of the fifth year. According to the financing plan, work out the loan debt-servicing budget, as shown in table 1(unit: million euros).

TABLE 1 Loan debt service plan

Year	Long-term borrowing				Short-term borrowing		Interest total
	Principal at year-beginning	Annual repayment of principal	Annual interest（6%）	Principal at year-end	The principal	Annual interest（4%）	
1	6	1.2	0.36	4.8	1	0.04	0.4
2	4.8	1.2	0.288	3.6	1	0.04	0.328
3	3.6	1.2	0.216	2.4	1	0.04	0.256
4	2.4	1.2	0.144	1.2	1	0.04	0.184
5	1.2	1.2	0.072	0	1	0.04	0.112

B. Exchange rate forcast

According to the information provided by the international monetary fund, in the initial investment, 1 euro = 8 RMB, assuming that the next five years, the renminbi would appreciate 1% against the euro per year. Meanwhile, the subsidiary also sells its products in country B besides country A. Assuming that at the beginning of the investment 1 euro = 5 B yuan, and the euro would also rise against country B currency at an annual rate of 1.818%.

C. The project profit and loss budget

1) Sales budget: According to the market survey, the subsidiary company is estimated to sell 8000 units at unit price of 2000 euros in country A in the first year after put into production, and 10000 units in country B at unit price of 4000 B. By various means of sales promotion, it gradually opens its markets in country A and B. Based on the prediction analysis, in country A the product sales is growing at a rate of 5%, while in country B at the rate of 8%. Besides, considering the inflation, the unit prices in country A and B is increasing at the rate of 10% and 12% respectively. Based on the above, the sales budget sheet is worked out, as shown in table 2.

TABLE 2 Sales budget

Items \ Year		1	2	3	4	5
Sales in country A	1 Sales volume	8000	8400	8820	9261	9724
	2 Unit price（euro）	2000.00	2200.00	2420.00	2662.00	2928.20
	3 Sales revenue（million euros）	16.00 00	18.4800	21.3444	24.6528	28.4740
Sales in country B	4 Sales volume	4000	4320	4666	5039	5442
	5 Unit price（B yuan）	10000.00	11200.00	12544.00	14049.28	15735.19
	6 Exchange rate	5.0909	5.1835	5.2777	5.3736	5.4713
	7 Sales revenue（million euros）	7.8572	9.3342	11.0892	13.1741	15.6508
Total	8 Sales volume	12000	12720	13486	14300	15166
	9 Sales revenue（million euros）	23.8572	27.8142	32.4336	37.8269	44.1248

2) Cost budget: Production cost is made up of variable costs and fixed costs. The variable cost per unit contains the following parts: one is the cost for procurement of raw materials and labor in country A. It is expected to reach 1000 euros per unit of product, and will rise with country A's inflation rate.The other part is the cost for imports of raw materials and labor from China, and it is expected to reach 3000 yuan per unit of product, and will rise with China's inflation rate. Assumes that China's annual inflation rate is 11%,and then convert RMB into euro at the exchange rate. Fixed cost consists of three parts: one is the license fee paying to the parent company in China, 5% of the annual sales revenue. The second is the sales and administrative management costs, 1 million euros in the first year, then increasing by 5% per year. The third part is a total of 16 million euros for the purchase of plant and equipment at the beginning of the factory-building, regardless of the residual value, using the method of straight-line depreciation for five years, the annual depreciation charge is 3.2 million euros. Based on the above, the cost budget sheet is worked out, as shown in table 3.

3) Profit and loss budget: According to the sales budget and cost budget above, profit and loss of the subsidiary company could be predicted as shown in table 4(unit: million euros).

