The Light Assets Trend of Multinational Corporation OFDI and Its Enlightenment to China

Hongbing You*, Ran Jie
School of Economics and Management Nanjing University of Science and Technology China

*Corresponding author: hongbingyou@njust.edu.cn

Abstract. The asset-lighting of foreign direct investment is a new phenomenon in the development of multinational corporations. There are four major characteristics: the increase of non-equity investment, the low proportion of fixed capital, the high proportion of investment in the service industry, and the decline of productive investment. Although the current global foreign direct investment has been a decline for four consecutive years, but due to the impact of COVID-19, the trend of traditional international investment patterns has further emerged. The overseas investment of multinational companies has entered a new stage, which is mainly affected by the strengthening of restrictions on foreign investment by various countries, the digitization of global value chains, and the further decline of manufacturing. Facing the continuous decline in global foreign direct investment and the new trend of asset-light assets of multinational OFDI, China needs to embrace the digital transformation and shift its focus from a traditional investment model to a digital investment model. In the process of foreign investment, we should combine the differentiation of non-equity models to expand overseas markets, build a regional industrial chain, promote regional production specialization and industrial diversification, and use new methods to solve new problems of anti-globalization.

Keywords: light assets, transnational corporation, Foreign direct investment.

1. Introduction
In 2016, global foreign direct investment (OFDI) reached US$1.81 trillion, but it declined in the next three years, falling to US$1.54 trillion at the end of 2019. Affected by COVID-19, UNCTAD predicts that the flow of global foreign direct investment in 2020 will be less than US$1 trillion, a year-on-year decrease of about 40%. The epidemic promotes the transformation of the international production structure, which in turn makes multinational companies OFDI present an asset-light investment model, which is manifested in the outsourcing of non-core production links by multinational companies, the miniaturization of fixed asset investment, and the larger proportion of the service industry. Non-equity investment methods are widespread, substantive and productive investment is reduced, etc. In this context, China's foreign direct investment faces challenges and also has new opportunities. Such as the recovery investment after the epidemic, the establishment of regional value chains and the entry of new markets through digital investment. However, to seize these opportunities, it is necessary to
improve and improve policies to promote foreign investment. Following China's "Going Global" strategy in 1999, China has joined the ranks of OFDI. Especially after its accession to the WTO in 2001, foreign direct investment by enterprises has developed rapidly. In 2019, China's OFDI reached US$117.12 billion, which is the first time that the Chinese government released OFDI statistics. The data is 41 times the US$2.85 billion in 2003, with an average annual growth rate of about 28%. General Secretary Xi Jinping proposed that "China's door to opening up will not be closed, but will only open wider!" It is foreseeable that China will continue to promote the healthy and orderly development of foreign investment and cooperation. Therefore, it is not only meaningful to strengthen research on the issue of multinational OFDI asset-light Significant and very necessary.

2. Characteristics of Transnational Corporation's Foreign Investment to Be Asset-light
The asset-light investment of OFDI by multinational companies is mainly manifested in the following four characteristics.

2.1. Non-equity investment methods are becoming more common
Corporate OFDI can be divided into two types: non-equity and equity [1]. Non-equity investments mainly include service outsourcing, contract manufacturing, franchising, management contracts, order farming, licensing operations and other types of contractual relationships. Compared with equity investments, this funding method requires less resources and knowledge, and can better avoid political risks, but it also gives up part of the expected returns. The equity model requires investors to invest cash, tangible assets and/or intangible assets in order to set up joint ventures or wholly-owned subsidiaries overseas, which requires a large amount of resource investment and requires more risk than non-equity. You can also reap higher expected benefits.

One of the important characteristics of the asset-light investment of multinational companies is that in the process of international expansion, they began to choose more non-equity investment. In the context of the division of labor in the global value chain, multinational companies no longer stick to equity investment methods to build their international production networks, but tend to choose non-equity methods to build global networks with host country enterprises. Because they are not familiar with the business environment in overseas markets, compared with host country enterprises, multinational companies have to bear higher additional costs (Zaheer, 1995) [2]. In addition, although the WTO advocates investment liberalization, the host country government's restrictions on access to certain industries and the host country's nationalist tendencies will still increase the investment costs of multinational companies (Nachum, 2003) [3]. In particular, in some sensitive areas such as agriculture and high-tech industry research and development, multinational companies are more inclined to choose non-equity models with less resource input, such as establishing agency relationships with local companies.

