The motivation of multinational companies economics essay

Economic strength in the context of globalization, multinational companies is growing, more and more active in the international economic arena today, more and more influence on the world economy and the national economy. It is a product of economic globalization, the promoters of economic globalization. Transnational corporations, international investment, favorable conditions to accelerate the process of economic globalization, and to promote the development of the global economy.

Today, the foreign investment of multinational companies are increasingly expanding, with countries in the field of trade, investment, finance, production, technology, and services continue to deepen. The development of the productive forces, the deepening of the international division of labor, the internationalization of production, as well as the host country to attract foreign direct investment policy, these factors have contributed to the rapid development of foreign investment of multinational companies.

The motivation of multinational companies(Investors), can be summarized as follows.

The pursuit of high profits. Maximize profits, the most fundamental decisive motivation for multinational companies overseas investment. The pursuit of high profits is a natural attribute of capital, economic behavior is any business purpose, multinational companies are no exception. Decline when subject to the size of the market for domestic long-term profits, consumer purchasing power, future wealth growth possibilities factors, foreign investment is higher than the domestic rate of return, multinational capital flows abroad by within the investment gradually turn to foreign investment.

Multinational practice of many countries shows that the rate of return on its investment in foreign than in the country is much higher, such huge profits, the biggest motivation is driven by multinational companies foreign investment. For example, in the end of 1970s, the domestic manufacturing industry average profit margin of about 13%, the margin was 19. 2% in 1979, U. S. direct investment in developed countries, direct investment in developing countries, up to 32% profit margin. American direct investment in both developed and developing countries margin, the mid-1980s were 16. 2% and 17. 2%, 21. 3% and 13. 8% respectively in 1987, 14. 6% and 17. 2% respectively in 1989.

Access to foreign production resources, including natural and labor resources. Many businesses where limited domestic resources, foreign investment to improve production efficiency, the pursuit of greater profits, and thus take advantage of the investment in the country’s rich natural resources, such as oil, minerals and forestry, aquatic resources. In addition, many developing countries, rich labor resources and low-cost, developed by multinational foreign investment, can take full advantage of these labor resources, greatly reduce production costs and increase profits income. Such as the development and use of foreign oil, minerals and forestry, aquatic resources; seek human resources, the use of cheap labor from abroad.

Get the advanced technology and management experience in the host country. This motivated investments are mainly concentrated in the developed countries and regions of the capital-and technology-intensive industries. Between the developed capitalist countries, foreign direct investment is increasing, an important reason why countries in order to obtain each other's advanced technology and management experience, collection of the latest intelligence on foreign technology development services for the national economic construction. To apply advanced technology and management experience in the production of which can greatly improve production efficiency, improve production quality and greater competitive advantage in the international market.

Improve production efficiency. When the higher production costs than domestic enterprises in domestic, often consider to set up production plants in foreign countries through foreign investment, lower production costs and transportation costs, improve production efficiency. On the other hand, the multinationals can be obtained through the globalization of production specialization of scale. When the size of the domestic market is limited, the enterprise can be idle resources transferred to other countries, specialization higher standardized production to achieve economies of scale of production.

Opening up new markets. Occupy a certain market multinationals through foreign investment in export markets not previously host to protect and expand existing markets, new markets opened up to some extent, in local production and sales is even more favorable. By opening up new markets, multinationals can sometimes avoid some of the importing country trade barriers and trade restrictions, to avoid the high tariffs and reduce costs. Moreover, production and sales in the importing country, can better maintain the relationship between supply and protect the supply of raw materials and components as well as to adapt to local practices and business practices, and avoid a lot of unnecessary legal disputes. In addition, out of consideration of market competition with major competitors, multinational companies will actively engage in overseas investment. When a company the first foreign investment, many companies tend to actively follow up, have to maintain their relative share in the global market, and to maintain the balance of a competitive relationship.

