Empirical Study on the Impact of Marketing and Trade System on Foreign Manufacturing Industry Investment

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Abstract—With the rapid development of national economy, we are constantly improving our marketing and trade system to better attract foreign investment in manufacturing industry and promote the development of manufacturing industry in China. This paper combes the relevant literature, empirically analyses the impact of marketing and trade system on foreign manufacturing industry investment, and finally draws relevant conclusions, in order to play a reference role in the formulation of policies for relevant departments in China.

Keywords—Marketing and Trade System; Foreign Investment; Manufacturing Industry

I. INTRODUCTION

With the strengthening of globalization of international economic and trade activities, trade exchanges between countries become closer. As one of the main systems of foreign exchanges, trade system and policy have an important impact on the economic activities of the country and the countries with which it carries out trade activities, and play an important role in effectively attracting international capital investment and FDI. Different countries adopt different marketing and trade policies and means because of their different institutional environments, so they have different attractions for foreign investment. As a big country in rapid development, Chinese marketing and trade system is gradually adjusted and improved, the quality of trade system is gradually improved, and the trade and investment environment for international investment and capital transfer activities is also different. In the process of perfection and optimization. In addition, Chinese political environment is stable, with abundant labor resources and the government active investment policy, as well as a series of advantages that make FDI flow into China in large quantities, changing the scale and intensity of foreign investment, and having a positive impact on foreign investment activities. Based on the previous analysis and the actual situation of Chinese trade development, this paper makes an empirical study on the impact of the trade system on foreign direct investment. Institution, as an important resource and unique advantage of host country, has a direct impact on the location choice of foreign investment and the investment field. However, it is difficult to quantify the system effectively. Using the analysis methods of relevant scholars, this paper selects five representative institutional index variables and the two variables of GDP and the distance between the two countries for empirical analysis of trade system. The impact of degree on FDI, through empirical analysis, draw relevant conclusions and suggestions, which has a positive guiding significance for China to further adjust and improve the marketing and trade system. [1]

II. LITERATURE REVIEW

Many scholars have done a lot of research in the field of institutional influence on foreign trade and investment activities. Through research, it explains why some countries can attract excellent external capital to serve their own economy, while some countries do not have foreign capital or few foreign capital to enter; and it also explains why some enterprises do not continue to invest in production in their own countries, but go abroad to invest in production and operation activities in other countries, whether the system factors are good or not. It plays an important decisive role. Aliber (1970) believes that the stability of a country’s economic operation system is an important factor affecting FDI entry; Dunning emphasizes the advantages of ownership and location, as well as the advantages of internalization, which are the three main factors of attracting FDI; North (1991) believes that the system provides an economic incentive structure for foreign investors, and that the system determines the growth and stagnation of foreign investment. Hlines (1995) and Wei (1997) added factors such as host country’s national risk and degree of corruption to the factors influencing FDI; Victor, Jeffrey and Bistra (1998) believed that host country system and related trade policies played an important role in internalization and location advantages; Dunning (1998) believed that multinational corporations played an important role in choosing investment target countries. Narula and Dun-ning (2000) believe that institution is a country’s “creative asset”, which plays a more important role in FDI than "natural asset". Alan and Klaus (2004) believe that institution is a very important regional advantage. The degree to which FDI enters the host country. With the rapid growth of Chinese FDI entry scale, some Chinese scholars have also made empirical research and Analysis on the impact of the state system on foreign investment. Yang Jian (1997) studied the important
influence of institutional factors on Chinese FDI entry and location selection. Ding Huixia and Feng Zongxian (2007) used gravity model to make empirical analysis, and studied the location advantage of Chinese institutional variables, which has an important impact on Chinese attraction of foreign investment. The impact of investment protection agreements, policies, tariff levels and government integrity on foreign investment is also analyzed. Chi Jianyu and Fang Ying (2014) studied the impact of the host country’s political, economic and legal system on the host country’s investment location choice. Some studies also show that foreign investment is also the use of the host country’s resources in different regions to interact and expand economic strength. Therefore, the host country’s trade system, which can enhance the resource capacity of foreign-funded enterprises, can attract more foreign investment. This part further illustrates the importance of Chinese trade system environment in attracting foreign investment through empirical analysis, and provides reasonable policy recommendations for Chinese trade system construction in order to better attract foreign investment.