According to the data released by the United Nations Trade and Development Organization (WIR 2020: International Production in the Epidemic), from 2015 to 2019, the annual sales of overseas branches of global multinational companies have reached nearly 8 trillion US dollars, which involves non-equity investment methods. Border transactions accounted for about 2/5. Non-equity investment, as a contract investment, obtains certain management control rights of the enterprise by signing an agreement with the host country enterprise. This investment method does not change the original ownership structure between enterprises, so it has gradually become an important way for enterprises to avoid investment protectionism and geopolitical risks, and has become an important way for Western multinational companies to enter the global market. The growing importance of non-equity models such as the trend of asset-light operations and international operations (including international licensing trade) has made fixed asset investment no longer a driving force for external asset growth. From 2008 to 2019, the growth of fixed assets relative to sales is in line with the trend of the S&P 500's asset-to-sales ratio.
2.2. Investment model Low fixed capital, high liquidity

Asset-light investment is also manifested in the fact that the asset allocation of multinational companies has begun to change. Some capital belonging to fixed assets flows to intangible assets and current assets, which means that the source of value of enterprises is undergoing structural changes. With the vigorous development of digital trade and digital economy worldwide, production factors have become more diversified. The White Paper on China's Digital Economy Development (2017) clearly stated that data has become a new key production factor. In this context, the importance of traditional production factors represented by labor and land is gradually decreasing.

Data released by the WTO in 2018 show that intangible assets have significantly increased the proportion of total foreign investment in the past few decades, and have gradually replaced fixed asset investment as the main driving force for the growth of foreign investment [4]. The investment model of traditional multinational companies (represented by market-seeking OFDI and efficiency-seeking OFDI) is characterized by "three highs and one low", that is, high capital, high fixed costs, high liabilities, and low liquidity. The asset-light model is just the opposite, which is mainly manifested in low overseas capital expenditures, high current costs, low debt and high liquidity. From 2008 to 2020, the average market value of emerging large-scale technology companies (such as Apple Inc, SAMSUNG, Google Inc, etc.) is about three times that of other multinational companies. Investigating the reasons, it is not difficult to find that the huge value of intangible assets has become the key reason for the high market value of these companies, such as intellectual property rights and advanced technology. The main difference between large technology multinational companies and other ordinary multinational companies is the ratio of intangible assets to the book value of assets: the proportion of the two in technology companies is almost the same, while the intangible assets of ordinary companies are far from the book value of total assets. Less than half. Furthermore, compared with ordinary companies, the proportion of cash and quasi-cash in technology companies is relatively high. The proportion of cash and quasi-cash of these companies is approximately 28% of the book value of their total assets, which is more than three times that of other multinational companies [5]. The asset structure of emerging information technology multinational companies (ICTs for short) has a profound impact on their international production models, further rewriting the traditional investment model [6]. The proportion of fixed assets used by technology-based multinationals to occupy overseas markets is relatively low. On the contrary, their use of emerging technologies has gradually increased the proportion of intangible assets and service value. Make investment present a low fixed capital, high liquidity investment model. In today's international investment, intangible assets have undoubtedly become an important source of corporate value-added.

2.3. The proportion of the service industry in the global OFDI increases

From an industry perspective, the characteristics of multinational companies' investment in asset-light investments are also reflected in the increasing proportion of OFDI in the service industry in the world. In 2018, the global M&A value of the service industry increased by more than one-third compared with 2017, reaching US$469 billion. The main driving factor is the growth of mergers and acquisitions in the financial industry, which is as high as 108 billion US dollars, accounting for more than a quarter. According to a report issued by the United Nations Trade and Development Organization in 2020, the proportion of manufacturing companies in the world's top 100 multinational companies has continued to decline, while the proportion of service companies has risen to nearly 35%. On the other hand, among the top 100 companies in the world, multinational companies in the tertiary industry have increased their internationalization index relatively faster than those in the primary and secondary industries.

