Research on the Rise and Development of Sino-Foreign Joint Ventures in China

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Abstract: This study firstly introduces the reemergence of Sino-foreign joint ventures in China. Then analyzes the joint point of Chinese enterprises and foreign multinationals under different strategic objectives: Sino-foreign joint venture. Nowadays, the balance model of joint ventures has changed greatly, while the target areas and geographical distribution of foreign investment have also changed. In order to ensure sustainable economic development, the adjustment of the state's policy on Sino-foreign joint ventures is always very important.

1. Introduction

The first Sino-foreign joint venture appeared in 1955. After then, although China has established some joint ventures with the Soviet Union and other countries.These enterprises have not had a significant impact on China's economic development. Since 1978, China has carried out the policy of reform and opening up, attracted a lot of foreign investment, and started the great turning point of China's economic development. However, Chinese enterprises has its own consideration, while the foreign multinationals also have their own business objectives. The inevitability of history makes then finally find a balance between its economic development strategy and the development strategy of multinational enterprises: Sino-foreign joint ventures, which are jointly invested and operated by Chinese enterprises and foreign investors. In the more than ten years after 1978, Sino-foreign joint ventures developed rapidly in China on a large scale, which had a profound impact on China's society, economy, culture, technology and etc.

2. The Rise of Sino-Foreign Joint Ventures in China

The first Sino-foreign joint venture is Chinese Polish Ship-broker Co. Ltd, founded in 1951. After that, in the early 1950s, China and the Soviet Union established a number of state-owned joint stock companies controlled by these two countries. But not long after that, the Soviet government transferred all these enterprises to the Chinese government. Then, in the 1960s to 1970s, China established several joint venture shipping companies with Albania, Poland and Tanzania. However, these joint ventures have little impact on China's economic development. Sino-foreign joint ventures have sprung up again after China's economic reform and opening up in 1978. In 1983, there were more than 100 Sino foreign joint ventures in China, and in 1988, the number exceeds ten thousand. By the end of 1987, China had established 174,014 Sino-foreign joint ventures with a total foreign investment of US $110.37 billion (Table 1)[1].

Table 1 the Development Of Sino-Foreign Joint Ventures in China (1979-1997)

Year	Sino-foreign joint ventures	Cumulative investment in trauma (USD 100 million)	Year	Sino-foreign joint ventures	Cumulative investment in trauma (USD 100 million)
1979	10	0.14	1989	13859	74.68
1980	34	0.90	1990	17950	93.54
1981	63	1.16	1991	26345	116.53
1982	83	1.40	1992	60699	177.68
1983	190	3.29	1993	114702	331.16
1984	931	5.84	1994	129326	510.49
1985	4004	11.66	1995	142171	710.27
1986	4896	19.70	1996	143091	908.82

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1987	6291	34.56	1997	174014	1103.77
1988	10200	54.31			

3. The Goal and Strategic Choice of Chinese Enterprises and Foreign Multinationals under the Interdependent Global Economic Pattern

3.1 Objectives and Strategies of Chinese Enterprises

Under the interdependent global economic pattern, Chinese enterprises have their own goals and strategies. In terms of objectives, Chinese enterprises need a lot of capital, including foreign investment. At the same time, they need advanced production technology to improve their production capacity. Moreover, they also need to achieve risk diversification in areas of great risk. China's reform and opening-up policy ensures that domestic enterprises are likely to find a reasonable business model and achieve their own goals. Under the policy of reform and opening up, there are various modes of international cooperation in China's production, including compensation trade, processing with supplied materials, product assembly and license production. Of course, the fastest-growing mode of cooperation is the way of joint ventures. There is another popular way: franchising. By franchising, such as the operation of various famous brand products or services, such as IBM computer sales agent, canning system of Coca Cola, McDonald's, Holiday Inn and etc. However, because franchisees only pay some franchises to franchisees, it is not within the scope of joint investment and joint participation in production and operation by Chinese and foreign enterprises discussed here[2].

3.2 Objectives and Strategies of Foreign Multinationals

Since the first year of China's reform and opening up, foreign investors have been looking for the best investment methods in China. In terms of objectives, the primary goal of multinational enterprises is profit, including short-term profit and long-term profit. Second, the market, multinational enterprises have been looking for larger market all the time. Third, resources, including human resources and other resources. Finally, for finding risk-taking partners. Despite their strong strength, multinational enterprises still want to find some partners and share the risk efficiently, especially in some large-scale investment projects with high risk. In general, there are five ways to enter a new market: agency, direct export, contract production and license production, joint venture and direct investment. In turn, the way of agency has the lowest profitability with the lowest risk; the way of direct investment has the highest profitability with the highest risk. Although there are many ways to invest in the international market, the mode of joint venture is still the most popular one in China[3].

