

The Impact of the Degree of Enterprise Internationalization on International Direct Investment

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Abstract

With the deepening of economic globalization and the interweaving of anti-globalization thoughts, international direct investment (FDI), as the core way for Chinese enterprises to participate in global competition and allocate resources, has become increasingly important, its scale and quality are deeply influenced by the internationalization ability of enterprises. This paper focuses on the interaction between the degree of enterprise internationalization and international direct investment, and draws relevant conclusions and policy recommendations through the analysis of the relevant theories and mechanisms of enterprise internationalization and international direct investment. The study finds that the degree of internationalization of enterprises has a positive impact on foreign direct investment, and enterprises formulate FDI strategies according to their own internationalization stages.

Keywords

Degree of Internationalization; International Direct Investment; Positive Impact on FDI Strategy.

1. Introduction

In the context of globalization, the degree of internationalization of Chinese Enterprises has become an important part of their strategic development^[1]. With the rapid growth of China's economy and the fierce competition in the global market, many Chinese enterprises are actively expanding outward, aiming to gain broader market share and resources. Through cross-border mergers and acquisitions, Greenfield Investment, strategic cooperation and alliances, in-depth participation in global resource allocation, the internationalization of key elements such as technology, Brand and management, and this behavior will also bring the development and growth of international direct investment^[2]. With the deepening and improvement of the degree of internationalization of enterprises, Chinese enterprises can contact a broader market and more abundant resources, accelerate technological innovation and industrial upgrading, and enhance their position in the global value chain^[3], thus promote international capital flows, and then promote the development of international direct investment. With the continuous development of the global economy, more and more enterprises are implementing the "Going out" strategy, which is no longer limited to the domestic market, so the internationalization strategy of enterprises can be smoothly implemented and flourished, with the improvement of the degree of internationalization of enterprises, the development of international direct investment will be better and better^[4].

2. Related Theory and Mechanism Analysis

2.1. Transaction Cost Theory

Proposed by Coase (R. H. , 1937), a list of Nobel laureates in economics, aims to explain the nature of the firm. The phenomenon of specialization arises because of the division of labor among firms and the operation of the market price mechanism in the economic system.

However, the cost of using the market price mechanism is relatively high, and the firm mechanism is formed, it is an organization formed by human beings in pursuit of economic efficiency. In the transaction cost theory, the specific investment in the transaction is also an important situational factor that affects the bilateral relationship of the transaction^[5], and the cooperation based on trust-building of relationship-specific investment can effectively reduce the information asymmetry, to avoid opportunism and increase the possibility of enterprises' international direct investment^[6].

2.2. Resource-based Theory

Wernerfelt's "Resource-based theory of the firm" means the birth of resource-based theory. Resource-based theory holds that various resources have a variety of uses, among which money is the most important^[7]. The business decision of an enterprise is to specify the specific use of various resources, and once the decision is implemented, it can not be restored. Therefore, at any point in time, the enterprise will have the resource reserve based on the previous resource allocation. This resource reserve will limit and affect the next decision-making of the enterprise, that is, the resource development process tends to reduce firm flexibility^[8]. In recent years, scholars have begun to pay attention to the dynamic evolution process of resources^[9], exploring how resources evolve over time and how this evolution affects the competitive advantage of enterprises, since then, the resource-based theory has been applied to different industries and fields^[10]. With the further development of globalization and international direct investment^[11], resource-based theory is constantly absorbing new elements and methods to adapt to the complex and changing market environment, it provides a new perspective and method for the theory and practice of emerging areas such as internationalization and globalization of enterprises and international direct investment.

3. The Influence Mechanism of Enterprise Internationalization Degree on International Direct Investment

Expanding the scale of foreign direct investment: an increase in the degree of internationalization of enterprises usually leads to an increase in the scale and frequency of FDI. When a company is highly internationalized (e.g. , with global production networks and transcontinental R & D centers) , it will accumulate a large amount of overseas market data, capital and management experience, fDI would be much larger (building overseas factories, acquiring local champions) and more frequent.

3.1. Entry Modes that Affect Foreign Direct Investment: Entry Modes

When the enterprise is in the low degree of internationalization, due to the lack of overseas business experience, tend to low control, low-risk model, such as joint ventures with local enterprises or franchising. When the enterprise is in a high degree of internationalization, due to the ability to independently manage overseas operations, it is more inclined to the high control mode, such as sole proprietorships (control of core technology and strategic decisions) or cross-border mergers and acquisitions (quick access to local brands, channels). Foreign direct investment is an important means for enterprises to obtain external resources. Since China's accession to the WTO in 2001, with the improvement of the degree of internationalization of Chinese Enterprises, the amount of foreign direct investment has also shown a rising trend. Kolstad & Wiig (2012) found that with the acceleration of Chinese Enterprises' internationalization, state-owned enterprises are more inclined to acquire resources and expand markets through mergers and acquisitions, while private enterprises are gradually inclined to greenfield investment, especially in developed markets^[12]. Luo & Tung (2007) argue that Chinese enterprises enhance their technological capabilities, brand influence and market competitiveness through foreign investment, especially in the face of international

challenges, to improve the degree of internationalization of enterprises^[13]. At the same time, domestic academic research on foreign direct investment of enterprises shows that the degree of patent going abroad and internationalization of enterprises can promote their foreign direct investment from the perspective of technology and competitiveness^[14].