Compared with the traditional greenfield and M&A investment methods of manufacturing companies, the commission-based production service investment is lower and the risk is lower, so it is more flexible in the production management process. In today's world OFDI stock, OFDI in the service industry accounts for a relatively high proportion, and with the continuous development of the digital industry, its proportion will rise faster. It is worth mentioning that the foreign investment of
some manufacturing multinational companies in the service sector is also included in the foreign investment of the service industry, but this shows the trend of manufacturing servitization from another aspect.

2.4. Substantial and productive investment is relatively reduced
The capitalization of investment is also manifested as a reduction in the scale of productive investment. With the rapid development of the digital market, multinational online e-commerce companies such as EBAY and Amazon no longer need to sell products and services through market-seeking OFDI like traditional multinational companies. Instead, they set up representative offices in host countries to save costs and The need for business expansion is balanced. In other words, some multinational companies can enter foreign markets with fewer assets and overseas employees. Especially in countries/regions with smaller market scales, the return on asset-light entry model is higher.

At present, despite the continuous emergence of anti-globalization in the United States and other places, the trend of economic globalization will not only not decline, but will continue to strengthen, and the global value chain will continue to develop informatization and digitalization. The digital economy attempts to develop overseas investment business by establishing a global business network, and establish a new coordination management mechanism in it. This innovative development led by the digital economy has had a great impact on the traditional resource-seeking and efficiency-seeking OFDI [7]. The importance of knowledge and technology-oriented OFDI has been strengthened, but compared with traditional foreign investment, these investments involve relatively less physical and productive investment.

![Figure 1](image.png)

**Figure 1.** The internationalization trend of the top 100 global multinational companies from 2008 to 2018

Source: Data compiled from the UNCTAD World Investment Report 2020

As shown in Figure 1, overseas production and operation of multinational companies tend to have low overseas assets, low overseas employment, and high overseas sales. The digitalization of multinational companies is driving a new round of global value chain reconstruction. The value chain transfer including divestiture, transfer of traditional business, etc. also includes the update and upgrade of core business. This has also promoted the development of cross-border mergers and acquisitions at a certain level. For example, reverse mergers have begun to become the main reason for global OFDI flows.

3. Analysis on the Reasons of Multinational Corporation OFDI's Capitalization
Everything has a cause. In recent years, the asset-lightization of OFDI by multinational companies is no exception, and there are many reasons.
3.1. Rising political risks in international investment
Political factors mainly include the stability of the host country's regime, the attitude of foreign investors, and the convenience of investment. Potential political risks will have a negative impact on investor behavior. Before multinational companies conduct OFDI, the investigation of the political environment is one of the important considerations [8]. In order to ensure the legality of overseas investment, the process must comply with the host country's policy [9]. Higher political risks will make companies adopt overseas investment arrangements with low equity ratios, and this negative correlation has also been empirically tested [10, 11].

Today, some developed countries are increasingly enthusiastic about trade protectionism and geopolitical struggles. The United Kingdom, the United States, India and other countries have set off a wave of anti-globalization, which has increased the risk and uncertainty of global investment. For example, in the first half of 2018, the United States provoked economic and trade frictions with China, which disrupted the original global value chain distribution. The Indian App ban caused Bytedance and Tencent and other Chinese companies to close their data centers in India, causing losses of more than US$6 billion. For another example, Brexit and the tax reform in the United States have reduced the stock and flow of overseas investment by many domestic companies. The UNCTAD's annual global investment report shows that in recent years, the number of restrictive policy measures affecting foreign investment has approached the highest level in history.

