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Research on the Problems and Countermeasures of Chinese Enterprises' Outward Foreign Direct Investment in the Context of Global Economic Uncertainty

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Abstract: Outward foreign direct investment (OFDI) is an important way to promote China's economic transformation and achieve high-quality economic development, and it plays an important role in building a new development pattern that focuses on the domestic systemic circulation as the main body, with domestic and international double circulations promoting each other. In the context of the uncertainty of the current global economic environment, investment protectionism is arising in various countries, and there is an obvious trend of anti-globalization. The sudden outbreak of COVID-19, the Russian Ukrainian war, and other conflicts have severely damaged the global economy and investment, significantly increased the risk of overseas investment, and reduced the confidence in outward foreign direct investment. Chinese enterprises face serious challenges and problems in OFDI. This article starts from explaining the current situation of Chinese enterprises' OFDI and continues with an analysis on the existing problems and puts forward suggestions to increase foreign investment in China.

Keywords: Outward foreign direct investment; Location choice; Investment and trade

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1. Introduction

Since the reform and opening up, driven by globalization, China's economy has developed rapidly. China has actively integrated into the global market to encourage enterprises to conduct outward foreign direct investment (OFDI), which has become an important component of its international investment. However, with the increasingly complex global economic situation, OFDI by Chinese enterprises has also become difficult. In view of the anti-globalization trend, the Sino-US trade, the COVID-19 pandemic, the Russia-Ukraine war, and other uncertainties, China's OFDI has faced a significant increase in uncertainty. The repeated COVID-19 outbreaks in the past three years have impacted the global economy and trade, and the reconstruction of the world economic and political pattern has made Chinese enterprises face more risks and challenges when going global. The outbreak of the Russia-Ukraine conflict has further contributed to the complicated and confusing world economic situation. The occurrence of this incident has also affected China's OFDI in many ways. As China enters the post-pandemic era, Chinese enterprises have been revitalized, and the overseas business and supply chain layout of Chinese enterprises has also been kickstarted. China's OFDI still has great potential for due to its active participation in global economic governance and cooperation. However, there are still many uncertainties in the current global macroeconomy. Therefore, it is important to better guide Chinese enterprises to "go global."

2. The development progress and problems of China's OFDI

2.1. Development status of China's OFDI

Affected by internal and external factors such as domestic investment policies and changes in the foreign investment environment, China's outward direct investment (OFDI) is developing in stages, and overall, the scale of China's outward foreign direct investment is increasing. Despite the significant decline in global OFDI due to the pandemic in 2020, China's OFDI remained resilient, and ranked first in the world for the first time. By the end of 2021, Chinese domestic investors had established a total of 46000 outward foreign direct investment enterprises, covering 190 regions worldwide. In 2022, the COVID-19 pandemic prolonged, the geopolitical tensions and the evolution of the economic pattern overlapped, and the world economy faced downward pressure. However, China effectively responded to the impact of unexpected factors [1] and achieved a total of $146.5 billion in OFDI. Foreign investment developed steadily and by the end of 2022, China's total OFDI had reached $2.94 trillion, ranking among the top three in the world for 10 consecutive years in terms of OFDI flows, as shown in **Figure 1**.