III. ANALYSIS OF RELEVANT VARIABLES

If we want to analyze the influence of marketing and trade system on foreign direct investment in manufacturing industry, then there are many institutional factors in a country. There are many institutional factors affecting foreign investment, such as political, economic and cultural factors. As for the specific impact of trade system on foreign direct investment, we will make a concrete analysis of the institutional factors. First, we choose Chinese tariff level and foreign exchange. The impact of rate stability, intellectual property rights, government integrity and bilateral investment agreements on FDI is analyzed. Now the analysis and explanation of these index variables are given.

A. Tariff Level (TARI)

In import and export trade, if the import tariff rate of the host country is high, the cost of the investment country’s export to the host country will increase. When the tariff rate rises to a certain extent, that is, when it is too high for the exporting country to bear, the exporting country of commodities will take other measures to make the export of products avoid the tariff barriers of the host country as far as possible, so that the exporting country will choose to enter the host country market by direct investment for business activities. Therefore, we can find that when the tariff rate of the host country is very high, it will form a geographical advantage, which will promote the inflow of FDI.

B. Intellectual Property Rights (IPRI)

The system construction of the host country has a direct impact on FDI. Foreign enterprises will pay attention to whether the legal system of the investment destination country is sound, because most of the enterprises making international direct investment are transnational investments made by private enterprises, so they hope that the investment destination can effectively protect private property, including intellectual property rights in intangible assets. If the host country does not have a good system guarantee for foreign knowledge and technology products, it will greatly affect the enthusiasm of FDI entry.

C. Exchange Rate (EXRA)

Exchange rate fluctuations in host countries will affect direct investment activities. The reduction of the exchange rate of local currency, that is, the depreciation of the ratio of local currency to foreign currency, will inhibit imports and promote foreign direct investment and production in host countries. The depreciation of currency will reduce the cost of investors and increase the profits of investors, which has a positive role in attracting FDI. [2]

D. Government Integrity (ADMI)

Some scholars have found that the honesty of the host government, mainly refers to the honesty of some customs and other government departments, has a great impact on the entry of FDI, not only on the scale of foreign investment, but also on the investment model of foreign investment. When Pan Zhen (2004) studied the impact of institutional variables on Chinese FDI attraction, it empirically analyzed that FDI tended to flow into host countries or regions with a higher degree of government integrity.

E. Bilateral Investment Protection Agreement (BIPA)

Trade agreements between countries engaged in trade and investment are also an important institutional guarantee. If countries sign investment protection treaties bilaterally, they can encourage and promote direct investment activities between the two countries. These protective agreements mainly include the protection of property of foreign investors, investment insurance agreements, compensation agreements and solutions to friction. The signing of protection agreements between the two countries is beneficial to protecting the interests of investors and promoting the entry of FDI.

In addition to these five indicators, there are other indicators will also have a certain impact on foreign investment. Institutions are divided into formal and informal systems. Informal systems sometimes have an inestimable impact on foreign investment. Trade and investment in countries with different cultures need to pay more costs. Some scholars have found that the cultural distance between the investor and the host country is inversely proportional to the inflow of foreign investment. As an investor, when entering the host country, it is necessary to pay the cost of understanding consumer preferences and investigating the market, as well as the cost of establishing a cooperative relationship with local officials. Foreign businessmen need to deal with various personnel of the host country. Cultural similarities between the investor and the host country can reduce the cost expenditure of foreign-funded enterprises. For the convenience of variable acquisition and calculation, we choose the above five institutional variables for the time being. In addition, the latter model needs to increase the GDP of the two countries and the distance between the two countries. We use seven variables to make an empirical analysis of the impact of foreign investment.
IV. EMPIRICAL ANALYSIS

A country’s institutional environment has an important impact on the investment of foreign manufacturing industry, involving political, economic and cultural factors. As for the impact of trade system on foreign manufacturing investment, we make a concrete analysis of the institutional factors. First, we select Chinese tariff level (TARI), intellectual property rights (IPRI), exchange rate (EXRA), and government integrity (ADMI). And the impact of five indicators such as bilateral investment agreement (BIPA) on FDI is analyzed. For the convenience of variable acquisition and calculation, we choose the above five institutional variables for the time being. In addition, the latter model needs to increase the GDP of the two countries and the distance between the two countries. We use seven variables to make an empirical analysis of the impact of foreign investment. The gravity model is used here for empirical analysis, so this idea can be applied to the field of trade, that is, the volume of trade between the two countries is proportional to the product of economic scale, and inversely proportional to the distance between the two countries. In this paper, panel data and trade gravity model are used to empirically analyze the impact of Chinese trade system on manufacturing investment in China by major investors or regions. Relevant data during this period are from China Statistical Yearbook, referring to the data from 2000 to 2018, and calculated by WinGlobe V2.1 software as follows. The main foreign investment countries are Japan, Korea, Thailand, Philippines, Singapore, the United States and the European Union. We mainly analyze the impact of marketing and trade system on foreign manufacturing industry investment from these countries. [3]

