Foreign Influence and China's Export

Study of the effect of foreign direct investment on China's share of global export

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Abstract

This paper looks at the idea of foreign influence and how they affect China's export in the overall. The work chooses to focus on inflow of foreign direct investment (FDI) to China and China's share of global export (SGE) over the period in view. Making use of existing secondary data, the work adopts the Ex Post Facto research design. Using 21 years' data from year 1997 to 2017 of FDI & SGE, which were apprised, composed and analyzed for this work. The work used correlation analysis in testing the two hypotheses for this study at a significance level of 0.05 (95%), for the two-tailed test. Findings of this paper reveal that generated p-value for the result (0.000) is less than the level of significant (0.05), implying there is significant positive relationship between FDI & SGE. The Pearson correlation result suggests that there is a high positive relationship between foreign direct investment (FDI) to China and China's share of global export (SGE) (r = 0.997). This simply implies that there is 99.7% relationship between China Share of Global export (SGE) and foreign direct investment (FDI) to China. This relationship is statistically significant since the generated p-value for the result (0.000) is less than the level of significant (0.05) used for the study. The study recommends amongst others that countries that want to increase their export ratio should not depend solely on their internal or local capacity and capabilities to produce but look to other countries where they can investors to aid their manufacturing sector for onward export.

Keywords: *China, Export, Foreign Direct Investment (FDI), Share of Global Export (SGE)*

Paper Type: *Research Paper*

INTRODUCTION

Few years ago products from china were generally seen as inferior or imitation goods by consumers all over the world. Here in Nigeria, Chinese products, especially phones, personal computers (PC), etc. were generally referred to as "chinco products", meaning imitation or fake products that were only meant for the poor in the society. So whenever anyone who is averagely rich goes to purchase such stuff from the market or store, the question 'hope is not china' is always asked. All those notions have changed today because both the poor and the rich now buy made in China products without feeling inferior. This change

in the notion about Chinese products came as a result of tremendous upgrade in quality/standard of made in China products.
According to Robert & Zhi (2010), "Made in China" is one of the most common labels one encounters in a shopping mall in the United States and Europe. Increasingly, many products that are supposed to be technically sophisticated and therefore likely to be associated with exports from high- income countries, such as digital cameras and computers, also carry that label. Since the most salient characteristic of the factor endowment in China is a vast supply of unskilled labor relative to either physical or human capital, is the country's actual export structure inconsistent with the predictions from the international trade theory based on its endowment?
A possible resolution to the puzzle is that China is simply the last section of a long global production chain that ends up assembling components from various countries into a final product before it is exported to the rest of the world. Indeed, a Mac Book computer carries a label at its back (in small type) that reads "Designed by Apple in California; Assembled in China." This label is likely to be oversimplified already, as it reports only the head and the tail of a global production chain, but skips many other countries that supply other components that go into the product (Robert & Zhi, 2010)
The influx of manufacturing FDI to China has altered the trade patterns in Asia. China's rise as a manufacturing hub has intensified competition with the East Asian Seven (EA-7) economies of Korea, Taiwan, Singapore, Malaysia, Indonesia, the Philippines and Thailand in exports to the Group of three (G3) markets of the US, Japan and the EU. To assess the relative impact of competition from China on the regional economies, the technique of dynamic shift-share analysis was employed, which compares the performance of an economy's exports to a common third market with a group of reference competing economies, after accounting for size differences. A positive net shift means that the country in question has outperformed relative to the reference group. The analysis shows that all the EA-7 economies experienced negative net shifts, with the Newly Industrialized Economies (NIE-3 economies) of Singapore, Taiwan and Korea experiencing the largest negative net shifts. This is true not just in labour intensive consumer goods, where the NIE-3 is disadvantaged because of their higher wage costs, but also in low-end capital and intermediate goods exports (Kit, 2005).
This study shall focus on how foreign input indicator; foreign direct investment (FDI) affects China's share of global export (SGE), which will serve as indicator for export growth in this study. And in doing that it would rely on data from China's Customs Service, The World Bank Group and United Nations Broad Economic Categories (UNBEC) classification to examine and determine the rate of influence the influx of foreign direct investment (FDI) to China has on China's share of global export (SGE).

Statement of the Problem

Almost every electrical, electronics, telecommunication, etc. product we find in markets and our homes today have the made in China mark. But most of these gadgets bear components that are imported into China and in turn used to produce or assemble them and then they re-export them to other countries as made in China products.
To the casual observer, everything that carry made in China is fully made in China, just like looking at a mango tree, what you see at first are the externalities; leaves, stem, branches and at appropriate times the fruits. However, to the curious observer or researcher, it does not end there; he wants to know what holds the tree up and gives it nutrients to bear more or better fruits than others. Then as he digs deeper, he would discover that there are deep, hidden sides of the tree called roots which provide it with support and nourishment to do well as a tree.
Today, developed European countries like Finland which ranks among the best economies in the world are studying China's export growth. In fact, every student of international business in any Finish university is mandated to take a course about China's export.

