

# The Attractiveness and Motivation of China's International Investment Based on Positive Investment Inertia

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## Abstract

Nowadays, economic globalization is the main trend of world economic development. Each country takes the participation in international investment as a strategy. This paper analyzes China's international investment from the view of investment inertia. Though the attractiveness and motivation of China's investment keeps increasing, the integral development level is low which stays in the stage of zero inertia. The total amount of China's investment is increasing. But the invitation of investment is unreasonable; the short-term investment in foreign country prevails. We seek the strategic asset of developed country eagerly, and prefer to seek the market and resource of developing country.

*Keywords:* international investment; inertia; attractiveness; motivation

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## 1 Introduction

International investment is the capital movement across the world. It is the investment in foreign country of enterprise, personage or government [1]. Since 21st century, the total amount of investment of each country is increasing rapidly as economic globalization enhancing. And it has become an important strategy to take part in international investment. By now, our international investment can be divided into invite investment and investment abroad. So, it means a lot to our international investment in the future to analyze the investment situation of our country based on the attractiveness, motivation and inertia of international investment which is already existed.

## 2 Relevant Content of International Investment

### 2.1 INTERNATIONAL INVESTMENT ATTRACTIVENESS

The international investment attractiveness is the host country's ability to attract and adsorb the capital of investment country. It is an objective economic power exists in the host country to regulate and dominate the orientation of the international capital [2]. The international investment attractiveness varies with the different GNP of each country. The higher GNP, the more powerful the attractiveness is [3]. Besides the GNP, there are some other factors that decide the international investment attractiveness of a country, such as, the country's capital demands condition, the accommodation power to foreign capital and the return on investment in the country.

### 2.2 INTERNATIONAL INVESTMENT MOTIVATION

International investment motivation is the investment motivation and ability of one country or area to another [4]. Previous economist thought that investment abroad has direct relation with the situation of the country's economic development. That is to say, the motivation of a country depends directly on GNP, and GNP is the main factor that decides the motivation and attractiveness of investment abroad.

In China, someone put forward the Foreign Direct Investment theory – the theory of meeting each other's demand. They think the reason why international investment appears is both sides has different demands. An actual investment can be done only when both side that taking part in international investment must consider each other's demand [5].

### 2.3 INTERNATIONAL INVESTMENT INERTIA

International investment inertia is an objective economic phenomenon of international investment. The investment scale and speed of the country or area keeps the same while the international investment motivation, international investment attractiveness and the other economic and politic situation stays unchanged. It is divided into zero international investment inertia and positive international investment inertia. It can also be called the inertia of investment abroad [6]. The capital to invest abroad and continuous investment abroad are the two preconditions.

The international investment inertia theory depends mainly on the PLC (Product Life Cycle) model [7]. It has two basic points. Firstly, it is the original intention of international investment inertia to reduce the cost. Mostly, the investment country has the advantage of technology

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and supervision while the host country has location advantage such as low price resource and labor. Secondly, transnational corporation eke out monopoly interest to bring out inertia from investment. The purpose of investment abroad is, to some extent, to prolong the monopoly advantage of the innovation country with the low cost of host country, and meanwhile to strike pirate.

**3 Analysis of China’s Investment Attractiveness and Motivation**

**3.1 ANALYSIS OF CHINA’S INVESTMENT ATTRACTIVENESS**

We analyze international investment attractiveness with the model of international investment attractiveness, specifically as follow

$$E(a/b) = F(a/b) \cdot \frac{I(a/b) \cdot R(a/b)}{H(a/b)} \quad (1)$$

TABLE 1 Attractiveness coefficient of China’s international investment

<b>Year</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Coefficient</b>	-17.44	NA	5.25	-17.78	-11.25	3.81	-8.38	1.33	-14.84	-13.94
<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Coefficient</b>	-5.80	1.72	2.95	1.50	NA	4.45	NA	4.78	4.97	NA

**Comment:** NA means the data is lacked or the calculated result does not exist.

Table1 shows that in most years before 2001 the attractiveness coefficient is less than 1, which suggests China’s lack of international investment attractiveness in those years. That is because, planned economic, the main part of China at that time, low opening degree and defective laws and regulations and policy and measure made economically advanced country not tend to favor China’s investment situation. After 2001, the coefficient is more than 1. It suggests China’s international investment attractiveness was gradually increasing. Mainly because China accelerated the market economy reform and opening degree, enacted lots of preferential policy to attract foreign capital, perfected investment climate further. That made foreign country looks good of the potential of China’s market gradually and increased investment in China.

