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PERCEIVED IMPACTS OF FOREIGN DIRECT INVESTMENT INTO CHINA

Xinru Cheng[1], Rujun Yan[2], Tianchen Shi[3], Fangyi Lai[4]

[1]Rensselaer Polytechnic Institute, USA

[2]Wesleyan University, USA

[3]Dalian No. 24, China

[4]Norfolk Collegiate, USA

ABSTRACT

Foreign direct investment (FDI) plays a major role in local, regional, and global economic development, and China is not an exception. FDI has facilitated the rise of China as a major economic power. Given this crucial role of FDI in the Chinese economy, this paper examines perceived impacts of FDI on the Chinese economy based on a survey of Chinese college students. The study examines perceived value of FDI into China, what factors are likely to promote FDI into China, and what potential risks are involved in FDI into China. Gender differences are also examined. The results show positive impacts of FDI on the Chinese economy. A business-friendly environment is the most important factor in terms of promoting FDI into China. Key risk factors include higher employee compensation, better workplace environments of foreign firms relative to local firms, and more favorable policies for foreign companies relative to local firms. The results suggest that FDI is a key element of economic growth and thus that the Chinese government should carefully consider the FDI environment to attract more FDI while minimizing economic and social risks.

Keywords: Foreign Direct Investment, Perceived Impacts, China

I. INTRODUCTION

Foreign direct investment (FDI) plays a major role in local, regional, and global economic development. FDI is typically defined as investment by a company from one country in a company in another country. FDI is distinguished from indirect investment including portfolio-based investment in equities on stock exchanges of foreign countries. That is, FDI involves investment in firm management and operations, including manufacturing and distribution, and

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therefore it involves considerable amounts of time and effort to understand and execute. As a result, FDI helps to facilitate closer relationships between companies and countries through mutual cooperation and dependence.

FDI plays a major role in China, having played a key role in the rise of China as a major economy. With China's skilled but cheap labor and vast market, companies from other countries have rushed into China's manufacturing and distribution sectors, driving up China's wages and living standards. This has made China more dependent on other countries and economics as a result.

Given the major role of by FDI in the Chinese economy, this study examines perceived impacts of FDI into China on the Chinese economy. The study conducts a survey of college students as future decision makers, who are expected to have considerable influence on China's economic decisions in the future. More specifically, the study examines perceived value of FDI into China, what factors are likely to promote FDI into China, and what potential risks are involved in FDI into China. Gender differences are also examined.

Theoretical Framework

FDI can have considerable positive impacts on the economy's specialization processes (Pelinescu & Dulescu, 2009). In transition economies, FDI can increase their exports and export capability. The economy strengthens through the development of new areas of industry and technological innovations. Here FDI can be a major driver of the modernization of manufacturing processes. In addition, FDI has a positive impact on manufacturing production. Further, China has seen major benefits from inward FDI (Pelinescu & Dulescu, 2009). In terms of inward FDI, China has led the world. China's FDI focuses on greenfield investment for economic development, and China attracts FDI from diverse countries. All these findings highlight the value of FDI.

Many factors impact investor decisions on FDI. To attract FDI, countries and companies attempt to create favorable investment environments for foreign investors (Chen, Luming & Lian, 2014). This suggests that China should promote better investment opportunities in China for foreign companies and investors. In addition, sound regulatory environments and efficient regulatory institutions can promote inward FDI, whereas difficult administrative and regulatory obstacles limit foreign investors' activities, discouraging them from entering foreign markets (Sun, 2002). This suggest that China should provide attractive regulatory environments for foreign companies. Moreover, trade, financial, and labor markets have considerable influence on FDI inflow. High tariffs and duties, foreign exchange rate variability, and high interest rates discourages foreign investors (Dutta & Roy, 2009). Therefore, the host country should promote favorable business environments for foreign companies and investors. This suggests that China should provide

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foreign firms with attractive business environments. Finally, FDI requires a skilled labor market (International Labour Office, 2011). Workers should be appropriately trained to work for foreign companies and employers since this is necessary for any foreign company to consider doing business in a new foreign market. That is, human resources represent an important decision-making factor when it comes to FDI. This suggests that China should train workers who are capable of working for foreign companies and employers.

Despite FDI's many benefits, it also involves serious risks. For example, large multinational corporations are typically more experienced and capable than their local competitors, which means they can post a serious threat to local industries (Bellak, 2004). This means local companies face risk of failing if they cannot successfully compete with foreign companies. In addition, job satisfaction plays a crucial role in employees' decisions to stay at the company or leave. Therefore, foreign companies may attract Chinese workers with higher compensation and better workplace environments, leaving local companies with fewer and less qualified workers (Al-Zoubi, 2014). This means China's best workers may prefer foreign companies for higher compensation and better workplace environments. Moreover, China has promoted inward FDI, and as a result, China has undergone major structural changes to its FDI regime in recent decades (Deloitte Touche Tohmatsu Limited, 2013). This suggests that foreign companies may influence China's policies so that they can be more favorable for them. With the rise in FDI into China, China has become more dependent on foreign companies (KMPG China, 2012). This implies that China and Chinese people may become increasingly dependent on foreign companies.