3.2. Analysis of the Impact of Enterprise Internationalization on Foreign Direct Investment

At present, the economic development of our country is facing realistic challenges such as weak domestic effective demand, structural overcapacity and multiple uncertain factors. As the key support of constructing the new development pattern of "Double circulation", international direct investment plays an irreplaceable role in connecting domestic and international markets and optimizing the allocation of domestic and international resources^[15]. According to the statistics of the Ministry of Commerce, in 2023, China's foreign direct investment flow reached 177.29 billion dollars, ranking the world's top three for 12 consecutive years, indicating that our country has become one of the largest foreign investment countries. However, in the context of the profound adjustment of the global pattern, the foreign investment environment has become increasingly complex: a series of sanctions triggered by geopolitical crises such as the conflict between Russia and Ukraine and the situation in the Middle East^[16], it has further exacerbated the turmoil in the global food and energy markets and pushed up the production costs of overseas business entities. In the post-epidemic era^[17], the trend of trade and investment protectionism has returned, some developed countries strengthen the investment review mechanism, raise the barriers to foreign access, significantly increased the institutional costs of our enterprises to open up overseas markets. In this case, how to improve the performance of foreign direct investment has become a realistic proposition to be solved, and the degree of internationalization of enterprises is a very important factor affecting international direct investment. Therefore, for the improvement of international direct investment, the degree of internationalization of its enterprises needs to focus on and investigate. International direct investment is crucial for emerging economy enterprises to form sustainable competitive advantage and obtain good performance. Internationalization is an important way for emerging economy enterprises to seek learning opportunities and improve their international competitiveness^[18]. At the same time, when the degree of home market competition has a positive moderating effect on the degree of internationalization of enterprises, that is, when enterprises are in a state of high-intensity market competition, the promotion effect of internationalization on local search and cross-border search will be significantly enhanced, the intensity of Industrial R & D and the degree of industrial competition affect the decision-making of enterprises' foreign investment^[19], and then affect the strategic layout of the development of international direct investment. Under the dual challenges of the accelerated reconstruction of the global industrial chain and the continuous strengthening of technical barriers, Chinese enterprises urgently need to cultivate new international competitive advantages with new quality productivity as the core through international business strategy, improving the degree of internationalization of enterprises can promote the development of international direct investment, so that enterprises can improve the level of international direct investment while strengthening themselves. The internationalization of enterprises can bring enterprises advantages such as economies of scale, market diversification and resource acquisition, so as to improve enterprise performance and promote international direct investment. At the same time, enterprises should regularly evaluate the process of internationalization, continuously review the internationalization strategy of enterprises and make necessary strategic adjustments to ensure that enterprises can respond to changes in the external environment in a timely manner and avoid information overload. Through this dynamic management process, enterprises can ensure that their international business

strategy matches their long-term objectives and resource capabilities, thus promoting the development of FDI.

4. Conclusion

Based on the analysis of the degree of Enterprise Internationalization and international direct investment, this paper draws the following conclusions: There is a significant positive correlation between the degree of enterprise internationalization and international direct investment. The increase in the degree of internationalization of enterprises can promote the expansion of the scale and frequency of FDI, while changing the location scope and strategic logic of FDI, the evolution from "Proximity test" to "Global layout" also determines that the entry mode of international direct investment can choose an optimal solution so as to effectively improve the progress of international direct investment. Further analysis reveals that the degree of enterprise internationalization will also deepen the development process of FDI. This paper provides a strong theoretical support for the study of the degree of enterprise internationalization, and points out that the degree of enterprise internationalization has a positive impact on the development of foreign direct investment, at the same time, it also points out the direction for the development of enterprise internationalization and international direct investment. In the process of international direct investment, Chinese Enterprises should formulate corresponding international direct investment strategies according to their own strength, current development situation and the degree of internationalization of enterprises, investment should be targeted. Because the enterprise's internationalization degree is different, must carry on the international direct investment according to own strength. For firms with low degree of internationalization, it is necessary to find out the information of overseas market, such as the policies, cultural customs and competition pattern of the target country, so as to reduce the cost of FDI exploration caused by information asymmetry. At the same time, relevant financial institutions and banks will expand the coverage of export credit insurance, give premium subsidies to enterprises' initial overseas locations, and simplify the foreign exchange settlement process to support the cross-border flow of small-scale FDI. In the current international environment, trade protectionism and investment review have exacerbated the "Institutional costs" of enterprise internationalization, which requires relevant policies to escort the international direct investment of enterprises through multilateral coordination, we need to accelerate the signing of high-level investment treaties with countries along the belt and road and RCEP members, with emphasis on mutual recognition of negative lists and simplification of investment dispute settlement mechanisms, lower barriers to market access in these regions. At the same time, it actively participates in the international economic and trade rules system such as CPTPP and DEPA, promotes our enterprises to be familiar with and adapt to the high standard international investment rules, and clears the obstacles for the highly internationalized enterprises to enter the mature markets such as Europe and the United States. We should also establish a linkage mechanism to deal with investment barriers. In view of the abuse of "National Security Review" by developed countries to restrict mergers and acquisitions by our enterprises, through bilateral consultations, reciprocal measures to protect the interests of enterprises such as semiconductor, new energy and other key areas of FDI to provide legal support. The interaction between the degree of internationalization of enterprises and FDI is essentially a dynamic matching process of strength, resources and environment. Enterprises need to accurately locate the target of FDI based on their degree of internationalization, to promote the development of the scale and quality of FDI.

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