**3.2 THE PROBLEM OF FOREIGN CAPITAL INTRODUCTION**

1). The excessive speed of foreign capital introduction; the total amount of invite investment is 17.143billion during 1970-1996.After 1996, we make use of more than 10 billion each year. And we made use of more than 50 billion foreign capital each year after 2007; the invited projects were mostly foreign direct investment [8]. We estimated the relation of the foreign capital we used and GDP, using the ordinary least square method. During 1990-2008, the ratio of invited foreign capital

Here: E(a/b) means China’s general investment attractiveness coefficient to foreign country; F(a/b) means the ratio of national income per capital between China and target country; R(a/b) means the ratio of bank rate between China and foreign country; I(a/b)means the ratio of return on invest of certain industry between China and foreign country; H(a/b) means the ratio of investment density of certain industry between China and foreign country; Formula (1) shows that China’s international investment attractiveness is proportional to the ratio of national income per capita, the return on invest of certain industry and invest density between China and foreign country.

When E (a/b)>1, capital flows into China; When E (a/b) <1, capital flows flow out from China. According to formula (1), we calculated China’s international investment attractiveness during 1990 to 2009; the result is shown in Table1.

and China’s economic growth is 0.57.Every Yuan we invited increased 0.57yuan for GDP. The promotion of invited capital to the economic development was at average level. It suggests the large amount of foreign capital we utilized contributed a little to the economic growth.

- 2). The industrial structure of invited capital is unreasonable. (1) Foreign chose the unreasonable industry and the industry structure was imbalanced. Local administration department emphasized the scale of capital introduction, but they did not take China’s industrial structure into consideration .Local government favored short-term benefit. Foreign capital was mostly invested to secondary industry, especially industry which needs less investment, has quick effect, brings high profit, and earns foreign exchange easily, such as manufacturing industry. As to the weak industry whose production cycle is long, such as science and technology, infrastructure, agriculture, etc., got poor investment. (2) The area selection of foreign investment is unreasonable either. The west area lags far behind the east area in making use of foreign capital. According to the statistics, at the end of 2008, the east and middle area absorbed 91.47% foreign capital of that year while his west area absorbed only 8.52%. And the development gap of east and west area is about to increase.
- 3). Capital invitation is in conflict with the development if local enterprise. Foreign investment values China’s

preferential policy which make them in the advantageous position. But the local enterprise with less capital and backward technology do not have the preferential policy. They need equal preferential policy. So, the government has to considerate both sides and work out with suitable preferential policy.

- 4). The investment climate has to be improved; to attract foreign capital, we must have the laws to protect their rights and interests. So they have laws to abide during their operating. But China's laws and regulations are imperfect. And this make the transnational enterprise can't protect them when they get infringed illegally during their operation in China. What's more, though we have accelerated the infrastructure constructor and begin to pay attention to the environmental problem, we still have to perfect ourselves in many aspects.

### 3.3 ANALYSIS ON CHINA'S INTERNATIONAL INVESTMENT MOTIVATION

International investment motivation is a country's own motivation and ability to invest abroad. The coefficient the international investment motivation is the more investment abroad. So, the motivation coefficient is proportional to the

height of the scale of investment abroad. We still use Wang Dongjin's international investment motivation model:

$$D't = \frac{H't(R't + I't)}{2} \tag{2}$$

**Here:** D, t stands for the coefficient of China's investment abroad, the bigger it is, the stronger investment motivation; H, t is the coefficient of China's civil investment density variation; R, t is the deposit interest rate of Chinese bank and variation index in a given period; I, t is the variation index of China's civil return of investment in a given period. Formula 2 shows that in a given period, China's motivation of investment abroad is proportional to investment density variation coefficient in the same term, and it is inversely proportional to the average index of return of investment and deposit interest rate. When D, t=1, the international investment motivation stays the same; When D, t>1, the motivation increases; When D, t<1, the motivation decreases. According to formula 2, we calculated the motivation coefficient of China's international investment during 1990 to 2009. See the result in Table 2.

