

## New Trend of Transnational Corporations Development in China and Countermeasures

### NOUVELLE TENDANCE DU DEVELOPPEMENT DE LA CORPORATION DES TRANSNATIONALES EN CHINE ET LES CONTRE-MESURES

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#### Abstract

Since the 1990 of 20th Century, the world famous multinational corporations have entered in China, they have brought to much-needed capital, technology and advanced management methods through large-scale, systematic investment in China, to accelerate economic growth and promote China's economic reform and transformation of management mechanism of State-owned enterprises have made important contributions. With the deepening of China's opening up as well as the arrival of the new round of economic growth, China enterprises and multinational corporations has entered a new phase of cooperation, in this context, multinational corporation's investment strategy toward China has some new changes. This article do some exploration on the new trend of multinational investment, on the evolution of China investment strategy and China's countermeasures.

**Key words:** Transnational corporations; Investments in China; Monopoly; Innovation

#### Résumé

Depuis les années 1990 du 20ème siècle, les célèbres sociétés multinationales ont conclu en Chine, ils ont mis au grand besoin des méthodes de gestion du capital, la technologie et de pointe grâce à grande échelle, d'investissement systématique en Chine, à accélérer la croissance économique et de promouvoir la Chine la réforme économique et la transformation du mécanisme de gestion des entreprises d'État ont apporté des contributions importantes. Avec l'approfondissement de la Chine l'ouverture ainsi que l'arrivée de la nouvelle série de la croissance économique, la Chine et les entreprises multinationales est entré dans une nouvelle phase de

coopération, dans ce contexte, la stratégie d'investissement multinationale envers la Chine a quelques nouvelles modifications. Cet article faire un peu de l'exploration sur la nouvelle tendance des investissements des multinationales, sur l'évolution de la stratégie d'investissement en Chine et contre la Chine.

**Mots clés:** Les Entreprises transnationales; Les investissements dans la Chine; Monopoly; Innovation

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## 1. THE NEW TREND OF TRANSNATIONAL CORPORATIONS DEVELOPMENT IN CHINA

### 1.1 Transnational Corporations Enhanced to Control of Enterprises in China through Various Path and Ways

#### 1.1.1 Enterprises Organization of Sole Proprietorship

When multinational companies earlier access to the Chinese market, restrictions by market conditions and policy, the organization mode focus on joint ventures. As China's foreign policy more open, multinationals' investment in China began trend of sole proprietorship in the late 20th century. According to statistics indicated, there are newly foreign-funded enterprises in China 9,602 in 1997, over joint-venture project (9,001); in 1998, billion foreign-owned enterprises investments US \$ 21.8 in China, exceed the amount of joint ventures (\$ 17.3 billion); in 2000, in the actual use of foreign capital in China, foreign-owned US \$ 19.3 billion, also exceeds the amount of joint venture (US \$ 14.3 billion).

### **1.1.2 Integration of the Branches or Subsidiaries in China**

Multinational companies set up a number of branches or subsidiaries in the Chinese market, in order to increase their competitive advantage in the Chinese market, multinational companies adjusted branch institutions at three levels: (1) established the China headquarters of multinational companies; (2) establishment of multinational operations center in China; (3) achieve to enterprise management integration in China. For example, Nokia will merge its four joint venture companies in China --- Beijing Shouxin Nokia Mobile Telecommunications Co., Ltd., Beijing Nokia HangXing Communication Systems Co., Ltd., Dongguan Nokia Mobile Phones Ltd., and Nokia (Suzhou) Telecommunications Co., Ltd. to form a foreign-invested limited company. Meanwhile, from January 1, 2004, Nokia China formed a new organizational structure under the direct administration of the area of the Nokia headquarters, reporting directly to the Finnish headquarter

### **1.2 Multi-National Companies Accelerate the Development of Frontier and Industry**

#### **1.2.1 Purchase of State-owned Shares**

One way is that Multi-national companies mergers and acquisitions of Chinese companies through the acquisition of the B-share, and became shareholders of state-owned enterprises. For example, U.S. Ford Motor Company acquisition of 80% of the shares of Jiangling Motors Corporation B shares for \$ 40 million, and to become the largest shareholder of Jiangling Motors. Another way is that through acquisitions to achieve the enterprise expansion. Emerson, Philips of internationally renowned companies have shares or mergers and acquisitions, inroads into China.