The influence of various political factors finally caused economic repercussions. At present, against the background of increasing uncertainty in investment policies of various countries, risk aversion in multinational companies is on the rise. Multinational companies are unwilling to invest a lot of resources in direct investment, especially when facing huge political risks, they will inevitably look for more flexible investment models to avoid greater losses, and the probability of companies choosing non-equity investment increases. For example, if it is a non-equity model, the relevant parties need to pay benefits before profits are generated. Compared with direct investment, such a model can be quickly withdrawn when the environment deteriorates, and the business and political risks involved are lower. The prosperity of non-equity investment is an important reason for the light assets of international investment.

3.2. Global value chain is shifting from physical to digital
The new industrial revolution is having a wide-ranging impact on international production and global value chains. The use of digital technologies such as advanced robotics, 3D printing, big data, and the Internet of Things is changing manufacturing processes, related services and business models, and also affecting multinational companies’ The overall production and business process.

High-tech multinational companies can still maintain a rapid growth momentum despite the global OFDI downturn. In the field of international economy, the rapid prosperity of information technology multinational companies has become an important trend in the development of global multinational companies [12]. Foreign direct investment by high-tech multinational companies in technology research and development activities has grown steadily. The number of greenfield investment projects related to R&D is huge and growing. From 2014 to 2018, a total of 5,300 R&D projects were announced, accounting for about 6% of all investment projects, an increase from the 4000 projects in the previous five years.
Figure 2. ICT companies and high-tech companies among the top 100 global multinational companies

Source: Data compiled from the UNCTAD "Trade and Development Report 2020"

Judging from the ranking of the top 100 global multinational companies published by the United Nations Trade and Development Organization, the number of ICT and high-tech companies rose from 13 to 27 in the years 2010 to 2018, and their share of assets and revenue has also become multiple growth. It has doubled in recent years, from 11% to 27%. Market value accounts for one-fifth of the top 100 companies. The assets of high-tech multinational companies are growing at an average annual rate of about 10%, while traditional multinational industrial companies are gradually withdrawing from the top 100 arena. The revenue and employee growth of high-tech multinational companies are also higher than that of traditional multinational companies. International mergers and acquisitions in the field of information technology are also accelerating. The digital economy is changing the global investment model. One of its important manifestations is the continuous growth of investment related to the digital economy. For example, the value of mergers and acquisitions in the artificial intelligence industry in 2017 was 26 times that of 2015. According to the "Global Industry Outlook GIV2025" data, the scale of the digital economy will reach US$23 trillion in 2025, accounting for about 24% of global GDP, and the scale of ICT (information and communication technology) investment will also be 6.7 of the scale of non-ICT investment. Times. Some links in the global value chain may transform from physical to digital. It shows that the value-added distribution between production factors has gradually shifted to intangible capital rather than fixed capital, the importance of production, processing and sales technology has risen, and the importance of labor costs as determinants of investment location has declined, resulting in a decrease in international investment in productive investment.

3.3. Long-term manufacturing decline and shift to selling services

The decline of the manufacturing industry is reflected in two aspects. The first is the decline in the number of top industrial multinational companies, and the second is the reorganization of production activities by some traditional manufacturing companies into production services. For customers, the purchase of fixed assets has become a purchase of services. Therefore, the proportion of service links in the value chain of manufacturing multinational companies continues to expand, while the intensity of overseas capital investment declines.

Since 2010, among the top 100 global multinational companies announced by the United Nations Trade and Development Organization, the number of non-automotive industry multinational companies has dropped by half, from 20 to 10. The decline in the number of top industrial multinationals is partly due to the impact of technology and digital companies. In addition, driven by the downsizing of industrial groups, layoffs by industrial multinational companies have become a major trend [13]. For example, General Electric of the United States has been at the top of the list for many years, but at the end of 2018 it carried out a series of divestments totaling more than 120 billion
U.S. dollars, which ultimately reduced the company's operating department from more than 10 departments to 2 departments: aviation and electricity. As shown in Figure 3, from a long-term perspective, greenfield investment in the entire manufacturing industry is declining.

