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

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 ATTRACTIONNESS
The international investment attractiveness is the host country’s ability to attract and absorb 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

\[ E(a/b) = F(a/b) \cdot \frac{I(a/b) \cdot R(a/b)}{H(a/b)} \]  \hspace{1cm} (1)

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 return on invest 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 out from China. According to formula (1), we calculated China’s international investment attractiveness during 1990 to 2009; the result is shown in Table1.

**TABLE 1  Attrativeness coefficient of China’s international investment**

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<tbody>
<tr>
<td>Coefficient</td>
<td>-17.44</td>
<td>NA</td>
<td>5.25</td>
<td>-17.78</td>
<td>-11.25</td>
<td>3.81</td>
<td>-8.38</td>
<td>1.33</td>
<td>-14.84</td>
<td>-13.94</td>
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<tr>
<td>Year</td>
<td>2000</td>
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<td>2003</td>
<td>2004</td>
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<tr>
<td>Coefficient</td>
<td>-5.80</td>
<td>1.72</td>
<td>2.95</td>
<td>1.50</td>
<td>NA</td>
<td>4.45</td>
<td>NA</td>
<td>4.78</td>
<td>4.97</td>
<td>NA</td>
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</tbody>
</table>

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

Table 1 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 invest 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 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 advanta-
geous 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 mo-
el:

\[
D' = \frac{H'(R'R + I)}{2}.
\]

Here: D, t stands for the coefficient of China’s invest-
ment abroad, the bigger it is, the stronger investment moti-
vation; 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 vari-
ation 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 interna-
tional investment during 1990 to 2009. See the result in
Table 2.

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<tbody>
<tr>
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<td>-0.89</td>
<td>0.70</td>
<td>2.40</td>
<td>-3.60</td>
<td>1.25</td>
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<tr>
<td>Year</td>
<td>2000</td>
<td>2001</td>
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<td>2006</td>
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<td>2009</td>
</tr>
<tr>
<td>Coefficient</td>
<td>0.93</td>
<td>0.08</td>
<td>2.01</td>
<td>0.21</td>
<td>0.04</td>
<td>0.36</td>
<td>0.68</td>
<td>1.04</td>
<td>1.17</td>
<td>2.35</td>
</tr>
</tbody>
</table>

The analysis of China’s international investment
motivation and inertia suggests that, though China’s
international investment motivation is gradually increa-
sing, 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 enterprises. What’s more,
the government attaches little importance to investment
abroad. In fact, Chinese enterprises have realized the
importance of investment abroad and spending of
investment business. Though they have strong moti-
vation to invest abroad, their investment scale was
restrained by the limited capital and backward tech-
nology. Besides, China has few research institutions or
industry with advanced technology. Though Chinese
university has some advantage on research and deve-
loment, the research achievement can hardly be tur-
ted 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 loss 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 ser-
vice, 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 produc-
tive 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 use 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 technological 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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References


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