This study examines gender differences in perceived impacts on FDI into China because there are significant gender differences in perceptions toward many financial factors (Ankaya, Ucal & O'Neil, 201).

Based on the above discussion, this study examines the following research questions:

RQ1: How do Chinese college students perceive the value of FDI into China?

RQ2: Is there any gender difference in this perception?

RQ3: What factors do Chinese college students emphasize in terms of attracting FDI into China?

RQ4: Is there any gender difference in these factors?

RQ5: What risks do Chinese college students emphasize in terms of FDI into China?

RQ6: Is there any gender difference in these risks?

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II. METHODS

Participants

A total of 80 college students in China were surveyed (39 male students and 41 female students). All students were undergraduates and studying or residing in Shanghai, China.

Procedure

The questionnaire was given to the students, who were randomly selected a several major subway stations near universities in Shanghai. Twenty students refused to participate, giving a response rate of 80%. The questionnaire took about 10 minutes to complete. Standard survey techniques were used. All students were informed of the voluntary and confidential nature of the survey. The survey was administered in December 2017.

Instrumentation

One item was used to determine the gender of the participant (nominal scale). Four items were used to assess perceived impacts of FDI into China. These items were measured based on a five-point Likert-type scale ranging from “strongly disagree” (1) to “strongly agree” (5). The internal consistency and reliability of these four items were assessed using Cronbach’s α (.673), indicating sufficient internal consistency and reliability (Nunnally, 1978). Table 1 shows the four items.

Table 1: Items for perceived impacts of FDI into China

FDI strengthens China's economy.
FDI improve Chinese people’s standards of living and quality of life.
FDI strengthens the ability of domestic companies through technology transfer and other advanced business practices.
FDI motivates domestic companies to work harder to strengthen their competitiveness.

For factors that promote FDI into China, the respondents were asked to select one of the four factors that they consider to be the most important one: "China should promote investment opportunities in China," "China should provide foreign firms with favorable regulatory

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environments," "China should provide foreign firms with business-friendly environments," and "China should train more workers who can work for foreign firms."

For perceived risk factors in FDI into China, the students were asked to select one of four factors that they considered to be the most important one: "China's domestic companies will suffer from competition with foreign companies," "China's best workers will work for foreign companies for higher compensation and better workplace environments," "Foreign companies will influence China's policies to be more favorable to foreign companies," and "China will eventually become dependent on foreign companies."

Analysis

For RQ1, means and standard deviations for four items for perceived impacts of FDI into China were analyzed. For RQ2, the difference in means between the groups was examined through an independent-samples t-test. For RQ3 and RQ4, a chi-square test was conducted using four promotional factors. For RQ5 and RQ6, a chi-square test was conducted using four risk factors.

III. RESULTS

RQ1

The respondents had favorable perceptions of FDI into China. The mean is 3.46 (SD=0.78). The mean for males is 3.40 (SD=0.86), and the mean for females is 3.51 (SD=0.71). Table 2 shows the means and standard deviations for perceived impacts of FDI into China.

Table 2: Means and standard deviations for perceived impacts of FDI into China

	n	M (SD)
Male	39	3.40 (SD=0.86)
Female	41	3.51 (SD=0.71)
Overall	80	3.46 (SD=0.78)

Note. The higher the mean, the more favorable the perceived impacts.

RQ2

Males (3.40 (SD=0.86)) had a lower mean than females (3.51 (SD=0.71)). The results of the independent-samples t-test (Table 3) show no significant gender difference ($t(78)= -.580$, $p=.563$) in perceived impacts of FDI into China.

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Table 3: The independent-samples t-test for perceived impacts of FDI into China

		Levene's test of variances		t-test for equality of means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Score	Equal variance assumed	1.418	.237	-.580	78	.563	-.10225	.17617	-.45299	.24848

RQ3

As shown in Table 4, the respondents indicated business-friendly environments as the most important promoter of FDI into China, followed by favorable regulatory environments, investment opportunities, and qualified employees, in that order.