Figure 3. Departmental distribution of the top 100 global multinational companies

Source: Data compiled from the UNCTAD World Investment Report 2020

In order to cope with the new challenges brought by digitalization and the new industrial revolution, traditional manufacturing companies divide their global value chain into many links. Most top industrial multinational companies are also carrying out restructuring plans, and non-core links are through agreement production and agreement research and development. Outsourcing in other ways to focus on its core business; this will also cause some of the company's production activities to become commission-based production services. At the same time, in the process of overseas expansion of multinational companies, the importance of intellectual property has become increasingly prominent. More and more manufacturing multinational companies are gradually changing their business models to strengthen the protection of intellectual property rights, from simply selling equipment to charging based on the frequency of equipment use. The increasing proportion of service links in the value chain of manufacturing multinational companies has also led to a decline in the intensity of overseas capital investment.

4. The Enlightenment of Transnational Corporations' Light Assets to Chinese Enterprises' Foreign Direct Investment

Stones from other hills, can learn. Following China's "Going Global" strategy in 1999, my country's "Twelfth Five-Year Plan Outline" put forward the concept of "gradual development of my country's large multinational companies", and the party's "19th National Congress Report" further pointed out that "innovative foreign investment methods". The asset-light trend of Western multinational companies' overseas investment undoubtedly affects the development of global OFDI, and it is also inspiring for China. In a nutshell, it mainly includes:

4.1. Flexible use of non-equity model, differentiated expansion of overseas markets

For Chinese SMEs whose resources are very scarce, non-equity business model as an investment method can lower the barriers for them to enter the international market, thereby obtaining more development opportunities at a lower cost. This is a multinational enterprise. An important means to understand the host country's international business environment, on this basis, it is also possible to seek further development space and feasibility. Adopting a flexible non-equity business model can not only obtain relevant resources from the host country, but also a non-equity business model that does not hold shares of local enterprises is more acceptable to the host country government. In addition, this business model has relatively low requirements for the host country's infrastructure, and it also
provides many small and medium-sized enterprises in my country with access to the international market.

For some large companies, non-equity business models have low investment risks and stable returns, which can be used as an important part of corporate portfolio investment. In this investment method, investors only need to perform contractual obligations to obtain income, without consuming manpower and material resources to directly participate in the production and operation of the cooperative enterprise. Chinese manufacturing companies may consider establishing service outsourcing relationships with multinational companies in the world. While establishing a stable outsourcing reputation, it also enhances the brand value of Chinese companies. The non-equity business model has enriched the strategy of companies' multinational operations, making it no longer limited to equity investments such as wholly-owned joint ventures. By combining equity and non-equity business models, Chinese companies can exert more of their own advantages in the international market.

4.2. Actively respond to digital transformation and improve digital investment capabilities

The report of the 19th National Congress of the Communist Party of China clearly proposed to build a "digital China" and promote the deep integration of the Internet, big data, artificial intelligence and the real economy. In the face of international investment determinants and the "dual transformation" of investment models, the investment benefits obtained in the digital economy have become more obvious. Western multinational companies with advanced Internet technology have listed digital asset-light investment models as their first choice for expanding overseas markets. For enterprises in developing countries/regions, they will also face new challenges and opportunities. China improve the ability to invest in the digital economy, and embed local enterprises and small and medium-sized enterprises into the global value chain through digital investment.

In the era of digital economy transformation, relying on infrastructure construction to export international investment is still feasible in developing countries; but the opportunity to export to developed countries is relatively small, so it is extremely important to choose differentiated competitive advantages. Establish and improve the cross-border investment mechanism for manufacturing and service industries, encourage domestic industrial enterprises and global Internet companies to cooperate on high-tech projects through the formulation of incentives and subsidies policies, and support manufacturing enterprises in areas such as smart cars, smart home appliances, and smart robots Carry out cross-field technical research, cultivate a group of digital enterprises with strong investment output capabilities, and realize efficient docking between domestic value chains and global value chains. Improve the quality of outbound investment, improve the structure of outbound investment, accelerate the shift from point-type and decentralized investment to chain-type and cluster-type investment, focus on building an integrated production system, and improve the ability to allocate and control resources on a global scale. Competitiveness in the global market.