And that is exactly what this research seeks to do concerning the China's enviable export growth over the years. Though previous studies on China export growth abounds, review of some existing literatures reveals that this growth is mostly estimated in terms of volume of trade from china to the rest of the world (Richard, Zheng & Jinghai, 2010). There is also a work in terms of sophistication of products from china to the rest of the world (Bin XU, 2010), etc.
But nothing was found to be said about the factors propelling the growth. It is this gap that this study seeks to fill by trying to find the relationship that exists between China Export Boom indicator {share of global export (SGE)} and Foreign Influence indicator {foreign direct investment (FDI)}.

Research Questions

It is in view of the above stated problem that the following question is asked for the study to find answers.

- Is there any relationship between foreign direct investment (FDI) and China's Share of Global Export (SGE)?

Objectives of the Study

In effectively answering the above question, the paper seeks to achieve the following objective

- Determine the relationship that exists between foreign direct investment (FDI) and China's Share of Global Export (SGE).

Research Hypothesis

There are statements that would be tested to determine the significance of the relationship between the variables being studied. The null hypothesis Ho represents the negative while alternative hypothesis H_1 is the positive form.
Some statements would be tested to determine the significance of the relationship between the variables being studied.

Null Hypothesis

There is no relationship between foreign direct investment (FDI) and China's Share of Global Export (SGE).

Literatures Review

Concept of China

China is a country in the Eastern part of Asian continent, officially known as People's Republic of China. The world's most populous country, with a population of around 1.404billion covering approximately 9,600,000 square kilometers (3,700,000sqm ;), it is the third or fourth largest country by total area, depending on the source consulted. Governed by the communist party of China, the state exercises jurisdiction over 22 provinces, five autonomous regions, four direct controlled municipalities (Beijing, Tianjin, Shangliai and Chonjging), and the special administrative regions of Hong Kong and Macan.

The above statistics makes China a force to be reckoned with regionally in Asia and globally and today many researchers in different fields are studying one thing or the other about the country China. Some areas of interests include healthcare, transportation, energy/power, education, engineering, trade which is the focus of this research work and so many other areas (researcher's assertion bases on understanding of the implications of the statistics from Wikipedia, 2018).

Concepts of export

Exports are the goods and services produced in one country and purchased by residents of another country. It doesn't matter what the good or service is. It doesn't matter how it is sent. It can be shipped, sent by email, or carried in personal luggage on a plane. If it is produced domestically and sold to someone in a foreign country, it is an export (Kimberly, A. 2017).This involves producing the product in the home base of a company and selling such product abroad (Oyedijo, Ogundele, Adekunle & Aliu, 2010).

According to Oyedijo et.al (2010), export is an integral part of international business marketing which is essentially buying and selling and as such exchange of goods and services involving two or more countries. Thus the goods and services produced by one country which are sold to others in exchange for foreign goods and services in which money is used as means of settlement is exporting.

Types of export: There are mainly two types of export.
An organization can operate internationally through **direct** or **indirect** exporting (Oyedijo et.al, 2010).

Direct export:
According to Oyedijo et.al, (2010) direct export is a business transaction between a seller at home and a foreign buyer abroad. In developed part of the world organizations enter into export marketing through export houses who handle export business.

Indirect export:
Isemede (2003) noted that indirect exporting could be an international transaction ranging from selling in local currency to grey market. The figures are never authentic. Also they are not worked with in terms of either research findings or future protection because records and documentations to support the findings in some indirect transactions are not available.
However indirect exporting can take any of the following forms outline below Oyedijo, e.tal (2010):

a. Indirect export via local currency
b. Overseas branch/subsidiary
c. Travelling sales representative
d. Illegal trafficking and waste dumping
e. Export by barter, etc.

Importance of exporting
According to Isemede (2003), every country today engages in the two types of international marketing, either import or/and export transactions. Today many organizations and government go into international marketing because it is the most important way to earn foreign exchange to develop or sustain the economy.

