

The Impact of Foreign Investment on The Chinese Companies' Development

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Abstract

The paper is devoted to problems of Chinese companies' foreign direct investments. Special attention is paid to the activity of Greenland Group. The company is focused on building a whole industrial chain of finance, implementation of the "big finance" development strategy, and active involvement in managing businesses including financial asset management, trust, investment banks, operation of small loan companies.

Keywords: Investment, Banking, Financial Assets, Real Estate.

Introduction

In the context of this study, the investment process is understood as the development of all participants in the reproduction process of the productive forces of society in order to increase national wealth. The investment climate is formed by a combination of economic and political conditions and is determined by a number of macroeconomic indicators. It is also formed under the influence of factors of the investment process [10], which include such interrelated elements as:

- 1) structure and level of aggregate demand;
- 2) availability of free borrowed funds in the economy;
- 3) marginal efficiency of capital;
- 4) the state of the sphere of monetary circulation;
- 5) conditions for the transformation of savings into investments.[8]

Rational management of the existing factors of the investment climate can attract significant foreign direct investment to the national economy. It is logical to classify the effects of FDI of the recipient economy into direct and external. Direct effects stimulate GDP growth, lower unemployment, additional revenues to the state budget, and technological development. The influence of external effects is due to the competition in the economic system of national and foreign companies, namely, the displacement of national firms from the market due to the often-higher level of technological

development of foreign companies [2]. When interacting within an industry, such effects are usually referred to as horizontal. The positive effects of FDI are associated with the transfer of knowledge and technology from foreign companies located in related industries to national ones, that is, with the international transfer of knowledge. These effects are usually called vertical external effects, the main property of that there is no dumping of national companies in the national economy [3]. Based on the described patterns, the manifestation of positive effects of FDI at the intersectoral level is more typical for developing economies, which is due to their technological lag behind foreign ones. However, to accurately determine the sign of the effects, it is also necessary to take into account a number of other factors that determine the specifics of the national economy of different countries.

Chinese MNCs' Foreign Direct Investments

Chinese companies have significantly strengthened their competitive positions.

First of all, this applies to the banking sector, oil and gas production, as well as the high-tech sector. They give an impetus to the development of the economy as a whole. The struggle for leadership here is ongoing and can significantly change the position of a country in the world hierarchy.

In 2019, the Forbes-2000 rating, based on four indicators (asset value, profit, sales and market capitalization), included 180 companies from mainland China. For comparison, the United States was represented by 600 companies.

Chinese banks are strengthening their positions.[6] In the Forbes-2000 ranking, the list of the world's leading companies is headed by three banks from China. In total, it has 24 Chinese banks. However, currently most of them concentrate their operations on the domestic market, but gradually the scope of their activities is expanding.

If we analyze the list of the largest companies in the oil and gas sector, then Chinese companies are on the 17th place in the overall rating and on the 2nd in the industry.

The main drivers of increased FDI in China were the rapid economic growth, low labor costs, well-developed infrastructure, export support policies, and an effective regulatory system. Tax incentives also played a role, especially in the special economic zones.

First, in 1994, a single tax system was introduced for Chinese and foreign firms. Second, foreign firms received at least a five-year tax exemption. Moreover, they were also offered a refund of 40% of the taxes already paid, provided that the profits were reinvested in China for at least 5 years, and not exported abroad. In two decades of steady and rapid economic growth, China has created a huge market that is very attractive to foreign companies.

However, the Chinese government imposed restrictions on the entry of foreign capital into the country. Prior to China's accession to the WTO, foreign direct investment was mainly directed to export-oriented production, in which China was both a technological and production base. The products were sold in foreign markets and were not allowed to enter domestic markets. Due to the constraints associated with economic policy, China was deprived of many potentially attractive investments. After joining the WTO, China lifted all restrictions, allowing the products of foreign enterprises to enter the domestic market [4].

Many multinational corporations (MNCs) these days, think about China. China has become an important, if not the most important, market for many MNCs.

