

Theoretical Exploration of Free Trade Ports and Multinational Investment Behavior

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Abstract: This study explores the theoretical impact of free trade ports on multinational investment behavior, analyzing policy changes and regional economic development theories within the context of global economic integration. Through literature review and framework construction, the research examines how free trade ports, as special economic zones, attract multinational investment. It analyzes the influence of tax incentives, financial conveniences, and legal protections on multinationals' strategic decisions. The study integrates theories such as comparative advantage, institutional economics, and economic globalization, evaluating the role of free trade port policies in capital flow, technology transfer, and economic growth. Additionally, it explores factors affecting multinationals' institutional choices, risk assessments, and investment return expectations, revealing the port's potential role in global economic governance and regional integration. The findings indicate that free trade ports serve as effective platforms for multinational investment and play a crucial role in reconfiguring global value chains, providing diverse strategic options and competitive advantages. This theoretical exploration offers policymakers and corporate leaders guidance for sustainable global economic development.

Keywords: Free Trade Ports; Multinationals; Investment Behavior; Economic Globalization; Regional Economic Development

1. Introduction

1.1 Research Background

As integral components of the global economy, free trade ports (FTPs) attract numerous

multinational corporations (MNCs) due to their special free trade policies and flexible institutional arrangements. With deepening global economic integration, many countries have established FTPs to open markets and offer preferential policies to attract foreign investment and boost economic development. The establishment of FTPs not only has profound impacts on regional economies but also presents new opportunities and challenges for MNCs' investment behaviors.

1.2 Research Objectives and Significance

This paper aims to explore the theoretical mechanisms by which FTP policies influence MNC investment behaviors through theoretical and empirical analyses. Besides systematically introducing and discussing relevant theories, the research analyzes the role and performance of FTP policies in promoting MNC investments through case studies. The findings will provide theoretical support for the establishment and optimization of FTPs in various countries and offer strategic references for MNCs.

1.3 Review of Domestic and Research

Significant research has been conducted on FTPs and MNC investment behaviors both domestically and internationally. International scholars often focus on FTPs' roles in the global trade system, such as John Dunning's (1993) "Eclectic Paradigm," which provides an in-depth analysis of various factors influencing MNC investment decisions. Domestic scholars emphasize FTPs' institutional innovations and policy effects. For instance, Yang Suchang (2018) conducted empirical research to analyze the attractiveness of China's FTPs to foreign investment, highlighting the critical impact of policy and market access conditions on investment decisions. However, systematic studies on the comprehensive policy effects of FTPs and their relationship with MNC

investment behaviors remain scarce.

2. Theoretical Foundations

2.1 Comparative Advantage Theory

The comparative advantage theory by Adam Smith and David Ricardo suggests that countries should specialize in producing goods where they hold a comparative advantage, maximizing economic benefits through trade. FTPs reduce tariff and non-tariff barriers and relax market access, leveraging regional comparative advantages to attract MNC investments. For example, Singapore's FTP has continuously optimized port logistics and financial services, enhancing its attractiveness to MNCs by leveraging its re-export trade and regional financial center advantages.

FTPs promote optimal resource allocation by reducing tariffs and transaction costs. MNCs can strategically allocate industries based on FTP policy environments and regional advantages, effectively dispersing risks and enhancing production efficiency through resource integration. Hainan FTP, for instance, attracts significant international tourism and entertainment investments due to its advantageous location and rich tourism resources, spurring related industrial chain development.

2.2 Institutional Economics Theory

New Institutional Economics highlights institutional arrangements' impact on economic behaviors. FTPs reduce institutional transaction costs by offering tax incentives, simplifying administrative approvals, and providing legal protections. These institutional innovations provide MNCs with a transparent and stable investment environment, enhancing market competitiveness and attractiveness. For example, the BeiDou System's construction in Hainan FTP attracted several high-tech enterprises through simplified approval procedures and tax incentives, fostering related industrial clusters and showcasing institutional innovation's positive effects.

Institutional Economics also emphasizes property rights protection and fair market rules. FTPs offer clear property rights protection and legal guarantees, enhancing investment security and predictability. For example, the Panama Canal Free Trade Zone provides a favorable operating environment through clear

property rules and a just legal system, making it a significant trade and investment center in Latin America.

2.3 Economic Globalization Theory

Economic globalization theory stresses the interdependence and complementarity of national economies on a global scale. As crucial carriers of globalization, FTPs enhance global economic connectivity by opening markets and promoting trade and investment liberalization and facilitation. FTP policies deepen regional economic ties and facilitate international technology and management experience transfer. For instance, Shanghai FTP attracts numerous multinational financial institutions by opening financial markets, making it a key node in global financial resource allocation.

MNCs, as primary drivers of globalization, can more conveniently participate in international market competition through FTPs, optimizing global resource allocation and rapidly expanding operations. Establishing regional headquarters, R&D centers, and production bases in FTPs enhances MNCs' global supply chain flexibility and responsiveness. For example, Tesla established its second-largest global factory in Shanghai FTP, leveraging the policy advantages and China's vast market potential to achieve rapid expansion and supply chain optimization.

3. Concept and Function Analysis of Free Trade Ports

3.1 Definition and Characteristics of Free Trade Ports

A Free Trade Port (FTP) is a special economic zone typically located in coastal areas, centered on minimizing restrictions on import and export trade, providing significant tariff reductions, and efficient customs processes. This economic model usually encompasses trade liberalization, investment facilitation, and financial openness, aiming to promote rapid regional economic development through comprehensive openness and institutional innovation.