#### **1.2.2 Co-operation with Chinese Enterprises to Enter the New Open Market**

With China's accession to the WTO commitments to be honored, multinational companies gradually enter the Chinese service industry: the financial area including banking, insurance and securities; the circulation area including industry wholesale, retail, foreign trade, logistics, telecommunications services area including value-added telecommunication and basic telecommunications; professional consulting industry including legal, accounting, management, public relations and other services.

### **1.3 Multinational Companies Strengthen Localized Investment in China**

#### **1.3.1 Promote the Production Localization**

Such as Shanghai General Motors Corporation based on the Chinese traffic, quality of gasoline and consumer habits, carried out more than 100 local design to the original model, use of experimental vehicles completed a few thousands of kilometers of testing across the country,

based on the collected information to make a lot of improvements on the original design.

#### **1.3.2 Further Achievement Staff and Management Localization**

First, senior manager of localization. a very important strategy of multinational companies is to reuse the Chinese talents, especially those studying abroad with a Chinese background. At present, replace expatriates by Chinese managers to control the Chinese market, has become a general trend of the structural change of the executives of multinational enterprises in China. Second, the general management and staff of localization. Such as Nokia has 5,000 staff in China, local staff accounted for more than 90 percent, the company's management level are served by the Chinese from the CEO to the Regional Manager. The third is the management philosophy of Chinese. To the Management status of China's telecom industry, Nokia established E-MBA program with Peking University corporation, strengthen the training of employees and customers, the goals is to help students to better face today's China Telecom industrial management challenges by world-class management education.

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## **2. THE AFFECT OF THE MULTINATIONAL CORPORATIONS INVEST DEVELOPMENT TREND TO CHINA'S ECONOMY**

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### **2.1 Degree of Market Competition Intensified and Enhanced the Degree of Monopoly**

Multinational companies in the high-profit investment destination drive, squeezing the Chinese market space for industry of automobiles, machinery, electronics, retail, pharmaceutical, chemical , further exacerbating the degree of domestic market competition, competition will inevitably lead to monopoly. In the Chinese market, multinational corporations show the monopolistic tendencies in many ways.

First of all, strengthen the industry monopoly. In some important industries, multinational companies successfully defeated some of the major Chinese competitors, significantly increased market share, even completely dominate the market. For example, foreign investment enterprises accounted 100 percent in the car manufacturing industry, foreign investment enterprises accounted 99% in the soft drink manufacturing industry. Secondly, the growing trend of brand monopoly. In the mode of joint ventures, the original brand of China almost all replaced by multinational brands. Now and in the future for a long period of time, multinational brands monopolistic tendencies will continue to grow in the Chinese market, one reason is that policy allow multinational companies to purchase state-owned shares ways to participate in the reform of state-owned enterprises, it gives the monopoly of multinational brand new opportunities; another reason

is that confined to theoretically discussed “accelerating training and develop own brand” in China now, there are also the lag even if immediately put into practice. Third, technology monopolies continue to strengthen. transnational corporations control of its technology of subsidiary through to trade within enterprise, and control technology constitute of joint venture in China through directly imported equipment and brand production, these reflects the technical monopolistic tendencies of multinational companies in China.

## **2.2 Exacerbate Economic Imbalances to Develop and Strengthen China’s Economic Development Dependent on Foreign Capital**

First, transnational corporations use the government’s preferential policies, concentrated into high-profit industries, which will further increase uneven development of local enterprises and multinational corporations. Second, multinational companies investment in high-profit industry and economies of scale area, will also exacerbate the uneven development of Chinese industry. Third, multinational companies enhanced investments in the economically developed regions, will promote local businesses of investment follow-up strategies, thus further increasing the imbalance development of the economic of eastern and western of China.

Multinational market dominance and brand monopoly deepened the China market preferences and dependence for their products, especially the monopoly of multinational companies through monopoly of the core technology and industry standards, so that they are in the top of the whole industry chain, while domestic manufacturer at the lower of the industrial chain, only obtain assembly fees and processing fees rely on the extremely cheap labor.

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## **3.COUNTERMEASURES OF CHINA FACE TO NEW TRENDS OF MULTINATIONAL INVESTMENT DEVELOPMENT**

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### **3.1 To Break The Monopoly Of Multinational Companies In The Chinese Market**

#### **3.1.1 For Trend of Multinational Companies Monopoly Strengthening in China, to Develop Anti-Monopoly Law, Supervision and Management of Multinational Companies of Monopoly Position**

Target of anti-monopoly law is that the regulation of a variety of monopolistic behavior to impede fair competition, such as limiting to the monopoly enterprise to monopoly pricing strategy.