TABLE 3 Cost budget

Items \ ear	1	2	3	4	5
1. Output	12000	12720	13486	14300	15166
2. Country A unit variable costs (euro)	1000	1100	1210	1331	1464
3. Country A total unit variable cost (million euros)	12.0000	13.9920	16.3176	19.0331	22.2045
4. The unit variable cost of imports from China (RMB)	3000	3330	3696	4103	4554
5. Total variable cost of imports from China (million RMB)	36.0000	42.3576	49.8468	58.6707	69.0692
6. The exchange rate	8.0800	8.1608	8.2424	8.3248	8.4081
7. Total variable cost of imports from China (million euros)	4.4554	5.1904	6.0476	7.0477	8.2146
8. Total variable cost (million euros)	16.4554	19.1824	22.3652	26.0808	30.4192
9. Sales revenue (million euros)	23.8572	27.8142	32.4336	37.8269	44.1248
10. License fee (million euros)	1.1929	1.3907	1.6217	1.8913	2.2062
11. Selling and administrative costs (million euros)	1.0000	1.0500	1.1025	1.1576	1.2155
12. Depreciation charge (million euros)	3.2000	3.2000	3.2000	3.2000	3.2000
13. Total fixed cost (million euros)	5.3929	5.6407	5.9242	6.2490	6.6217
14. The cost in total (million euros)	21.8483	24.8231	28.2894	32.3297	37.0409

TABLE 4 Projected income statement of the subsidiary

Items \ Year	1	2	3	4	5
Sales revenue	23.8572	27.8142	32.4336	37.8269	44.1248
Cost	21.8483	24.8231	28.2894	32.3297	37.0409
Earnings before interest and tax	2.0089	2.9911	4.1442	5.4971	7.0838
Interest	0.4000	0.3280	0.2560	0.1840	0.1120
Pre-tax profits	1.6089	2.6631	3.8882	5.3131	6.9718
Income tax （20%）	0.3218	0.5326	0.7776	1.0626	1.3944
After-tax profits	1.2871	2.1305	3.1106	4.2505	5.5775

D cash flow budget

1) cash flow budget of the subsidiary: The working capital of the subsidiary should be predicted at first in order to predict its cash flow. Assuming that the unit working capital required takes up 15% of the sales revenue, then the working capital could be forecasted as shown in table 5 (unit:million euros).

TABLE 5 Working capital forecasting

Items \ Year	0	1	2	3	4	5
1.Sales revenue		23.8572	27.8142	32.4336	37.8269	44.1248
2.Annual working capital required		3.58	4.17	4.87	5.67	6.62
3.Annual additional working capital		1.58	1.59	1.70	1.80	1.95
4. capital resources						
1）Provided by the parent company in China	2.00					
2） Self-raised by the subsidiary						
a.Short-term bank loan in country A	1.00	1.00	1.00	1.00	1.00	
b.Subsidiary internal accumulation		0.58	0.59	0.70	0.80	0.95

Assuming that the subsidiary is sold to investors in country A at the end of the fifth year, then its net cash flow at that time would be: 5.5775 + 3.2-0.95 = 7.8275 million euros. Assuming that the subsidiary could still run 10 years after the sale, and the annual net cash flow is 7.8275 million euros, then with an annual return on investment of 15%, the final value (net realizable value) of the subsidiary at the end of the fifth year =7.8275 ×(P/A, 15%, 10) = 7.8275 ×5.018768 = 39.28 million euros.Because selling subsidiary in country A needs to pay the capital gains tax, and the tax rate is 30%, then the gains tax of final value = 39.28×30% = 11.78 million euros. Considering all the above budgets, the cash flow forecast of the subsidiary could be completed as shown in table 6(unit:million euros).

TABLE 6 Cash flow forecasting

Items \ Year	0	1	2	3	4	5
1. Cash inflow						
a.After-tax profits		1.2871	2.1305	3.1106	4.2505	5.5775
b.Depreciation charge		3.20	3.20	3.20	3.20	3.20
c.Net working capital returned at the end of the fifth year						6.62
d.Final value at the end of the fifth year						39.28
Total		4.4871	5.3305	6.3106	7.4505	54.6775
2.Cash outflow						
a.Initial investment (fixed assets)	16.00					
b.Additional working capital	3.00	0.58	0.59	0.70	0.80	0.95
c.Gains tax of final value (30%)						11.78
Total	19.00	0.58	0.59	0.70	0.80	12.73
3 Net cash flow	-19.00	3.9071	4.7405	5.6106	6.6505	41.9475