3.3 The Common Choice of Chinese Enterprises and Foreign Multinationals: Sino- Foreign Joint Ventures

In the process of China's economic development, Sino-foreign joint ventures play a significant role in several aspects. First of all, like other developing countries, capital is the primary issue. In the process of establishing Sino foreign joint ventures, foreign enterprises naturally need to invest in joint ventures.In this sense, the joint venture's approach is to rearrange, which is an effective foreign exchange acquisition mechanism. Secondly, Sino-foreign joint ventures have promoted the development of science and technology in China to a certain extent. In the process of establishing a Sino- foreign joint venture, the foreign investors will continuously introduce or adopt new technologies to improve the product quality and functional capacity of these enterprises. This is undoubtedly conducive to the improvement of China's overall productivity. Third, Sino-foreign joint ventures can reduce the cost of marketing in different markets. Generally speaking, all parties in a Sino-foreign joint venture will share the brand advantages and use the existing product distribution network together. In fact, most products sold in the international market need to use the distribution channels established by multinational enterprises. Fourth, Sino foreign joint ventures can provide employment opportunities. Because of its large population, employment has always been a problem that can not be ignored in China. Sino foreign joint ventures can solve the employment problem for some people, especially high-quality talents. With China's accession to the WTO (World Trade Organization) in 2001, it has brought more international cooperation as well as more employment opportunities. In addition, Sino foreign joint ventures can help investors share the possible operational risks. Historically, joint ventures have been seen as a mechanism to spread risk. Especially for those low value-added products and raw materials mining projects with large investment, such as highway construction or coal and offshore oil mining,which general enterprises are not willing to bear the project risk alone[4]. From the perspective of mutual benefit, the establishment of a Chinese foreign joint venture is a valuable choice. Generally speaking, Chinese enterprises need investment and advanced technology, while foreign multinationals need cheap labor resources, raw materials and new markets. This shows that these multinationals and Chinese enterprises are likely to find an ideal combination point to realize their respective target interests. However, there is another view that “at the beginning of a joint venture, one party has capital and the other has technology. After that, the two locations will be changed to the former with technology and the latter with money. “

The situation is that multinational enterprises, with both capital and technology, are obviously more confident. It is of great significance for multinational enterprises to establish the mode of production of Sino-foreign joint ventures in the following aspects. First of all, multinational enterprises attach great importance to the aggravation of trade barriers. Tariffs, import quotas and foreign exchange controls have blocked foreign markets. China once imposed 40% - 200% import tax on dozens of imported products in 1985. However, in the past decade, China has been constantly reducing and adjusting the tax rates of many imported products. In terms of tariffs, China will be more attractive to multinational enterprises in the future. Secondly, multinational enterprises have excess production capacity in many durable consumer goods and need to find a way out. Looking for investment opportunities overseas has long been a common practice of multinational enterprises. For example, enterprises in the United States and Japan have invested heavily in Brazil, Mexico, Malaysia, Singapore, the Philippines, Thailand, South Korea, Hong Kong, Taiwan and other countries and regions[5].

However, Chinese enterprises attach great importance to technology transfer and independent production capacity. Therefore, for multinational enterprises, the way of assembly and processing with supplied materials is not as realistic as that of joint ventures. Third, higher investment income and lower tax rate. Since the beginning of reform and opening up, China has provided many preferential conditions for joint ventures in terms of tax revenue, which has played an important role in attracting foreign investment. Fourth, patent considerations. Patent laws in some countries restrict the use of patent areas, which can be eliminated by the production of e-joint ventures. Fifth, risk transfer. Many high-risk investments can spread some risks by increasing investment partners. This is one of the reasons why Chinese enterprises and multinational enterprises like to establish Sino-foreign joint ventures. From the distribution of the number of three foreign-funded enterprises established in China and the actual utilization of foreign capital by these enterprises, we can also see the attraction and solid foundation of this mode of operation of Sino-foreign joint ventures. As of the end of 1996, the number of Sino-foreign joint ventures accounted for 61.34% of the total number of China's three foreign-funded enterprises, and the actual amount of foreign capital used by Sino-foreign joint ventures accounted for 52.96% of the total amount of foreign capital actually used by all three foreign-funded enterprises, with obvious advantages (Table 2)[6].