In addition, there are those who are just starting to work in China or have recently expanded their activities in China. These companies are trying to find ways to take advantage of the Chinese market. And, of course, some who have been affected by geopolitical issues, such as those referred the Xinjiang cotton, are pondering what to do next.[3]

China's economy does not stand still and continues to develop. GDP grew by 2.3% in 2020, despite the pandemic, and grew by an incredible 18.3% in the first quarter of this year, indicating a strong recovery. GDP growth for the whole of 2021 is expected to be 6%. The inflow of foreign direct investment in 2020, at \$163 billion, was the highest in the world, and foreign trade continues to grow. Bilateral trade with the US increased to \$659.5 billion, and with the EU – \$710 billion in 2020.

An important milestone of the reform was the Law on Foreign Investment adopted in March 2019, which puts foreign enterprises on an equal footing with domestic ones in many respects.

Another significant element of the reform was the list of unreliable entities, announced in September 2020 to protect the legitimate rights and interests of all types of market entities. In addition, the National Negative List reduced the number of restrictive measures by 17.5%, compared to the 2019 version. These are clear signals of how China is trying to lower barriers to foreign companies.[9]

The new 14th five-year plan stipulates that the quality of development will be the top priority for China until 2025, making innovation and technological independence even more important, in fact.

Advanced manufacturing should be used to address issues in areas such as key components, materials, software, and fundamental systems, while developing a more innovative and competitive value chain with higher added value in priority areas. The external and internal components are expected to complement each other.

E-politics will influence how the future interaction between globalization and deglobalization develops, as well as China's role in this interaction. This, in turn, will affect issues such as global governance, technology, data independence, and local requirements. These concerns and people's needs reflect the implications for the strategic plans of MNCs' operations in China or, for that matter, their global strategies with China in the spotlight. [10]

Multinational corporations need to develop different ways to take advantage of China while responding to different risks, and they always need to know where the red line is. The correct strategic assessment of plans and actions is mandatory for all multinational companies that strive to remain relevant in the global game. China offers MNCs a lot of growth opportunities but getting closer to China will also require more sophistication.

Greenland Holdings Corp. Ltd. Analysis

The Greenland Holdings Corporation Limited (Greenland Group) is one of the largest real estate operators in China and the largest developer in Shanghai (one of the fifty largest companies in the country and one of the 500 largest companies in the world).

The company was founded in 1992, as a public company - in August 2015, the headquarters is based in Shanghai, is part of the state-owned Greenland Group, the majority stake is owned by the government of Shanghai.

Greenland Holdings specializes in the design and development of real estate, real estate investment, construction management, lending and leasing (the main interests are concentrated in the field of residential, office and hotel real estate, as well as in the field of shopping centers and industrial parks); in addition, it is engaged in the supply of coal and oil.

As of 2019, Greenland Holdings had revenue of \$50.9 billion, profit of \$1.7 billion, assets of \$138.3 billion, market value of \$14.1 billion, and employed over 39,000 employees.

The real estate business of Greenland Group is taking the lead nationwide in the aspects of its development scale, product type, quality and brand. It is also far ahead in the areas of ultra-high-rise buildings, large urban complex projects, high speed rail station business districts and industrial park development. Of the present 23 ultra-high-rise urban landmark buildings, 4 enters the world top ten in terms of their height. [1]

The real estate development projects have covered 29 provinces and 80 odd cities with the floor space under construction up to 82.33 million square meters.

Closely following the trend of economic globalization, Greenland Group expands its business overseas in a steady way in high gear, covering 4 continents, 9 countries including USA, Canada, UK and Australia, and 13 cities, and becoming the top runner of global operations of China's real estate industry (figure 1).

Relying on its advantages in real estate, Greenland has been vigorously developing its infrastructure, finance, consumption and related rising industrial clusters for the business arrangement to ensure economic fluctuation balance and achieve continuous growth.

The diverse industrial sectors supporting main business and simultaneous development of other diverse businesses is conducive to the Group to share and integrate advantages of different sectors and build up a stable-growing and everlasting enterprise clusters under Greenland System.

Greenland has been persistent in the simultaneous development of industrial and capital operation.