| TABLE I. QUANTITATIVE ANALYSIS RESULTS |
|----------------------------------------|
| Model L1 | Model L2 | Model L3 | Model L4 | Model L5 | Model L6 | Model L7 |
|----------|----------|----------|----------|----------|----------|----------|
| C        | 6.18     | 6.17     | 5.73     | 5.29     | 8.65     | 6.28     |
|          | (4.52)** | (4.51)** | (2.85) * | (2.86) * * | (4.38)*** | (5.07)*** |
| LnTGDP   | 1.33     | 1.33     | 1.32     | 1.29     | 1.35     | 1.12     |
|          | (10.52)  | (9.86)***| (9.93)***| (9.82)***| (10.38)***| (9.38)***|
| LnDIST   | -1.28    | -1.27    | -1.26    | -1.26    | -1.29    | -1.28    |
|          | (-8.35)***| (-8.25)***| (-8.18)***| (-8.36)***| (-8.97)***|
| LnTARI   | 0.28     | 0.28     | 0.17     | 0.17     | 0.17     | 0.17     |
|          | (0.32)   | (0.52)   | (0.21)   | (0.21)   | (0.21)   | (0.21)   |
| LnIPRI   | 0.12     | 0.12     | 0.17     | 0.17     | 0.17     | 0.17     |
|          | (1.62) * | (1.62) * | (1.62) * | (1.62) * | (1.62) * | (1.62) * |
| LnADMI   | 0.65     | 0.65     | 0.65     | 0.65     | 0.65     | 0.65     |
|          | (0.65)   | (0.65)   | (0.65)   | (0.65)   | (0.65)   | (0.65)   |
| LnBIPA   | 2.18     | 2.18     | 2.18     | 2.18     | 2.18     | 2.18     |
|          | (7.66)***| (7.66)***| (7.66)***| (7.66)***| (7.66)***| (7.66)***|
| R2       | 0.628    | 0.628    | 0.628    | 0.628    | 0.628    | 0.628    |
|          | (0.627)  | (0.627)  | (0.627)  | (0.627)  | (0.627)  | (0.627)  |
| Adj R2   | 0.625    | 0.625    | 0.625    | 0.625    | 0.625    | 0.625    |
|          | (0.623)  | (0.623)  | (0.623)  | (0.623)  | (0.623)  | (0.623)  |
| F        | 130      | 130      | 130      | 130      | 130      | 130      |
|          | 100      | 100      | 100      | 100      | 100      | 100      |

According to the above analysis, the number in brackets is t, * is significant at the level of 10%, ** is significant at the level of 5%, and *** is significant at the level of 1%. The results from the table are analyzed, and the results from table 3-2 are analyzed. Model L1 and model L7 test the effects of Chinese total economic volume, geographical distance and main trade system variables on attracting foreign investment. The results are summarized as follows: (1) The sum of investment countries and Chinese total economic output and the distance between the two centers are significant in the statistical analysis of the measurement model. The former is positive, while the latter is negative. This shows that the larger the sum of the two countries total economic output is, the more favorable it is to attract FDI into China, and the farther the two countries are, the more unfavorable it is to attract foreign investment inflow. (2) Model L1 is the impact of policy variables on FDI, indicating that at the level of 1% it is significant. The Chinese government further strengthens preferential policies in introducing foreign investment, and the infrastructure of transportation, hydropower, communications and other infrastructure is constantly improved, and the national political and economic stability is more attractive to foreign investment. China has also carried out a series of fiscal and tax reforms, and the improvement of these systems and policies has greater attraction for foreign investors; (3) The tariff level of model L2 and the degree of intellectual property protection of model L 3 are the same as the expected symbols, and the statistical results are also significant, indicating that the
change of tariff rate has a significant impact on foreign investment, and with Chinese influence on foreign investment. Intellectual property rights protection is strengthened, foreign enterprises are more confident about the introduction of intellectual property rights and technology to obtain more profits, which is more conducive to attracting foreign investment; (4) The exchange rate of model L 4 is only significant at the level of 10%, indicating that the appreciation of RMB has a negative impact on attracting foreign investment in China. Model L5 shows that the government honesty has a certain impact on foreign investment, but it is not the main factor for foreign investment. The efficiency and administrative capacity of Chinese government for foreign service are gradually improving; (5) Model L 6’s bilateral investment protection agreement shows that the agreement signed by the investor and China plays an important role in attracting foreign investment in China. China actively improves the system construction of bilateral investment protection agreement, protects the legitimate rights and interests of foreign investors, and enhances the enthusiasm of foreign investment for China; (6) Model 7 incorporates Chinese trade system and all relevant variables, and fits them well. Better, it can explain comprehensively the influence of various marketing and trade system factors on attracting foreign manufacturing industry investment inflow. [4]