Table 2 a Brief Account of the Number of Chinese Funded Enterprises and the Amount of Foreign Investment Actually Used in 1979-1996

Type of enterprise	Number of projects	Proportion (%)	Agreed foreign investment (USD 100 million)	Proportion (%)	Actually utilized foreign capital (US $100 million)	Proportion (%)
Sino foreign joint venture	174014	61.34	2174.42	46.72	907.26	52.96

Sino foreign cooperation	41992	14.80	1101.60	23.67	380.34	22.20
Trauma sole proprietorship	67677	23.86	1378.58	29.62	425.51	24.84

4. The Present Situation and Prospect of the Development of Sino-Foreign Joint Ventures

4.1 Significant Changes in Balanced Joint Venture Model

In the early stage of the development of Sino-foreign joint ventures, in order to compete for the control of the enterprises, many joint ventures with equal or roughly equal investment amount were formed. In 1866, a survey of 281 Sino-foreign joint ventures showed that 56.2% of the enterprises invested 50:50, 49:51 or 51:49. However, there are too many studies in the world that show that joint ventures are the most unstable if all parties invest equally. The responsibility, authority and other aspects of investors in such enterprises are the most loose. But in 1955, relevant reports showed that only about one third of the enterprises invested equally or almost equally, such as Sino-foreign joint ventures among the top 100 enterprises in China's electronic industry. However, while the stability of enterprises has been strengthened, there is a problem that cannot be ignored, that is, the expansion of foreign control over enterprises, which will obviously have a subtle negative impact on China's economic autonomy. The data shows that Sony, Toshiba and SamSung of Japan all have absolute advantages in controlling the joint ventures approved in 1990s. Obviously, people should pay enough attention to the strategic adjustment of multinational enterprises[7].

4.2 Changes in the Target Areas and Geographical Distribution of Foreign Investment

In the early 1980s, foreign investment used by Sino-foreign joint ventures was mainly distributed in the fields of offshore oil, mining, machinery manufacturing and highways. At that time, China's largest Sino-foreign joint venture was Antaibao coal mine in Pingshuo County, Shanxi Province with American Western oil companies, which surprised the world with an investment of US $6.5 million[8]. By the 1990s, the focus of foreign investment had shifted to high-tech fields. During this period, cooperation in high-tech fields between China and foreign countries increased. For example, Great Wall Computer Group Co., Ltd. and BIM Co., Ltd. of the United States jointly invested $10 million to establish Shenzhen Great Wall International Information Products Co., Ltd. and Sichuan Leshan Radio Co., Ltd., which Motorola Co., Ltd. participated in, invested $27.8 million. Obviously, the investment scale of these enterprises has greatly exceeded that of the large-scale Sino foreign joint ventures in China in the 1980s. In addition, the geographical distribution of foreign investment has also changed. In the past, foreign investment was mainly distributed in coastal open areas, and now many of them have turned to the mainland. This phenomenon clearly shows the extension of China's economic development[9].

4.3 Create Equal Competition Environment through Policy Adjustment

When the form of international joint venture has not been widely accepted by Chinese and foreign enterprises, the state has formulated a series of laws and regulations to encourage foreign investors to invest in China, so that China can obtain a large amount of foreign investment in a short time and promote China's economic development. Since April 1, 1996, the state has adjusted the tax relief policy for foreign-invested enterprises to ensure that domestic enterprises compete with foreign-invested enterprises in an equal environment. In fact, after the development of Sino-foreign joint ventures for more than ten years, some preferential policies are no longer the decisive factor for the development of the enterprises due to the strength of the enterprises. From January 1, 2020, according to the latest "China's foreign investment law", the company type of Sino-foreign cooperative enterprises will be abolished and incorporated into foreign-invested enterprises. The existing Sino- foreign joint venture companies will be changed into new enterprise types within the five-year transitional period. Perhaps at this time, for China, how to create an equal competitive environment between state-owned enterprises and foreign-funded enterprises is the most important[10].

5. Conclusion

With the deepening of economic globalization, the cooperation between Chinese and foreign enterprises will be more and more frequent. How to achieve a win-win situation under the legal premise and build a global supply chain system is the problem we need to face now.

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