Free Trade Ports have several notable characteristics: Firstly, they are based on highly open and free trade policies, including the elimination of tariffs and reduction of non-tariff barriers. Secondly, FTPs often come with

financial market openness and facilitated capital flows, attracting numerous multinational financial institutions. Lastly, FTPs operate on principles of marketization and rule of law, optimizing the business environment through institutional innovation to enhance their attractiveness to foreign investment.

3.2 Economic Functions of Free Trade Ports

Free Trade Ports drive regional economic growth and internationalization through a series of open policies. They play significant economic roles, including optimizing resource allocation, reducing trade costs, and improving the investment environment. FTPs enable regional economies to integrate more effectively into global value chains, achieving globalized resource allocation.

Additionally, FTPs serve as key platforms for attracting foreign investment, offering superior investment environments for multinational companies. This not only promotes regional industrial upgrading and economic structure optimization but also accelerates the introduction and diffusion of technology and management expertise. For example, the Hainan FTP has attracted substantial foreign investment in tourism and healthcare, enhancing the region's overall economic competitiveness.

4. Theories of Multinational Corporations' Investment Behavior

4.1 Factors Influencing Multinational Corporations' Investment Decisions

Multinational corporations (MNCs) face numerous complex factors in their investment decisions, such as market size, cost structures, policy environments, and cultural differences. FTPs effectively lower entry barriers by offering preferential policies and efficient administrative services, making the market more open and transparent.

Moreover, the legal assurances and property rights protections in FTPs provide MNCs with a sense of security for long-term investment decisions. Institutional innovations in FTPs, such as the negative list management model, reduce investment uncertainties and enhance the predictability and confidence of foreign investors.

4.2 Strategic Layout of Multinational Corporations in Free Trade Ports

MNCs often base their strategic layout in FTPs on the policy advantages provided by these zones. This layout considers not only the local market size and potential but also the effects of industrial clusters and supply chain optimization. By establishing regional headquarters, R&D centers, or manufacturing bases in FTPs, MNCs can achieve efficient resource integration and rapid market response. For instance, Tesla's investment in the Shanghai Free Trade Zone allowed it to quickly enter the Chinese market through the zone's open policies, optimizing its global supply chain. This not only reduced the company's operational costs but also enhanced its ability to respond to a dynamic market.

5. Impact of Free Trade Port Policies on Multinational Corporations' Investments

5.1 Analysis of Tax Incentive Policies

Tax incentive policies in FTPs typically include reductions in corporate income tax and exemptions from import and export duties, directly lowering the operating costs for MNCs in these regions. Such policy arrangements enable companies to rapidly expand their market presence with lower initial investments, enhancing market competitiveness and profitability.

The Hainan FTP, through its tax incentive policies, has successfully attracted numerous high-tech and service industry enterprises, boosting industrial diversity and accelerating economic transformation and upgrading.

5.2 Analysis of Financial Facilitation Policies

FTPs support the opening of financial markets and diversification of financial services, providing MNCs with more varied financing channels and convenient capital flows. Financial facilitation not only increases the efficiency of capital usage but also enhances the investment return expectations for MNCs in FTPs.

By implementing foreign exchange management reforms, the Shanghai Free Trade Zone has created convenient entry channels for multinational financial institutions into the Chinese market, thereby enhancing the region's status as a financial center.

5.3 Analysis of Legal Protection Mechanisms

FTPs provide strong legal protections for MNCs conducting business locally. This includes not only property rights protection but also improvements in intellectual property protection and commercial dispute resolution mechanisms. Such legal protection mechanisms reduce the risks of investment in foreign locations and boost the confidence of global investors.

For example, the legal system in the Singapore Free Trade Port effectively enhances the protection of investor rights and has made it a crucial node for MNCs in the Asian region.

6. Role of Free Trade Ports in Global Economic Governance

6.1 Promoting Capital Flows

FTPs promote the free flow of capital by relaxing capital controls and simplifying foreign exchange procedures. This creates convenient conditions for MNCs to mobilize resources and optimize capital allocation globally. Accelerated capital flows not only enhance the investment and financing vitality of local enterprises but also boost economic growth momentum.

6.2 Technology Transfer and Innovation Diffusion

FTPs facilitate international technology transfer and innovation diffusion by lowering investment barriers. Foreign-invested enterprises in FTPs often bring advanced technologies and management experiences, driving technological innovation and industrial upgrading of local enterprises. The rapid diffusion of innovation injects new dynamism into regional economies.

6.3 Restructuring Global Value Chains

Through deep integration with the global economy, FTPs become critical links in global value chains. The open policies and convenient conditions of FTPs enable enterprises to better construct and adjust value chains, enhancing overall efficiency and competitiveness. The restructuring of global value chains not only strengthens international cooperation but also optimizes global resource allocation.

7. Conclusion and Implications

The establishment of FTPs provides comprehensive policy support for MNCs' investment behavior, significantly enhancing investment attractiveness. Through tax incentives, financial facilitation, and legal protections, FTPs effectively reduce investment costs and risks, promoting capital flows and technological innovation.

The study indicates that the role of FTPs is increasingly prominent in the context of globalization, offering significant strategic opportunities for MNCs. Future efforts should continue to strengthen institutional innovation and policy optimization in FTPs to create a better investment environment for MNCs. Additionally, in global economic governance, FTPs can play a more active role as bridges, promoting international economic cooperation achieving mutual benefits win-win outcomes.

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