According to the chart above, we could calculate the net present value (NPV) and internal rate of return (IRR) of the investment on subsidiary.

$$NPV = -19 + \frac{3.9071}{(1+15\%)} + \frac{4.7405}{(1+15\%)^2} + \frac{5.6106}{(1+15)^3} + \frac{6.6505}{(1+15)^4} + \frac{41.9475}{(1+15)^5}$$

$$= 16.3288 - 19 + \frac{3.9071}{(1+r)} + \frac{4.7405}{(1+r)^2} + \frac{5.6106}{(1+r)^3} + \frac{6.6505}{(1+r)^4} + \frac{41.9475}{(1+r)^5}$$

$$= 0$$

r=35%>15%

Calculated with the two methods above, the scheme of setting up subsidiaries in country A is feasible.

2) Parent company's cash flow budget associated with subsidiary : In this case, the subsidiary gives 80% of its after-tax profits to parent company, while remains 20% for additional working capital. When retained earnings is less than the additional working capital, part of the depreciation charge could be used for additional working capital, i.e. subsidiary's net cash flows (including 80% of after-tax profits, most of depreciation as well as working capital returned at the end of the fifth year and final value of the subsidiary) are delivered to the parent company every year. In addition, the parent company can also get from subsidiary the license fee and net contributions associated with the subsidiary. The parent company's cash outflows associated with the subsidiary include the income tax of profits and license fee paid by the subsidiary to Chinese government, and the investment premium paid to Chinese insurance company for the investment in country A.

The parent company's net contribution associated with the subsidiary is related to the following factors: on the one hand, the parent company makes profits by exports of raw materials to subsidiary; on the other hand, due to the setting up of subsidiary in country A, country B could import products from subsidiary instead of the Chinese parent company, thus the profits of parent company from exports to country B is reduced, which can be considered as an opportunity cost for setting up a subsidiary. With the above two factors increase and decrease, offsetting each other, the parent company's net contribution associated with the subsidiary could be worked out after the deduction of tax factors. The marginal profit ratios of raw materials and products are assumed to be both 15%, the parent company's original sales for exports to country B to be 4 million yuan, and this profit now reduced by RMB 600000 per year. Assuming that marginal profit = M, sales revenue = S, variable costs = V

$$M/S=(S-V)/S=15\% \quad (1)$$

$$S=V/85\% \quad (2)$$

$$M=S-V=0.1764V \quad (3)$$

Put the first year's total imports variable cost of 36 million RMB into the formula (3), then the marginal profit for sales of raw materials to subsidiary could be worked out as 6.3529 million RMB, and the profits of other years could be calculated like this. The parent company's net contribution involved with the subsidiary is calculated as shown in table 7(unit: million RMB).

According to our country income tax law,dividends, bonuses and other equity investment gains from outside China that the resident enterprises generated from directly or indirectly controlled foreign enterprises, and the income tax attributable to this part that foreign enterprises actually paid overseas, can be used as the resident enterprise's overseas income tax credit, offsetting income tax within the limit of tax credit. In this case, the subsidiary gives 80% of the after-tax profit as dividends to the parent company after its payment of an income tax of 20% in A country. It should first pay 5% withholding income tax to country A government, and the parent company could offset the income tax paid overseas by subsidiary within the limit of tax credit. We take the first year's calculation for example, then it can be seen from table 4: the income tax paid by subsidiary in country A is 0.3218 million euros;subsidiary's after-tax profit is 1.2871 million euros;

dividends paid to the parent company by subsidiary = 1.2871×80% = 1.0297 million euros;

dividends withholding tax paid by the subsidiary to parent company = 1.0297 ×5% = 0.0515 million euros;

income tax attributable to dividends paid by the subsidiary to parent company = 0.3218×80% = 0.2574 million euros;

the taxable income amount attributable to dividends that the subsidiary should pay to parent company =1.0297 ÷(1-20%) = 1.2871 million euros;

income tax paid by subsidiary in country A attributable to dividends received by the parent company = 0.2574 +0.0515 = 0.3089 million euros;

limit of tax credit of parent company = 1.2871×25% = 0.3218 million euros ＞ 0.3089 million euros, therefore, 0.3089 million euros is allowed to deduct within the limit of tax credit;

Income tax that the parent company should pay in China when it receives dividends =0.3218-0.3089 = 0.0129 million euros.