TABLE 2 Motivation coefficient of China's international investment

<b>Year</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Coefficient</b>	39.40	4.95	0.51	-0.30	-0.59	-0.89	0.70	2.40	-3.60	1.25
<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Coefficient</b>	0.93	0.08	2.01	0.21	0.04	0.36	0.68	1.04	1.17	2.35

The analysis of China's international investment motivation and inertia suggests that, though China's international investment motivation is gradually increasing, the motivation coefficient is low and stays at zero investment inertia period .That means China should increase the investment abroad.

### 3.4 THE PROBLEM OF CHINA'S INVESTMENT ABROAD

- 1). China's scale of investment abroad is small and scientific and technological investment is weak. It has a lot to do with the backward technology and small capital scale of most Chinese enterprise. What's more, the government attaches little importance to investment abroad. In fact, Chinese enterprise has realized the importance of investment abroad and expending of investment business. Though they have strong motivation to invest abroad, their investment scale was restrained by the limited capital and backward technology. Besides, China has few research institution or industry with advanced technology. Though Chinese university has some advantage on research and deve-

lopment, the research achievement can hardly be turned to productivity.

- 2). The problem of investment continuity. Abundant capital is needed to invest abroad. And the feasibility and profitability should consider. We should avoid blindness. In 2008, the acquisition of Gibson Iron Mine was strongly opposed by Australian and thus brought great financial lost to Shougang Corporation. In addition, to invest abroad, we should stick to the principal of win-win. Try to benefit our country's development and the host country in the same time. As the earning of investment abroad is not evident in the earlier stage, we should mind the chronicity.
- 3). The structure of the investment abroad is unreasonable. The investment in advanced country is based on service, as to developing country, it is resource. China's investment is indirect investment mostly. According to the experience of Multinational Corporation, we should transform our indirect investment to direct investment gradually. That will form stronger productive force, increase enterprise income and, as a whole, will promote our country's economic development.

### 4 Conclusion and Suggestion

The above shows, China is short of international investment attractiveness and motivation, international investment inertia is at zero investment inertia stage. To solve the problems that exist we should grounded on the actual situation and pay attention to the following problems.

- 1). To balance investment attraction and investment abroad. Investment attraction and investment abroad are the two main ways of China to take part in international investment. To confront the shock of economic globalization, we must develop introducing of foreign capital and investment equally. First, invited foreign capital can help to develop our economy and drive the innovation and development of enterprise, thus, laid foundation for investment abroad. Secondly, it can create condition for larger scale of capital invitation. If we simply import and output, we will probably rely on foreign capital and technology, lower the civil capital's rate of operation and the ability of technology innovation.
- 2). To create good investment climate. In order to get the initiative in the worldwide compete of using international investment, China should use the experience and lessons of other country's international investment for inference to perfect the rules and regulations and to better the investment climate to attract foreign investors.
- 3). Strive to develop domestic enterprise, enhance the competitiveness and encourage the investment abroad.

To encourage those enterprises with advantages for development to invest abroad, to participate in worldwide competitiveness thus entirely elevate competitive force of China's investment abroad.

- 4). Maintain the appropriate scale of international investment. (1) Utilize foreign capital rationally and keep the reasonable scale of utilizing foreign capital. In practice, due to the limitation of reality, the theoretic best scale can not be achieved; therefore we should stick to the second-best principle [9]. And our foreign capital utilization is unreasonable in construction and source and area orientation. In view of this, we should, in the future, synthetically consider the speed and direction of utilizing foreign capital. (2) Maintain the appropriate scale of investment abroad. Properly balance the out flowed capital and net export of commodity.

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