Enhance the competitiveness of enterprises. Through foreign investment, multinational companies established trade networks in the enterprise. These networks are linked to the the multinationals system production units, and to guarantee that each specific units have priority access to resources and markets of other units within the system. The internal trade of multinational companies can reduce transaction costs, and thus be able to produce the same effect as the international trade, economies of scale.

Dispersed and risk-averse. Multinational companies in the country will inevitably face a lot of risks, the major political and economic risk. Political risks, such as the risk of political turmoil, the risk of policy changes, nationalization risk, democracy and the legal system is not perfect, etc.; economic risk of major exchange rates, changes in the interest rate risk and inflation risk. Transnational corporations on the assessment of the country's long-term profitability, the balance between the pursuit of profit, cost and risk to engage in business activities, select profit – cost – and the risk is relatively balanced free-market system, rapid inflation and political stability of the developed or developing countries, through the establishment of subsidiaries of foreign investment in the local, to diversify their investments in different countries and industries, in order to secure higher profits.

Pursuit of the preferential policies of the government of the host country. Some host countries, promulgated a series of preferential policies to accelerate economic development, the opening-up of foreign investment, such as the lowering of tariff barriers and reduce trade import restrictions, tax concessions, permits or guarantee. These preferential policies strongly attract multinational companies on their investment, reduce investment risk, reduce investment costs, high profits.

Make strategic investments. To a certain stage in the development of globalization, multinational corporations make strategic adjustments, the rational allocation of resources on a global scale, and enhance overall competitiveness. Foreign investment decisions of multinational companies, are not considered short, local interests, not one of its subsidiaries in the profit and loss and cons of a particular period or place, but the long-term best interests of the global, its affiliated organizations, departments as a whole, sometimes at the expense of the local interests of a certain area of a sector, in order to ensure the realization of the global strategic objectives and the overall interests .

Transfer of environmental pollution. Developed capitalist countries is strictly limited companies engaged in domestic production could easily lead to pollution, thus contributing to the enterprise through foreign direct investment, and the polluting industries to transfer abroad. Therefore, the proportion of high-polluting industries in the developed countries, foreign direct investment, is very high. Some developed countries many years ago began to vigorously develop the emerging high-tech, high value-added industries, while those with high energy consumption, high material consumption, high pollution, labor-intensive sunset industries to developing countries. This can take full advantage of their investment in the country's cheap labor, cheap resources of the developing countries, and cheap resource development process, but also to environmental destruction process.

The impact of ethnic and cultural ties. Some companies are influenced by internal staff, for example, when the experts and board members of the company's strong support of overseas production, foreign investment easier. For some developing countries, multinational companies, its cultural and ethnic ties to make overseas investment decisions have a major impact. By ethnic and cultural ties to promote foreign investment in the overseas Indian community and the overseas Chinese communities in Southeast Asia was particularly conspicuous. The main source of foreign-invested enterprises in India access to foreign information and contact the overseas Indian diaspora plays a very important role.

Traditional FDI theory of motivation

monopoly advantage theory

American scholar Stephen Hymer 1960 in his doctoral dissertation, " domestic enterprises in international business: foreign direct investment", the use of manufacturers monopolistic competition principle motivation of Foreign Direct Investment, " monopoly advantage theory. "

Main points: (1) market incompleteness multinational companies to the root cause of foreign direct investment and the basis of that perfect competition is not only a purely theoretical assumptions, and under perfect competition, foreign direct investment does not occur, prevalent in the reality of economic life is imperfectly competitive markets of various types, including: commodity markets are incomplete, incomplete factor markets, the market is not entirely due to economies of scale as well as due to government intervention in the market is not completely. (2) the market incomplete so that multinational companies can have a monopoly advantage, this monopoly advantage is the multinational determinants of foreign direct investment. Comment: the monopoly advantage theory is the first study independent theories of foreign direct investment, and to lay the basis of the foreign direct investment theory research to develop and enhance their monopoly advantage is a necessary prerequisite for Foreign Direct Investment. The background of monopoly theory is the study of U. S. multinationals obvious monopoly advantage, and thus do not have a monopoly advantage explain the rise of the developing countries, foreign direct investment, fatigue, and has certain limitations, can not explain enterprises to give up the monopoly advantage export and transfer of technology licenses and direct foreign direct investment

Monopoly advantage is of course an important prerequisite for enterprises to foreign direct investment, but also should recognize the the Advantage formation is a dynamic process of development, our strength can also be gradually culture through foreign direct investment and rising-monopoly advantage.