#### **3.1.2 Breakthrough Transnational Corporations Technology Monopoly in the Chinese Market through a Variety of Path**

At present, is that through technological innovation

and technology transfer, speeding up cultivation and development of independent brands, mastering industry initiative to reduce or get rid of technology dependence on transnational corporations.

First, establishing industrial development objective of the own brand. Many of China’s core technologies are in the hands of transnational corporations. Now monopolistic trend of computers, communication equipment, pharmaceutical, petrochemical, power generation equipment, automotive, and other high-tech industries grows, this is the the precursor of loss of technological progress power. Second, effectively play the most basic functions of Government, incentive enterprises ‘technological innovation. Government should increase research development spending ratio in GDP and investment to research foundational technology and major common technology; implementation industry promote policy, promotion technology development of foundational industry; strengthening intellectual property protection, provides effective protection for inventions; motivate enterprise of technology innovation desire, make Chinese local enterprise to become market main-body of create independent brand.

### **3.2 Encourages Foreign Investment in High-Tech Industries**

After China accessed to WTO, tariff became the only legitimate means of control. Flexible use of tariff policy in China, so that it works with industrial policy and investment policy. Therefore should be gradually adjusting the industrial structure and taxation policy in China, development of appropriate technical standards, guide multinational investment to industry area, such as agriculture, high-tech industries, infrastructure construction and environmental protection, further optimizing the industrial structure of foreign investment, creating more financing channels for its investment in high-tech industries. In addition, should be actively developing supporting industries to multinational chain and extension of technology import, driving some important auxiliary industry development, to help accelerate the optimization and upgrading of industrial structure in China.

### **3.3 Guiding Implementation Strategic Cooperation of Transnational Corporations and China’s Long-Term**

In terms of guiding multinational cooperation, regulating the behavior of multinational corporations. Initiative to attract multinational companies for strategic cooperation with China to promote China’s economic long-term sustainable development. Now, RD sites of transnational corporations highly concentrated in the coastal provinces and cities in China, meet with foreign direct investment in China, height match with the technological level and the economic strength of the coastal provinces and cities.

Midwest RD bodies will be established by transnational corporations, Chinese government can provide more favorable treatment, for example tax breaks, and so on. In addition, should give full play driving and radiation effects to State-level economic and technological development and demonstration of high-tech development zone of the Western region, promote the exchange of work between the East-Western development zone, helping the Western region to improve the investment environment.

### 3.4 Improving Investment Environment, Increase the Protection Intensity of Intellectual Property

After joining the WTO, China's preferential policies to attract investment from multinational corporations in the past will gradually be abolished, foreign capital "super national treatment" will change, transition from preferential policies to improve the investment environment, focus on competitiveness as a long-term goals to improve the investment environment, follow the world trend of the development of the investment environment, in accordance international business rules to develop the high standards of the practice. While to increased construction area of traffic, and communications, and power; on the also to seriously research WTO of about rules, amendment and perfect about economic legal and regulations, keep unity of foreign economic legal regulations and policy measures, improved foreign investment approval and management system, simplified approval program, as soon as possible introduced new industry policy of foreign investment, established legal system with transparent, and unified, and equity, steadily promoting trade and investment of liberalization.

### 3.5 Exploration and Transnational Mergers and Acquisitions, Attracting Foreign Investments in Reforming State-Owned Enterprises

Since the 90's of the last century, wholly-owned multinational companies tend to adopt ways to enter in China, this is mainly due to the progressive realization of unification of the internal and foreign policies, market environment more and more better, foreign joint venture is not necessary to adapt to Chinese market environment. Mergers and acquisitions have access advantages, that are enter to markets faster, can be merged together into channels, customer network, market of be acquirers, it has become a popular way of investment. China can also be actively explored transnational merger and acquisition to attract transnational corporations investment through

acquisitions and mergers to reorganize and transform of State-owned enterprises. With the present situation of China's State-owned enterprises, improve the law of multinational merger and acquisition of State-owned enterprises. Improvement in various forms of cooperation of State-owned enterprises and transnational corporations. Chinese government should be to introduce laws and policies related to mergers and acquisitions, specifically regulating the behavior of multinational merger and acquisition in China.

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