V. CONCLUSION

This paper mainly empirically analyses the influence of main marketing and trade system factors on attracting foreign manufacturing industry investment. Through the analysis of the results, we can see that the main marketing and trade systems have a very important impact on foreign investment in China. Further optimization and improvement of the system construction will attract more and more international capital and foreign enterprises to invest in China, which will further promote the development of Chinese foreign trade and actively participate in international competition and enhance Chinese overall economy. Economic strength and international influence are of great significance. Therefore, we must take further measures to continuously reform and improve the marketing and trade system, and adopt a series of effective institutional measures and preferential policies to attract more foreign investment into Chinese market. [5]

In the international environment of fierce competition in modern times, only by constantly building the marketing and trade system, can we gain a better advantage in the competition for foreign investment. We must do the following things well: First, reform the tariff system. At the high tax rate, it can play a protective role to the related industries of our country. At the same time, it can make foreign businessmen try to circumvent the switch tax barriers and increase the amount and scale of domestic investment. But with the further expansion of Chinese foreign trade, tariff reduction is the trend, which can effectively reduce trade friction, and make more foreign goods enter, and promote domestic correlation. Competition in the industry promotes the transformation and upgrading of industrial structure in the industry and further development of domestic economy and trade; secondly, the protection of intellectual property rights should be strengthened. With the deepening development of reform and opening-up, China has gradually established an intellectual property protection system, which has played a protective role in patents and technology of domestic and foreign enterprises, and promoted foreign enterprises to better introduce advanced technology and experience, which has a certain role in promoting Chinese economic development; third, adhere to the reform of exchange rate system. After the RMB exchange rate rises, the cost of foreign businessmen will increase in a certain period of time, but in the long run, foreign businessmen will gain more profits because of the appreciation of RMB, and Chinese economic growth will further attract more foreign investment inflows; fourth, continue to improve the integrity of the government. With the gradual integration of China into the global economic system, there will be more foreign investment in China. Only by improving the administrative efficiency and the level of integrity can the government provide better services for foreign-funded enterprises, thus attracting more international investment. With a clean government organization, we can create a good market economic order and make more foreign-funded enterprises willing to enter China. Enjoy the fruits of Chinese economic growth; Fifth, actively sign multilateral investment protection agreements. In the development of the world economy in the future, trade between countries is more frequent. In order to better safeguard bilateral interests, it is necessary to sign bilateral investment protection agreements, which can protect and stimulate foreign investment entering the country, and promote more foreign investment flowing into the mainland of China. Sixthly, strengthen the construction of the informal system environment. As the informal institutional environment has an important impact on the investment and operation activities of enterprises, it is necessary to strengthen the cultural exchanges between countries, familiarize each other with their respective cultural customs and market environment, use cultural customs to strengthen contacts with other countries, attract more overseas Chinese and international enterprises that recognize Chinese cultural concepts to enter the Chinese Market for investment and operation activities.

We need to further improve our Macro-Investment environment. The excellent marketing and trade system plays a great role in attracting foreign investment. The scale and quality of foreign investment are improving. The important factor is the continuous improvement of Chinese marketing and trade system. With the gradual establishment of Chinese market economic system and the improvement of the trade system, China will absorb foreign investment. With more and more foreign investment entering the Chinese market, China will surely become a hot destination for foreign-funded enterprises to invest and enter.

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