Theories of Foreign Influence
An important part of the growth in world trade in recent decades is the results of vertical specialization. Vertical specialization refers to the phenomenon of fragmentation of global production across countries. In the global production network, each country only engages in certain stages of the whole production process where it has comparative advantages. With the development of global production, cross-border transfer of materials and goods with this purpose has been playing an increasingly dominant role in the world trade (Richard, Zheng & Jinghai, 2010).
From review of extensive materials, the word Foreign Influence can mean the same thing as Foreign Direct Investment (FDI) or Imported Intermediate Goods (IIG) (Researcher’s position, 2018)

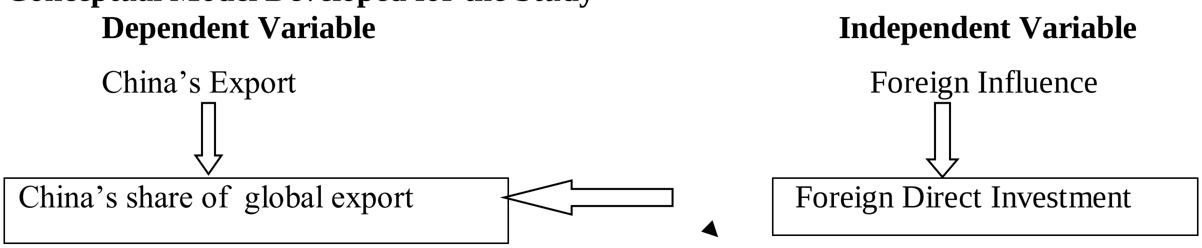
Empirical Review
In the real sense, there is scarcity in the number of studies that have been carried out as it relates to the subject matter, which is Foreign Influence and China’s Export Boom. Haven said that, we have

some articles that have been published on how China has been growing her export sector since her membership of the World Trade Organization (WTO) in the year 2001(Richard, Zheng &Jinghai, 2010).

WTO accession has had a two-fold effect on China. On the one hand, trade barriers of various kinds have had to be removed to create a fairer and freer environment for investment and trade. Import tariffs were eliminated or reduced, and all import quotas on industrial goods were removed by 2005. As a result, the un-weighted average tariff rate decreased from 16.4% in 2000 to below 10% by 2007. At the same time, export subsidies to domestic businesses which were inconsistent with WTO rules were largely removed, foreign suppliers were allowed to retail their products, and foreign investment approvals were no longer subject to some mandatory requirements such as technology transfer or local content requirements (Blanchard & Giavazzi, 2005).

This study looks at the generality of China's export value in US dollar over the period in question (1997-2018) in order to unravel the level of effect foreign influence have had on its export from china to the rest of the world.

Conceptual Model Developed for the Study



Source: Developed by the Researcher (2018) on the review of extensive and relevant literature

Methodology

The frame of this study is the monetary volume and values of China's trading activities in terms of foreign direct investment (FDI) to China and her Share of Global Export (SGE), from the year 1997 to the year end 2017; representing 21 years' period, covering four years before her World Trade Organization (WTO) membership in 2001 and sixteen years after in 2017.

The sources of data for the study consists of already published data in books, Journals, magazines, reviewed literatures, academic thesis, internet, National Bureau of Statistics of China (NBSC), China Customs (C.C), Organization of Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD), United Nations Broad Economic Category (UNBEC) classification scheme, World Bank Database (WBD) and World Trade Organization (WTO).

The simple regression model equation was adopted for the research work.

This study adopts Ex Post Facto Research Design, because this study made use of quantitative data that are already in existence.

Data were analyzed using descriptive statistics, trend and correlation analysis were used with the aid of both Microsoft Excel and Statistical Package for Social Sciences (SPSS) data editor.

The collected data were described using trend analysis as well as stylized facts on each of the specified variables. The entire specified model will be tested using correlation analysis. All the hypotheses were tested out with the aid of Statistical Package for Social Sciences (SPSS) version 23.0.

Presentation/Analyses of Data

The analyses of the data were carried out with the aim of subjecting the research hypothesis to test of validity guided by the research question, study objective and the reviewed literatures.

Analyses of Data Collated from Secondary Sources

Table

Characteristics	**Frequency**	**Percentage**
Total number of years under review	**21**	**100%**
Total number of years reviewed	**21**	**100%**
Total number of years collected but not reviewed	**Nil**	**0%**
Total not retrieved	**Nil**	**0%**
Total collected and used for analysis	**21**	**100%**

Source: Author's Review of collated data, 2018

The above table shows that the total number of years considered for this research is 21, representing 100% of the period in question. While the number of years that are reviewed is 21, representing 100% of the total period. And out of the 21-year period under review, all were review, representing 100%. It is also clear from the table that none of the years was left out and that 21 number of years is collected and used for the analysis.

Results and Interpretation and Discussion of Tests

Statistics		
	LOGSGE	LOGFDI
Mean	1097706137.2862	87395829.5238
Median	1125151454.4400	83521000.0000
Std. Deviation	780974204.51052	36533831.48615
Kurtosis	-1.658	-1.758
Std. Error of Kurtosis	.972	.972
Minimum	155953142.27	40318700.00
Maximum	2202693044.00	136320000.00

The statistics above shows the mean, median, standard deviation, kurtosis, standard error of kurtosis, minimum and maximum values of each of the indicator used for the study as also explained in each of the tables in the appendix, all in US dollar.