4.3. Promote the regionalization of the industrial chain and insist on mutual benefit

Constructing a regional industrial chain can shorten the distance, reduce the impact of the environment on the long-distance transportation of goods, but also break the dependence on developed markets, capital and technology, and provide opportunities for structural transformation and value chain upgrades, and promote the specialization of production within the region And industrial diversification. But building a regional industrial chain requires favorable systemic conditions and inter-regional coordination. Therefore, at the strategic level, the state should focus on promoting overseas investment in infrastructure that promotes the interconnection of surrounding infrastructure. The connectivity of infrastructure investment is the key to promoting cooperation with enterprises in developing countries/regions and the regionalization of the industrial chain.

In the negotiation process of international investment agreements, China should actively promote the development of G20 and other multilateral mechanisms, lead investment regulations in the field of information technology in the digital transformation, and support UNCTAD to promote the global governance of the international investment and financing system. Use the "Belt and Road" initiative
and the China-Africa cooperation mechanism to innovate international investment methods and realize the organic integration and benign interaction of trade and investment. Conform to the trend of digitalization, help countries along the "Belt and Road" to build Internet infrastructure, expand effective investment, tap investment potential, and improve the investment environment of the host country. It is also possible to open up new markets in ASEAN developing economies through investment, and at the same time provide a new cooperative financing model for small, medium and micro enterprises in the host country to ease their financial pressure. Signing agreements to strengthen trade and investment liberalization and facilitation, strengthening infrastructure investment, will help develop high-quality cooperative relations, promote the process of economic integration in the Asia-Pacific region, and promote an open, inclusive, balanced, inclusive, and win-win new model Global cooperation plays an active role.

Acknowledgments
About the author: Hongbing You (1967 -), male, professor and doctor of School of economics and management, Nanjing University of Science and Technology, mainly engaged in international trade research.

[Fund Project: This paper is supported by the key project of philosophy and social sciences of Jiangsu Provincial Department of education, "Research on cooperation ideas and Countermeasures of Jiangsu Province to expand international production capacity (2017zdixm089)"

References
[1] Tan B,Erramilli K, Liang T W. The Influence of Dissemination Risks, Strategic Control and Global Management Skills on Firms' Modal Decision in Host Countries [J]. International Business Review, 2001, 10(03): 323-340.
[2] ZAHEER S. 1995. Overcoming the liability of foreignness [J]. Academy of Management Journal, 38(2): 341-363.
[3] NACHUM L. 2003. Liability of foreignness in global competition? Financial service affiliates in the city of London [J]. Strategic Management Journal, 24 (12): 1187 -1208.
[4] UNCTAD, World Investment Report 2017, http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf.
[5] Zhan Xiaoning, Ouyang Yongfu. The new trend of global investment in the digital economy and China's new strategy of using foreign capital [J]. Management World, 2018, 34(03): 78-86.
[6] Tian Zhen, Ge Shunqi. Digital economy and investment policies in the context of global value chains [J]. International Economic Cooperation, 2017(06): 13-17.
[7] Zhang Xinhong. Digital Economy and China's Development [J]. Electronic Government Affairs, 2016(11): 2-11.
[8] Philip R Cateora, John L Graham Itwin. Business & Economics [M]. McGraw-hill, 1999, 721 pages
[9] Keegan, J K & Schlegelmilch, BB. Global marketing management-A European Perspective [M]. Ashford: Colour press Ltd, Gosport, 2001.
[10] Luo, Y. Toward a cooperative view of MNC-host government relations: Building blocks and performance implications [J]. Journal of International Business Studies, 2001(3): 401-419.
[11] Pak, Y S and Y R Park. Global Ownership Strategy of Japanese Multinational Enterprises: A test of Internalization Theory [J]. Management International Review, 2004(1): 3-21
[12] Li Zhongmin, Zhou Weijing, Tian Zhongta. Digital trade: development trend, influence and countermeasures [J]. International Economic Review, 2014, 36 (6): 131-144+8.
[13] UNCTAD, World Investment Report 2018, http://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.