

# Anheuser-busch inbev analysis



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7 The impact of foreign direct investment in China

Introduction

Foreign direct investment (hereafter referred to as FDI) has created significant impacts in China after the Opening-Reform in the late 1970s, China has been successful in attracting FDI, which has been played an crucial role in the economic development of China. China has now become the second largest foreign direct investment (FDI) beneficiary country in the world following the US. Annual FDI inflow was below \$US100 in 1979, but exceeded \$US580 billion in 2006, with an annual growth rate of close to 30%. Fung et al. 2004). This trend is expected to continue in the foreseeable future, especially given the country's entry into the WTO. Many advantages can be identified in FDI, including boost employment rate, calculate capitals and increase domestic competitive. On the other hand, there are also some drawbacks of FDI in China. This essay will start with a display of the advantages and disadvantages of investing in China, then describe benefits and drawbacks brought by FDI and finally provide several correspondence suggestions.

Advantages of investing in China 2. 1 Abundant human and energy resources China has a large population of approximately 1.3 billion indicating a huge consumption power and market. The purchasing power of Chinese people is increasing dramatically in the last decade, which means China could attract more and more FDI in the future. (Tarun, 2012). Furthermore, China has resource availability and low cost of labor force, which means investors can easily employ enough workers with a relatively low cost. The country is also rich in energy resources.

Foreign corporations could obtain a variety of resources when investing in China. China is the largest producer of coal in the world is an appropriate example for this. (Zhang, 2002 see in Tarun, 2012). Therefore, China is an excellent destination for investment. (Callaghan & Cassidy, 2003 see in Tarun, 2012). 2. 2 Development in relevant infrastructure and openness to international trade China has been striving to improve related infrastructure, which contributes to attract FDI. For example, highways, railways and interior transport waterways have adjusted according to the host province.

It is always true that the availability of physical infrastructure significantly influences the decision of investment particularly in a foreign land. Moreover, China has implemented economic reforms and Open Door policies. Meanwhile, China has put efforts in promoting trade by adopting several bilateral and unilateral trade arrangements and actions such as reducing tariff barriers. (Tarun, 2012). Disadvantages of investing in China 3. 1 Low income of people There are some disadvantages for investing in China. Firstly, the income of people is relatively low in China.

The production capacity is growing but the low per capital income may lead to periodically saturation, which makes it difficult for foreign companies to develop. (Tarun, 2012). . 3. 2 technology and unequal investment In terms of technology disparity and lack of labor qualification in some certain areas may also need to improve. Furthermore, unequal investments in different sectors are another key disadvantage in China. For example, there is saturation in traditional sectors but not many investments in chemical and automobile sectors.

There are still some barriers in the areas of administrative enforcement and non-tariff measures. Even some changes are taking place, many tasks needed to be accomplished to construct the legal system which benefits market economy. The existing legal basis, legislation procedure and operating mechanism are not fully suitable with the requirements of market economy (Rongala, 2007 see in Tarun, 2012). Benefits for FDI in China 4. 1 Economy is affected in many ways The benefits brought by FDI to China are apparent. Economy is influenced by FDI in a number of ways.

FDI involves transfer knowledge in the host country, which will create an increase on the existing stock of knowledge through labor training, the transfer of skills, and the transferring of new managerial and organizational experience. Also, it can help local corporations to access to advanced technology by capital accumulation in host countries (Mello, 1999 and Mello, 1997). Furthermore, FDI may allow China to develop in technology and knowledge which are not readily available locally, as a consequent increase productivity growth through the economy (Jose, 2003). . 2 trade expansion China's expansion in trade is accompanied by the increase of FDI and

growing trade by foreign invested enterprises. (Fung, 2002) Contribution of FDI has increased dramatically since the early 1980s, especially in the 1990s. During 1980 and 1985, trade by FDI constituted less than 0.6% of total export and 2.1% of total import. The shares went up to 7.3% and 12.8% respectively in the second half of 1980s. In the 1990s, trade by FDI accelerated and their share in China's total trade increased to 44% and 53% for the years 1996 and 2000.

The rise in FDI share in total trade indicates the growing contribution of FDI in the growth of China's trade. (Fung, 2002). Evidence of the negative effect for FDI in China

- 1 FDI threaten local enterprises and capital transfer The local firms may lose markets due to low productivity or less advanced technology because the real significant assessment of FDI may be organized on a high indispensable status for the long term national satisfaction, which involves multinational corporations (MNCs). As a result, massive amounts of people will be unemployed, which may lead to social instability. (Sarumi and Adewumi 2006) Also if proper regulation does not exist in the host country, FDI can serve as a source of capital flight from the developing countries to the developed ones. For instance, due to some specific risks in the host country (economic and political risks), there could be large flow of capital transfer from the host country to the home country if there is no legislation against such practice. This may create an adverse effect on the host economy especially if such capital is sourced for within the host country.
- 2 Unbalanced investing

The disparity of the poor and the wealth is increasing result from FDI tend to invest in coastal areas, which causes an unbalanced develop in economy

between western areas and coastal regions. 5. 3 Environmental problems Result from MNCs' higher production capacity, FDI could lead to a number of environmental problems which sometimes is not well taken care of or neglected especially in the mining sector by local government (Bora 2002 see in Sarumi and Adewumi 2006). Suggestion Given the negative side of FDI in China, government should take actions to address the problems.

Firstly, local enterprises could be protected by a heavy tax on purchasing products of foreign companies. Moreover, government should assist local firms through funding. Secondly, it is advisable to implement the strategy of encouraging FDI through the development of regional central cities in the west. Also, Special and preferential policies for the specific projects should be provided by the government in the west that conforms with the industrial development in the area. Some particular regions should possess the flexibility of making policies in accordance with the local situation.

It is important to notice that narrowing the economy gap can attract more FDI as well. Finally, appropriate law and regulations should be made or strengthened to constrain the capital transfer from host country to home nation and protect the environment. Conclusion China has made a great improvement in its reforms to open up its market for foreign direct investment. This essay describes the advantages and disadvantages of FDI in China, then analysis several benefits and negative impacts brought by FDI. Some suggestions also are provided.

Foreign direct investment is still concentrated in the southeast and the coastal areas, which should be addressed by making policies and loosening regulations in western countries. However, there are some limitations in the

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