TABLE 7 Parent company's net contribution associated with the subsidiary

Items \ Year	1	2	3	4	5
1.Total variable cost of subsidiary's imports from the parent company	36.0000	42.3576	49.8468	58.6707	69.0692
2.The parent company's sales profit of raw materials to subsidiary	6.3529	7.4749	8.7965	10.3537	12.1887
3.Reduction of parent company's profits for product exports to country B	0.6000	0.6000	0.6000	0.6000	0.6000
4.Contribution	5.7529	6.8749	8.1965	9.7537	11.5887
5.China's income tax (25%)	1.4382	1.7187	2.0491	2.4384	2.8972
6.Net contribution	4.3147	5.1562	6.1474	7.3152	8.6915

Similarly, we can calculate the income tax that the parent company should pay in China when it receives license fees. The income tax parent company should pay for its income from subsidiary is as shown in table 8 .

TABLE 8 Income taxes for parent company's income from subsidiary

Items \ Year	1	2	3	4	5
1.Tax amount for dividends returned to the parent company （million euros）					
a.After-tax profits of subsidiary	1.2871	2.1305	3.1106	4.2505	5.5775
b.Dividends to parent company (a×80%)	1.0297	1.7044	2.4885	3.4004	4.4620
c.Withholding tax in Country A (b×5%)	0.0515	0.0852	0.1244	0.1700	0.2231
d.Net dividends to the parent company (b-c)	0.9782	1.6192	2.3640	3.2304	4.2389
e. Limit of tax credit in China	0.3089	0.5113	0.7465	1.0201	1.3386
f.The taxable income amount	1.2871	2.1305	3.1106	4.2505	5.5775
g. The parent company payable income tax amount (f×25%)	0.3218	0.5326	0.7776	1.0626	1.3944
h.The actual tax (g-e)	0.0129	0.0213	0.0311	0.0425	0.0558
2. The license income tax payable （million euros）					
i.License revenues	1.1929	1.3907	1.6217	1.8913	2.2062
j. Withholding tax in Country A (i×5%)	0.0596	0.0695	0.0811	0.0946	0.1103
k.The parent company income tax payable (i×25%-j)	0.2386	0.2781	0.3243	0.3783	0.4412
l.Total payable income tax in China (k+h)	0.2514	0.2994	0.3554	0.4208	0.4970
m.The exchange rate	8.0800	8.1608	8.2424	8.3248	8.4081
n.The tax payable （million RMB）	2.0317	2.4437	2.9297	3.5029	4.1790

Based on the related data from table 7 and table 8, the parent company's cash flow budget associated with subsidiary can be worked out as shown in table 9.

According to the table 9, we could calculate the net present value (NPV) and internal rate of return (IRR) of the parent company's investment on subsidiary.

$$NPV = -152 + \frac{42.3927}{(1+15)} + \frac{51.2853}{(1+15)^2} + \frac{60.9349}{(1+15)^3} + \frac{72.5190}{(1+15)^4} + \frac{372.7572}{(1+15)^5}$$

$$= 190.4971 - 152 + \frac{42.3927}{(1+r)} + \frac{51.2852}{(1+r)^2} + \frac{60.9349}{(1+r)^3} + \frac{72.5190}{(1+r)^4} + \frac{372.7572}{(1+r)^5}$$

$$= 0$$

r=44%>15%

The above calculation shows that from the perspective of the parent company in China, the project is feasible.

E. Impact analysis of investment risk on project net cash flow

Because there are certain risks in transnational investment, the cash flow generated from the investment scheme is uncertain.