Product Life Cycle Theory

Harvard University professor Raymond Vernon, in May 1966, published in the Quarterly Journal of Economics " product cycle in international investment and national trade, product life cycle theory.

Main points: the monopoly advantage, product life cycles, as well as location factors combine dynamic adjustment of the foreign investment behavior of multinational companies: (1) the product innovation stage: innovation and multinational enterprises took the lead in the development and production of new products, as new specificity of the product has a low price elasticity of demand and high income elasticity, corporate monopoly advantage products tend to be in the domestic production; (2) mature stage: the price elasticity of demand is increasing, technology proliferation, as well as the impact of trade barriers, innovative multinational enterprises start to the sub-developed countries for foreign direct investment in local production and sales; become a major part of the cost of the product (3) product standardization phase: When the non-technical skilled labor, business competition mainly to price competition, when the corporate tendency by the international direct investment in the production transfer to developing countries with lower labor costs, exports will countercurrent phenomenon.

Product life cycle theory dynamic interpretation of the motives of developed countries, foreign direct investment, the relationship between the timing and location choice, to some extent, reflect the process of integration of the world economy, and also set forth from one side of the corporate international business motivation due to two aspects of argumentation and from inside and outside the enterprise the need for foreign direct investment. However, the theory for the final product market, explained the phenomenon of foreign investment for the resources, technology development-fatigue. And the theory is difficult to explain to non-lieu of exports increased investment and multinationals phenomenon of overseas production of non-standardized products.

Before the foreign direct investment decisions, analysis of which the product life cycle stages: First, the nature of the production technology, type, and their proliferation and metastatic analysis; Secondly, swot analysis of the product itself, determine the product competitive advantages, weaknesses, opportunities and threats; final sales of domestic product, foreign export as well as domestic and international market conditions analysis. Based on the above analysis, and ultimately determine the life cycle of the product in which the market entry decisions to guide enterprises to foreign direct investment. The transfer of the place of production of the product matured to the low prices of factors of production close to the market area. China’s home appliance, textile, machinery, electronics and other industries because of excess production capacity, product serious oversupply has entered the mature stage of the product, coupled with the international anti-dumping, the impact of trade protectionism, we can change the past simply rely on export strategy, and the production equipment and the ability of these industries to the appropriate areas transferred out, manufacturing abroad.

Internalization Theory

In 1976, the University of Reading, UK economist at Bar clays and Carson, as well as Canada economists Laghman Coase’s theory of transaction costs based on incomplete market as a starting point, internalization theory, emphasizing business monopolistic advantages remain within the enterprise, and the internal use and take advantage of the process.

Main point: the external market failure, intermediate products (in addition to the usual sense of the raw materials and parts, the more important is the proprietary technology, patents, management and sale of technology knowledge intermediate products) the price is difficult to confirm leaving trading costs are too high, in order to overcome a variety of operating obstacles, to ensure that enterprises get maximum profit, have the power to form an internalization of market, not only rational allocation between the various subsidiaries and take full advantage of the resources and products, but also can effectively prevent technology diffusion, protection of intellectual property rights of enterprises.

Internalization theory from the organization in the form of exchange between enterprises form of production analysis of the nature and origin of the multinational companies, the common explanation of the the inherent formation mechanism multinationals apply to countries with different levels of development, and transaction costs-minimization purposes, and to demonstrate the necessity and advantages of internalization. Subjective aspects of internalization theory only from multinationals to explore the international direct investment internal factors such as motivation and basic, not enough to consider the changes in the international economic environment, the international division of multinational companies, the lack of overall production, operation of the layout, and location choice understanding.