The coordination effect between real industries, finance and investment is increasingly obvious and the Group has been listed in the A-share stock market (600606.SH). The group also holds several H-share listed companies in Hong Kong and has established capital platform for the integration of domestic and foreign resources.

Upholding cross-border cooperation and platform collaboration, the Group has taken the lead in "internet + real estate" and asset securitization and has achieved great success in investment and acquisition. In the future, Greenland Finance will expand its business to insurance, trust, securities, bank, and other financial sectors and will create the "capital+capital management" industrial chain to provide greater momentum for the integration of industry and finance.

Greenland Holdings Corp. Ltd. Investment Policy

Greenland metro forms unity with its strategic cooperation partners mainly by adopting diverse investment modes. In addition to the investment and construction of railway projects in various regions in China, it engages in comprehensive urban development of the regions along the subways.

The overall development mode which features "railway projects + regional functions" not only relieves repo capital pressure of the government finance, but stimulates the comprehensive development of rail transportation and exploration of functions along the rails, thus achieving a win-win result.



Figure 1.- Greenland's pursuit. [1]

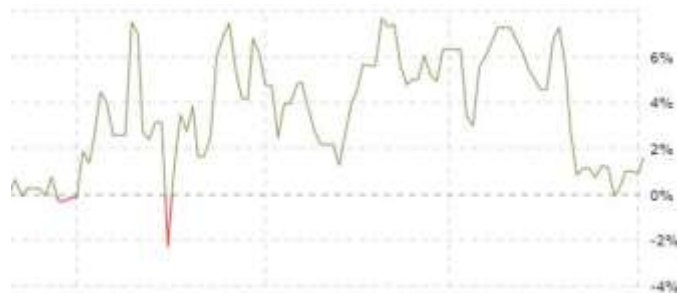


Figure 2. Project profitability for March -May 2020.[1]

The first project is Xuzhou Metro Line 3, a backbone route stretching from northeast to southwest in the main urban area of Xuzhou with a total length of 17.3 kilometers and 15 underground stations in planning. With a total investment volume of 11.7 billion yuan, the project will be initiated in 2016 and completed in 2020. The construction of Nanjing Metro Line 5 and Chongqing Metro Line 9 has been officially started.

Conclusion

So, One of Greenland Group's focuses is developing the finance industry. The past few years have witnessed its commitment to building a whole industrial chain of finance, implementation of the "big finance" development strategy, and active involvement in managing businesses including financial asset management, trust, investment banks, operation of small loan companies.

Despite the pandemic, investment in China continues, statistics show at the beginning of 2020, foreign investors invested more than 12 billion US dollars in the Chinese economy. This is 2.2% more than at the end of 2019. Russian companies are currently involved in several major financial projects: In the field of pharmaceuticals-investments in the development of vaccines, drugs, and medical equipment.

In 2020, economic ties with the Far Eastern regions continued. In six months, the volume of trade reached \$6 billion. In 2020, active deliveries of poultry meat and chilled beef began. [5]

Despite almost equal amounts of accumulated inward and outward FDI, in recent years China has increasingly tried to take measures aimed at stimulating FDI into the national economy, limiting capital outflows from the country, in order to counteract the weakening of the yuan. For example, in 2017, measures were introduced that restricted or even prohibited direct investment from China in such activities as real estate transactions, hospitality, entertainment, sports, etc. At the same time, the conditions for foreign capital investment in the domestic banking and financial sectors, mining, infrastructure construction were developed.

The Ministry of Commerce also stated that the country's authorities will continue to implement tough measures in a number of industries, while at the same time encouraging investment related to industry and technology. In general, the ongoing liberalization of MNC activities and foreign investment allows China to successfully integrate into international value chains, which in the future may also lead to an increase in its investment expansion.[7]

As a result, the share of China's MNCs of non-state forms of ownership has radically increased – up to 95% in number, and up to half of the accumulated PPI. At the same time, such mechanisms of state support for private Chinese MNCs as access to loans from the state financial systems, insurance of business risks in host countries, information and consulting and personnel support, and the development of the global yuan financial and settlement and payment infrastructure, in turn, make them dependent on the state, ensuring the coordination of public and private interests.

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