1）The impact analysis of foreign exchange control: The efficiency analysis of the investment project is based on the assumption that country A government do not implement foreign exchange control. Now assumes that after the project investment, there is some sudden change in the foreign exchange policy of country A. It begins to take all the foreign exchange control, so the after-tax profits, license fee and depreciation charge of subsidiary in country A cannot be remitted to the parent company in five years, and have to be reinvested in the country A. Assuming that the after-tax profits of reinvestment is 3%, and the regulated capital could only be allowed to remit to the parent company in China when the subsidiary is sold to investors in country A after five years, then there would be an abundant cash flow in subsidiary, therefore the subsidiary could repay the short-term bank loan of 1 million euro in country A from the first year. In this way, the interest expenses paid by the subsidiary will reduce 40000 euros per year, while the income tax charged in country A will increase accordingly. Parent company's cash flow associated with the subsidiary could be further analyzed in the case of foreign exchange control. In the five years, the bank loan principal and interest repaid by subsidiary in country A could be deemed as remuneration of its parent company's investment, and the parent company's net contribution associated with the subsidiary remains the same. At the end of the fifth year, the parent company can withdraw the working capital of subsidiary, redundant cash flow and the final value of the subsidiary sold. The above cases could all be seen as the parent company's cash inflow, while the outflow mainly involves the initial investment, annual investment premium and capital gains tax of selling the subsidiary paid to country A at the end of the fifth year.

TABLE 9 The cash flow budgets associated with subsidiary

Items \ Year	0	1	2	3	4	5
1. cash inflow						
a.Net cash flow of subsidiary (million euros)	-19.00	3.9071	4.7405	5.6106	6.6505	41.9475
b.License revenues (million euros)		1.1929	1.3907	1.6217	1.8913	2.2062
c.Total cash inflow	-19.00	5.0999	6.1312	7.2322	8.5418	44.1537
d.Withholding tax in Country A (million euros)		0.1111	0.1548	0.2055	0.2646	0.3334
f.Net cash inflows (million euros)	-19.00	4.9888	5.9765	7.0267	8.2772	43.8203
g.The exchange rate	8.0000	8.0800	8.1608	8.2424	8.3248	8.4081
h.Net cash inflows (million RMB)	-152.00	40.3096	48.7728	57.9172	68.9067	368.4447
i. Net contribution associated with the subsidiary (million RMB)		4.3147	5.1562	6.1474	7.3152	8.6915
j.Total cash inflow(million RMB)	-152.00	44.6243	53.9290	64.0646	76.2219	377.1362
2.Cash outflow (million RMB)						
k.Payable income tax in China		2.0317	2.4437	2.9297	3.5029	4.1790
l.Investment premium		0.20	0.20	0.20	0.20	0.20
m.Total cash outflow		2.2317	2.6437	3.1297	3.7029	4.3790
3. Net cash flow(million RMB)	-152.00	42.3927	51.2853	60.9349	72.5190	372.7572

2) The impact analysis of exchange rate fluctuation: The parent company's cash flow associated with subsidiary can not only be affected by foreign exchange control, but may also be affected by the foreign exchange risk. The cash flow received from subsidiaries will ultimately be converted into the recording currency in the country of parent company. If the currency in country A devaluates, the currency conversion will reduce cash inflow of the parent company, and will increase the cash inflow on the contrary. At the same time, the increase or decrease in cash inflows of the parent company would also lead to its income tax payable increase or decrease in China accordingly. Exchange rate fluctuation not only affects the parent company's cash flow associated with subsidiary, but also affects the cash flow of the subsidiary itself. In this case, 20% of the raw materials of the subsidiary need to import from China's parent company, and import costs need to be converted into the euro, and then if the euro rises against the renminbi, the cost of imports will reduce after the conversion, on the contrary, the import costs will increase.

No matter what kind of risks above emerges, we could still work out the net present value (NPV) and internal rate of return (IRR) of the parent company's investment on subsidiary under these influencing factors. If the net present value is greater than zero, and internal rate of return is more than the minimum required return rate requested by parent company, then the project is still feasible.