Realize the advantages of economies of scale, the expansion of the internal market. If the enterprise itself smaller, internal market, such enterprises external transaction costs will be high, so we can be strong alliance between enterprises, mergers, vertical, horizontal or vertical integration or the government to foster realize the advantages of economies of scale, expanding the internal market, increasing its internalization advantages; formation of large enterprise groups in accordance with the requirements of the modern enterprise system, to clear property rights, management, coordination, give full play to the role of the internal market. Combination of financial capital and industrial capital enhanced internal market financing capacity. Enterprises should establish its own Finance subsidiary, through the internal market flexibility shorten the time of financing, increasing the speed of financing, reduce financing costs, to expand the scale of business; corporate knowledge, technical professional with unique focus on nurturing. Strengthen the importance of technological innovation, increase investment of resources to the science and technology sector, and to strengthen the cooperation between enterprises and universities, research institutions, prompting companies to continue technological innovation, and the importance of the degree of patent protection of new technology, through the organization of the system internal integration of the knowledge of information technology products and information network, and profits for enterprises to win.

The theory of comparative advantage

The late 1970s, Japanese scholars Kiyoshi Kojima use Heckscher – Ohlin endowment differences lead to the principle of comparative advantage, combining trade and foreign direct investment, to the 1950s-70s Japanese foreign direct investment subject for examination, analyzes the trade effects of foreign direct investment, with their own distinctive theory of comparative advantage. “

The main points: (1) foreign direct investment should compare costs from investing country has been at a disadvantage or are about to lose the comparative advantage of the industry – “ marginal industry to invest in the host country has a potential comparative advantage similar industries. Between investment and trade are complementary rather than substitutes to each other, and so better able to promote the development of bilateral trade; (2) small and medium enterprises should be walking in the forefront of foreign direct investment.: With labor-intensive industries SMEs relative to large enterprises more likely to be “ marginal enterprise; marginal efficiency of SMEs and the host corresponding industrial technology gap is smaller, more suitable for local production conditions.

The theory of comparative advantage to analyze the motives of foreign direct investment from a macro perspective, groundbreaking, and made a uniform interpretation of the combination of the relationship between foreign direct investment and foreign trade. But it’s just a stage theory, can only be explained by the vertical division of labor based on investment in the economy between the developed and developing countries. The final theory of comparative advantage underestimate the ability of developing countries to accept a high-tech, think that developing countries can only accept marginal industries in developed countries, has certain limitations.

Eclectic theory of international production

The famous British multinationals expert, University of Reading, international investment and international business professor John Dunning draws monopoly advantage theory, internalization theory, combined on the basis of the doctrine of the resource endowment in the theory of international trade, a compromise method international production eclectic theory.

Main point: ownership advantages and internalization advantages is to ensure the necessary conditions for multinational international direct investment, location advantages are sufficient conditions for the international direct investment, only three kinds of advantages exist, international direct investment to be successful, these three aspects the advantages determine the motives of foreign direct investment, the investment decision-making and investment direction.

Summarize

Overall, Foreign direct investment in various investment motives can exist alone, can also coexist, which is the most basic investment motive pursuit of high profits investment motives, and other types of investment motives are derived form. In general, the overall benefits obtained by the direct investor (multinational corporations) concern is how the available resource configurations to different economies, in addition to the interest income due to the use of funds for direct investors often also get management fees and other income, these additional benefits are often associated with the long-term management of the enterprise. The multinational(Investor) foreign investment motives are varied. Resources, market, technical considerations, both seek to avoid risks, improve operational efficiency and other reasons. Diversified investment motives prompted a growing number of multinational companies in the global market with increasing depth foreign investment, not only to enhance the international competitiveness of various multinational companies, optimize the global allocation of resources, and also to promote the production international and socialization, and accelerate the process of global economic integration. Obviously, the multinational companies have become active in the international economic arena entity, is the essential driving force of the development of the global economy, and will play an increasingly large role.