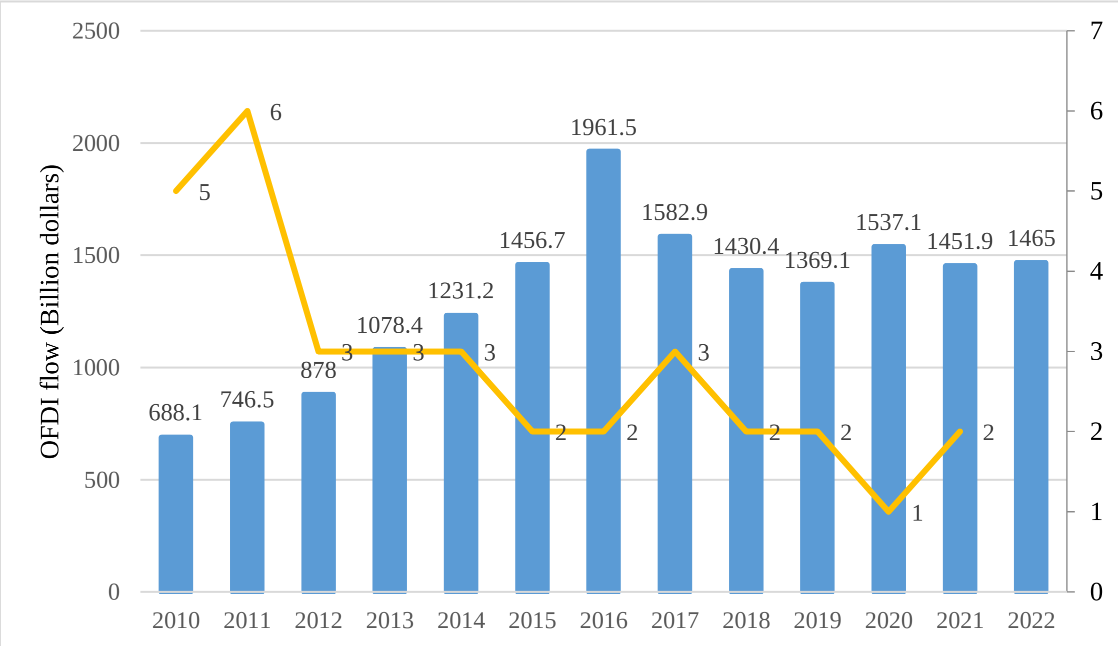

Figure 1. China's OFDI flow (US $100 million) and global ranking from 2010 to 2022. Source: Ministry of Commerce

With the promotion and implementation of the "going global" strategy, more space and opportunities have been provided for Chinese enterprises to go international. China's investment in countries along the "Silk Road Economic Belt" has also continued to grow. In 2022, Chinese enterprises will directly invest $20.97 billion in non-financial industries in countries along the "Silk Road Economic Belt." With the high growth rate of the global economy, the economy on track, and the implementation of pandemic prevention policies in various countries, enterprises are highly encouraged to "go global." In the future, there will be more opportunities for China's OFDI, and there is still room for Chinese enterprises to go international.

2.2. Problems in the OFDI of Chinese Enterprises

2.2.1. Relatively concentrated destinations for outward foreign direct investment by enterprises

With the increasingly close economic relations among countries around the world, China's outward foreign direct investment has gradually diversified and widely distributed. However, according to the statistics in the communique, there is still a high concentration of outbound investment destinations. 90% of China's outbound direct investment is distributed in developing economies. Currently, the investment regions and regions are mainly concentrated in Asia [2]. In 2021, the investment flowing to Asia was 128.1 billion US dollars, accounting for 71.6% of the current year's outbound direct investment flow, which is far higher than Europe (6.1%), Africa (2.8%), North America (3.7%), and other regions. Since the implementation of the "Silk Road Economic Belt" strategy, China's investment in countries along the "Silk Road Economic Belt" has been expanding. As a result, its foreign investment flow has increased from 12.63 billion US dollars in 2013 to 20.97 billion US dollars in 2022, as shown in **Figure 2**.