3. Case revelations

Through the summary of the above cases, the author gets the following revelations:

A. Transnational investment projects need to prepare two cash flow budget sheets.

Usually, in the domestic investment on enterprises, one cash flow budget sheet is enough. But setting up subsidiary in foreign countries need not only the feasibility analysis and evaluation on investment project from the perspective of the subsidiary, but also the benefit forecast analysis and evaluation from the perspective of the parent company, that is to say, transnational investment projects need to prepare two cash flow budget sheets.

1) Cash flow budget of foreign subsidiary: The cash flow budget of foreign subsidiary needs to be calculated by the host country currency. It should reflect its annual cash inflow, cash outflow and net cash flow in construction period and operation period, which could be used for calculation of internal rate of return and net present value, usually taking the after-tax investment return rate in a similar project in the host country as the discount rate.

2) Parent company's cash flow budget associated with the subsidiary:The cash inflows of the parent company mainly come from the profits returned by subsidiary and the license fee, etc. When paying dividends and related charges to the parent company, the subsidiary should convert them into the standard currency of the host country at the current exchange rate. The cash outflows of the parent company mainly come from various taxes payable for the return of investment on subsidiary, including the withholding tax paid to the host government by subsidiary for the parent company, and the income tax paid to the local government by parent company for profits and license fees received from subsidiary. As a result, the investment benefit of the parent company depends not only on the operating revenues of the subsidiary, but also on other risk factors such as exchange rate, withholding tax rate of the host country, foreign exchange control and income tax rate of the local country.

B. Transnational investment projects need to establish a risk management committee

Transnational investment risk is complicated and changeable. Besides the foreign exchange control and the exchange rate risk as stated in this case, there are other risk factors such as forecast deviation of the total investment amount, delay of project construction period and the mismatching of actual capacity and design capacity and so on, all of which could lead to large deviation between investment forecasting and actual expectations. Therefore, enterprises should establish a risk management committee for transnational investment project to do the risk identification and risk assessment work for possible related risks, sort the risks according to their probability and influences on the project, and adopt countermeasures to prevent and control the risks to ensure the realization of investment objectives.

C. Transnational investment projects need to have a deep understanding on the host country investment environment

The scientific decision-making of transnational investment project could not be made without deep understanding of the

external investment environment of host country, which includes the hard environment and soft environment of investment. The hard environment of investment focuses on the host country's infrastructure and natural geographical conditions, whereas the soft environment pays attention to the host country's political, economic, social, cultural, legal and other related factors, including the host country's laws and regulations for foreign business investment, the encouragement and restriction on international trade, foreign exchange control on the profit remitting, tax system of the host country, economic development level and the market size, price situation, and even the host country's religious institution, national sentiment and national consciousness, etc., all of which will have a significant impact on transnational investment decisions.

D. Other factors impact on transnational investment decisions

Transnational investment decisions is not only affected by the environment of host country, but also greatly related to its own strategic motivation and policy orientation of its own government. The two factors will also have a significant impact on investment decisions.

1) The company's strategic motivation: When the company has production factors that other countries have not or difficult to get, such as natural resources, patent right of production, trademark right, as well organization and management experiences and so on, these factors of production may not be able to benefit the enterprises by means of export trade, technology transfer, but once they are for internal use, the products and market of the enterprise could be further diversified, and the production and processing of the products could be in unified deployment, greatly reducing transportation costs, and the enterprises can even form a monopoly on raw material supply and sales market. All of these advantages could prompt the strong strategic motives of foreign investment. Besides, once the foreign investment achieve success, it will produce a great "reputation effect", which can produce significant synergies with domestic business, advantageous for the enterprise entering benign development track of economic globalization.

2) The policy orientation of the government: For their own economic development, and to meet the needs of economic globalization, the government could actively formulate relevant policy, guiding and encouraging enterprises to invest overseas. The government will even come forward to establish mutually beneficial cooperation with the host governments, such as the requirement of the host country government to ban trade barriers and actively improve the infrastructure, the requirement of the host country to make relevant preferential tax policies and provide attractive financing terms. All these actions will play a positive guiding role on enterprise's foreign investment.

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