(Source: *UNCTAC, WBD, NBSC 2018 & computation aided by SPSS version 23.0)*

H$_0$: *There is no relationship between FDI & China's SGE*

$$SGE_t = \pi_t + \mu_1 FDI_t + \varepsilon_t$$

Correlations

		LOGSGE	LOGFDI
LOGSGE	Pearson Correlation	1	.981**
	Sig. (2-tailed)		.000
	N	21	21
LOGFDI	Pearson Correlation	.981**	1
	Sig. (2-tailed)	.000	
	N	21	21

**. Correlation is significant at the 0.01 level (2-tailed).
(Source: *field survey, 2018 & computation aided by SPSS version 23.0)*

Pearson correlation result suggests that there is a high positive relationship between foreign direct investment and China's share of global export (r = 0.981). This simply implies that there 98.1% relationship between China Share of Global export and imported intermediate goods. This relationship is statistically significant since the generated p-value for the result (0.000) is less than the level of significant (0.01) used for the study.

Decision

- Null hypothesis is rejected while the alternative hypothesis is accepted. This infers that there is a significant positive relationship between imported intermediate goods and China's share of global export

Summary, Conclusion and Recommendations

Summary of the study

This study was informed by the necessity to examine the link between Foreign Influence and China's Export. Using 21-year period for the study covering the period before China became a member of WTO till recent times (1997 to 2017). The findings from the results as clearly indicated in the frequency tables and percentages of the data collated, showed that majority of the data collected showed that China's export has been supported by foreign influences significantly. The hypothesis was tested using regression analysis and Pearson correlation analysis.

The hypothesis was tested using correlation analysis; the result revealed that there is a significant relationship between foreign direct investment (FDI) and China's share of global export (SGE) (r = 0.981, p =0.000), showing that 98.1% of the appreciation in China's of Global Export is accounted for by foreign direct investment.

Conclusion

The study reviewed existing literature with reference to subjects that are in line with the research question and worthy of note is that the arguments were rational and consistent.
The study was secured on some elementary suggestions arising from the Ex Post Facto Research Design Method and Time Series Analysis.

Foreign Influences are those resources that are sourced for and imported from another country other than the host country. They can include both human and material resources which are meant for further processing for local usage or for onward export to other countries as finished productions (Researcher, 2019).
Despite the fact that China is a very populous country with also a large landmass, they lacked adequate technology and professional skills to grow their economy to where it is today. And this was why the government of China opened up her economy in the year 1978 and became a member of the World Trade Organization (WTO) in the year 2001, so as to allow expatriates come in to invest and pass knowledge to her people and transfer technology. And they have followed it through since then with massive positive results to show for it (Researcher, 2019).
This opening of her economy and WTO membership of China has turned out to be the best decision the communist government of the People Republic of China has taken to boost their economy and play at the global stage as giant. Today, forty (40) years after her economic reform leading to open economy and eighteen (18) years after joining the WTO, China has rapidly grown to become the biggest or highest exporter in the world (Researcher, 2019).
With all the forgoing facts, the rise and continuous growth of China's export is worth studying by people of any nation interested in growing their economy. And I believe that every nation wants just that (Researcher, 2019).

Recommendation

As a result of the above stated findings of the study, the following recommendations and suggestions have become necessary and important to note;

i. Countries that want to increase their export ratio should not depend solely on what they have the full capacity to produce but look to other countries where they can attract investors to boost their manufacturing sector.
ii. Countries like Nigeria and other developing ones should not just allow developed countries to make them dumping ground for finished goods. Rather they should lure those companies to move the needed technological equipment and skills to manufacture locally in their countries or at least manufacture part of the components of the products consumed within their countries and also export.

Limitations of the study

This study is limited to only the effect of foreign influence such as FDI on China's export, four years before they joined WTO and sixteen years after in 2017. The work did not border to look at other factors that are propelling the influx of this foreign influence into the People's Republic of China (PRC), instead of other countries that are also members of WTO and are practicing open economy like Nigeria, Ghana, Greece, etc.

Suggestions for further study

Based on the limitations of the study identified above, the study hereby suggests the following as areas for further research:

a. Policy Implementation and China’s Export Boom (a study of how country’s condition affects investors’ decision to invest)
b. Imported Intermediate Goods and China’s Export Boom (a study of the effect of processing trade (goods) on China’s export growth)
c. Population and China’s Export Boom (a study of the effect of China’s population on her export growth).

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