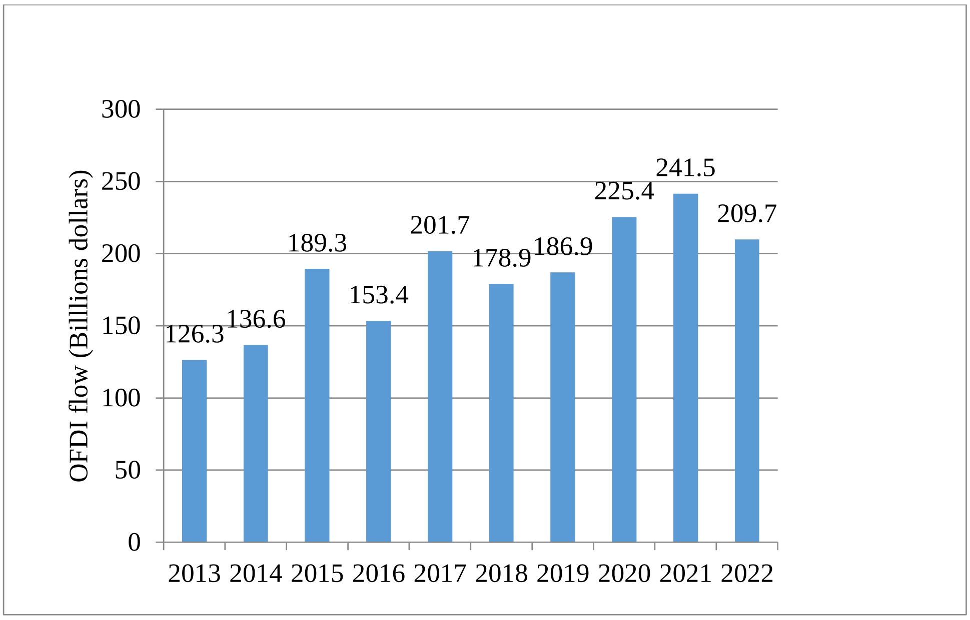

Figure 2. China's OFDI in countries along the "Silk Road Economic Belt" from 2013 to 2022. Source: Ministry of Commerce

In addition, the number of overseas enterprises set up by Chinese domestic investors in countries along "Silk Road Economic Belt" has exceeded 11000. These enterprises involve 18 industrial categories of the national economy, and the amount of OFDI also reached the highest level in eight years at 24.15 billion US dollars, accounting for 13.5% of China's OFDI flow in the same period. The high-quality development of "Silk Road Economic Belt" has allowed Chinese enterprises to invest abroad. However, in view of the uncertain global economy and political situation, the laws and policies of countries along the line have not been improved, and some enterprises lack risk awareness, which also brings great challenges and risks to foreign investment.

2.2.2. Insufficient awareness of corporate compliance risk

Compliance is a prerequisite for enterprises to "go global" and achieve stability and prosperity. Today, with increasingly stringent national regulations, more and more entrepreneurs are beginning to recognize the importance of compliance. However, overall, the compliance awareness of small and medium-sized enterprises in China is still relatively weak. Some small and medium-sized enterprises have impure motives for foreign investment and actively or unintentionally violate intellectual property rights, evade national taxes, damage the ecological environment, violate data security regulations, and engage in commercial bribery, According to the World Bank, last year, there were still more than 200 and hundreds of enterprises in China that were blacklisted, resulting in significant losses in the image of foreign investment enterprises, and seriously affecting its foreign investment activities [3].

2.2.3. Incomplete legal system for foreign investment

Although China has actively promoted the concept of "going global," relevant laws and regulations are still incomplete and backward, therefore failing to protect the rights and interests of small and medium-sized enterprises [4]. The current economic environment is complex, with low global economic recovery, frequent local conflicts and turbulence, and intensifying global problems. Chinese enterprises lack awareness towards these issues, and the national legal system is lacking, which cannot ensure the security of foreign-invested enterprises. In the future, China is likely to face more uncertain factors, causing serious negative impacts on the normal production and operation activities and asset safety of Chinese foreign-invested enterprises. Without appropriate legislative measures, these enterprises may face significant risks such as forced withdrawal from the market, asset seizure, and increased investment disputes.

2.2.4. Protectionism restricts foreign trade and investment

The uncertainty of the global economy has led to continuous changes in the economic situation and market environment of many countries, and changes in national policies are inevitable. The sudden outbreak of the COVID-19 virus has caused huge losses to the world economy and investment, and international direct investment has been greatly affected. In order to control the pandemic, many countries have implemented strict restrictive measures, including closing borders, restricting or prohibiting entry, domestic blockade, and shutdown and production suspension, which have hindered a series of links such as overseas investment investigation, negotiation, contract signing, and enterprise commencement. This directly affects the changes in China's enterprises' direct foreign policy, which has brought great challenges to the operation and management of enterprises. Many countries and regions have implemented investment restrictions or regulatory upgrades on the grounds of national security in order to protect their own markets. When conducting OFDI, Chinese enterprises need to deal with the sharp increase in risks of different political investments, and the investment behavior of multinational companies will also be subject to various constraints [5], which means that there will be more challenges in OFDI.