Table 4: Most important factors for attracting foreign direct investment by gender (N, %)

			Factors				
			Investment opportunities	Favorable regulatory environments	Business-friendly environments	Qualified employees	Total
Gender	male	Count	9	9	**13**	8	39

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		% within gender	23.1%	23.1%	**33.3%**	20.5%	100.0%
	female	Count	7	9	**18**	7	41
		% within gender	17.1%	22.0%	**43.9%**	17.1%	100.0%
Total		Count	16	18	**31**	15	80
		% within gender	20.0%	22.5%	**38.8%**	18.8%	100.0%

RQ4

As shown in Table 4, in terms of the most important promoters of FDI into China, females were most likely to highlight business-friendly environments (33.3%), followed by investment opportunities (23.1%), favorable regulatory environments (23.1%), and qualified employees (20.5%). Males were most likely to identify business-friendly environments (43.9%), followed by favorable regulatory environments (22.0%), investment opportunities (17.1%), and qualified employees (17.1%). The results of the chi-square test for gender differences show no significant relationship ($\chi^2(3) = 1.074$, p=.783). Cramer's V (.116) implies a weak relationship.

RQ5

As shown in Table 5, the respondents indicated higher compensation and better workplace environments of foreign firms and favorable policies for foreign companies as the most important risk factors, followed by dependence on foreign firms and weak competitiveness of domestic firms, in that order.

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Table 5: Most important risk factors by gender (N, %)

			Risks				
			Weak competitiveness of domestic firms	Higher compensation and better workplace environments of foreign firms	More favorable policies for foreign companies	Dependence on foreign firms	Total
Gender	male	Count	7	**15**	11	6	39
		% within gender	17.9%	**38.5%**	28.2%	15.4%	100.0%
	female	Count	4	12	**16**	9	41
		% within gender	9.8%	29.3%	**39.0%**	22.0%	100.0%
Total		Count	11	**27**	**27**	15	80
		% within gender	13.8%	**33.8%**	**33.8%**	18.8%	100.0%

RQ6

As shown in Table 5, for factors that attract inward FDI, females were most likely to identify favorable policies for foreign companies (39.0%), followed by higher compensation and better workplace environments for foreign firms, dependence on foreign firms, and weak

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competitiveness of domestic firms, in that order. Males were most likely to identify higher compensation and better workplace environments of foreign firms (38.5%), followed by favorable policies for foreign companies, weak competitiveness of domestic firms, and dependence on foreign firms, in that order. The results of the chi-square test for gender differences show no significant relationship ($\chi^2(3) = 2.629$, p=.452). Cramer's V (.181) implies a strong relationship.

IV. DISCUSSION

Foreign direct investment (FDI) plays a major role in local, regional, and global economic development by facilitating closer relationships between companies and countries through mutual cooperation and dependence. FDI plays a major role in China, having played a key role in the rise of China as a major economy. With China's skilled but cheap labor and vast market, companies from other countries have rushed into China's manufacturing and distribution sectors, driving up China's wages and living standards. This has made China more dependent on other countries and economics as a result. Given the major role of by FDI in the Chinese economy, this study examines perceived impacts of FDI into China on the Chinese economy. The study conducts a survey of college students as future decision makers, who are expected to have considerable influence on China's economic decisions in the future. More specifically, the study examines perceived value of FDI into China, what factors are likely to promote FDI into China, and what potential risks are involved in FDI into China. Gender differences are also examined.

The respondents had favorable perceptions of FDI into China. Females were more likely to have favorable perceptions than males. There was no significant gender difference. The respondents indicated business-friendly environments as the most important promoter of FDI into China, followed by favorable regulatory environments, investment opportunities, and qualified employees, in that order. For the most important promoters of FDI into China, females were most likely to highlight business-friendly environments, followed by investment opportunities, favorable regulatory environments, and qualified employees. Males were most likely to identify business-friendly environments, followed by favorable regulatory environments, investment opportunities, and qualified employees. The results show no significant gender difference. The respondents indicated higher compensation and better workplace environments of foreign firms and favorable policies for foreign companies as the most important risk factors, followed by dependence on foreign firms and weak competitiveness of domestic firms, in that order. For promotional factors, females were most likely to identify favorable policies for foreign companies, followed by higher compensation and better workplace environments for foreign firms, dependence on foreign firms, and weak competitiveness of domestic firms, in that order. Males were most likely to identify higher compensation and better workplace environments of

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foreign firms, followed by favorable policies for foreign companies, weak competitiveness of domestic firms, and dependence on foreign firms, in that order. The results show no significant gender differences.

These results suggest that FDI has favorable effects but that they also entail some risks. This implies that FDI is necessary economic growth and development. As such, the Chinese government should facilitate favorable FDI environments to better attract FDI while minimizing potential risks to its domestic industries and society.

This study has some limitations. The sample included only college students in one city. Future research should include a wider range of samples and other locations.

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