3. Countermeasures and suggestions for promoting OFDI by Chinese Enterprises

3.1. Attach importance to the layout of global industrial chains

Although China is currently loosening its pandemic prevention and control policies, the social impact caused by the pandemic cannot be dissipated in the short term. In view of anti-globalization trend caused by the superposition of the pandemic and trade protectionism, it will also lead to the regionalization and shortening of value chains. The global layout is a strategic way for enterprises to respond to complex changes in the world economy and the challenges of new trade protectionism [6]. Emphasizing a diversified regional layout and diversifying the location of outward foreign direct investment regions is not only conducive to diversifying investment risks, but also improving the elasticity of the supply chain industry chain, maintaining the stability of the supply chain industry, and responding to uncertain risks that may arise from time to time. In the future, the investment of Chinese enterprises should be combined with the construction of global industrial chains and supply chains led by Chinese enterprises. This not only helps China in the upgrading of the industrial chain by building its own industrial chains, which changes the status of China being at the lower and middle ends of the industrial chain, but also can promote and coordinate domestic industrial upgrading to achieve high-quality development.

3.2. Improving the strength of foreign-invested enterprises and strengthening risk prevention awareness

In order to cope with various investment risks, multinational enterprises need to cooperate with the government. Enterprises should actively develop their enterprises and strengthen their research and development capabilities. The government should continue to increase policy support for the manufacturing industry, encourage and promote enterprises to invest in overseas high-tech industries, continue to break through core technologies [7], and achieve independent development, thereby enhancing the competitiveness of enterprises and displaying advantages in foreign investment activities. As the world economy becomes increasingly sensitive and uncertain, multinational enterprises must also have a sense of crisis and innovative thinking to adapt to the overall environment. The government should strengthen supervision, guidance, and legislation; companies should effectively reduce negative impacts on their operations. Enterprises should take a proactive approach to establish a risk prevention and detection management to make predictions in advance, enhance their awareness of prevention, understand and comply with relevant international laws and regulations, comply with local regulatory requirements overseas, and supervise and manage overseas companies. In this way, the risks of non-compliance issues, such as huge government fines, factory closures, prohibition of local market access, and significant personal injuries can be preventing, thereby preventing a series of impacts such as economic losses and damage to the company's reputation [8].

3.3. Establishing and improving the legal system for foreign investment

China must establish legislation that is conducive to its foreign trade operations, establish a law that is conducive to its overseas capital protection as soon as possible, make specific regulations on its service trade taxes, export standards, foreign investment policies, and other provisions, avoid unnecessary international trade disputes, and improve the domestic financing guarantee system. Besides, enterprise oriented, clear investment goals, and reasonable guidance for enterprise trade and investment should also be established [9]. After investing in foreign-invested enterprises, the government must prioritize and protect their legitimate rights, fully understand the trade risks and preferential measures of the host country, and urge them to implement preferential policies for trade and investment on the basis of a mutual agreement. Specialized legal consulting firms for outward foreign direct investment should be set up, establishing and improving a comprehensive service system, and the public information service platform for foreign investment should be improved to aid the development of small and medium-sized enterprises. In addition, by establishing and improving the relevant foreign investment regulatory system, protecting the rights and interests of China's overseas investment projects, and reducing financing losses, it will be easier for domestic small and medium-sized enterprises to go global, thus promoting stable growth of the national economy.

3.4. Breaking through trade barriers and encouraging enterprises to go global

China has always adhered to a high level of opening-up and promoted the establishment of multilateral cooperation mechanisms. Governments should strengthen negotiations with investment and trade countries, strive to resolve differences between the two sides, and reduce the uncertainty faced by enterprises [10]. At the same time, relevant government departments should also formulate more incentives to promote foreign investment, encourage and support outstanding enterprises to "go global," continue to promote economic cooperation with countries and regions along the "Silk Road Economic Belt," speed up the improvement of the rules and mechanisms of the "Silk Road Economic Belt" initiative, fill the institutional gaps in the current "Silk Road Economic Belt" construction and regional economic cooperation [1], and drive Chinese enterprises to increase foreign investment. To achieve win-win cooperation with the host country of investment, both or more parties should achieve a two-way investment, timely convey industrial information to companies with capital and strength, and alleviate information asymmetry. Enterprises should also create information channels, understand relevant policies, seize opportunities, and seek new investment channels [11].

Disclosure statement

The authors declare no conflict of interest.

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