



THE ROLE OF INTERNATIONAL TRADE AND FOREIGN DIRECT INVESTMENT IN ECONOMIC GROWTH: THE CASE OF CHINA FOR THE PERIOD OF 2001-2018

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ABSTRACT

Purpose: This study investigates the relationship between Foreign Direct Investment, International Trade, and the Economic Growth of China over the period 2001-2018.

Design/method/approach: The methodology used for the current research is the quantitative approach. In this approach, the researcher will use the secondary data. All data is collected from the United Nations Conference on Trade and Development (UNCTAD), Economic Report, Department of Statistics and Ministry of Finance, China, World Bank.

Findings: This study's findings showed that foreign direct investment has a significant and positive influence on China's economic growth. The regression equation, which is ($\beta = 0.158$, $t = 2.835$, $p = 0.005$) indicated that the model is fit. As the model has shown, international trade has a significant and positive influence on China's economic growth; it recorded a good regression equation ($\beta = 0.550$, $t = 10.284$, $p = 0.000$).

1. Introduction

Foreign direct investment and foreign aid have the cumulative effect of reducing the relative rate of economic growth. The effects are small in the short term and more significant in the long term. In the 1978 study, it was pointed out that in the future; research could focus on the use of longitudinal data sets, the control of the initial correlation between foreign investment and growth, and the use of stock and flow measures foreign investment in the models (Salahuddin & Gow, 2019). Modern studies have taken these suggestions into account and have advanced in the empirical analysis.

Figure 1 shows that the economic growth of China has declined moderately over the period 2007 to 2018. This revealed that, since the supreme global crisis in mid-2007, the Chinese economic growth couldn't overcome the crisis from an economic perspective. The previous studies have tested several determinants of economic growth. In this study, two determinants that FDI and international trade are selected to be tested against China's economic growth.

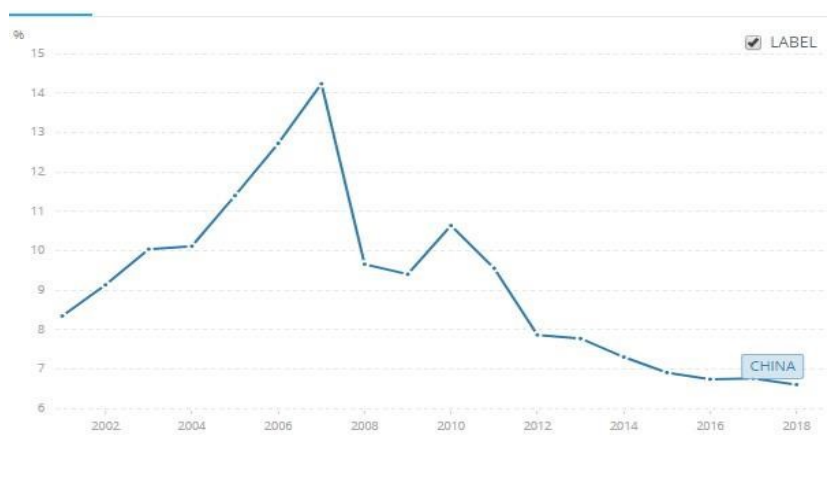


Figure 1: Economic growth ratio; China 2001-2018

Source: The World Bank

This research is fundamental due to its contribution to the literature review of the research topic. This research will provide a clear image for the Chinese economic situation, its challenges, its advantages, and many related topics to the Chinese economy. This research will include rich information that can be used for Chinese and foreign investors. Readers interested in the Chinese economy will benefit from this research, where a full description of the FDI and international trade is presented. Since the 1980s, China has maintained an average annual GDP growth of close to 10%, with a pattern

focused on investment and export components (Dieppe et al., 2018). Its rapid growth has led it to be the second world economy by size of GDP. Its growing interconnections with other economies have given it a systemic economy (Qureshi et al., 2019).

However, after the global financial crisis of 2008, the Chinese economic model began to show signs of some exhaustion by reducing the contribution of the components that had driven its high growth (investment and net exports) and significantly increasing private debt, mainly of companies (Naz et al., 2019). Thus, after growing at year-on-year rates around 6.7% in the previous two years, China closed 2018 with a GDP growth of 6.4% in the last quarter (6.6% on annual average) and fearing that the slowdown extends beyond 2019. Growth in 2018 was the lowest since the global financial crisis, partly due to the tightening of financial regulation, intending to curb the exponential growth of shadow banking activities and of those financial instruments of local governments that do not consolidate with their financial statements (Nasir, Duc Huynh, & Xuan Tram, 2019). Although the authorities have responded to the slowdown with monetary and fiscal stimuli and relaxing financial conditions (IMF, 2019), the challenge of controlling the growth rate can be incredibly complicated. Considering the profound structural transformations to which it should face the Chinese growth model and the high level of indebtedness of its economy. In this context, this research analyzes the most relevant transmission channels in the face of a potential slowdown of the Chinese economic growth identified as international trade and foreign direct investment.

2. Literature Review

The globalization of capital is based on the expansion of FDI worldwide. The Global FDI behavior demonstrates the new forms of capital accumulation. It is essential to highlight that FDI expands unevenly, favoring the development of some countries concerning others. On the other hand, its growth impacts specific productive sectors' dynamism that does not necessarily boost the economy's development by articulating the productive fabric. Then it describes the most relevant characteristics found globally (Azam, Khan, & Ozturk, 2019):

FDI has increased significantly since the 1980s, propitiated for liberalization and deregulation policies over the past 40 years. Global FDI inflows began to grow accelerated from the decade of the second five years of the decade of the '80s, as a product of the implementation of liberalization and deregulation policies of the capital. It should be taken into account that the acceleration in FDI inflows initially takes place predominantly in developed countries where global change was led in the policies for its promotion and promotion. In the first five years of the 2000s, FDI inflows experienced a significant decline due to the slowdown of the world economy. Still, since 2003 they recovered a positive growth rate until reaching approximately two billion in the year 2007 before the economy will experience the "boom" of the financial crisis of 2008. After this crisis, Global FDI inflows do not yet recover growth rates experienced before the crisis since the amounts still to 2013 do not exceed 1.5 trillion dollars. In summary, what is described in the graph N ° 1 is the enormous growth that has had IDF under the context of capital expansion since the 1980s and the impact significant positive that has the policy of liberalization and regulation of the countries on its growth. FDI outpaces world production, exports, and world imports in this regard; in graph N ° 2, it can be seen that the inflows of FDI from The early 1980s have far exceeded real global GDP. This answers to the need for capital to exceed. In the years 2000 and 2007, FDI exceeded for approximately 3.5 and 4 times respectively world production in those years being the most representative years in the boom in the inflow of FDI (Daniela & Natalija, 2018).

In the last 20 years, FDI inflows in developed countries have been slowed concerning FDI in developing countries. FDI flows in countries have predominated developed, from 1970 to 2008. According to UNCTAD (2013), entries towards developed countries decreased after the financial crisis because the Investors (all transnational corporations) decided to maintain an attitude waiting for recovery, which caused them to withdraw investment from the market. It was also an increasing trend in FDI entries in developing countries since the 1990s due to the implementation of neoliberal policies to facilitate investment entry deregulation, privatization of state assets, complete withdrawal of fiscal barriers, etc. At the end of 2011, as shown in the graph, FDI inflows in countries in development surpassed those that entered developed countries. Contrary to the pattern, investors currently tend to invest in developing countries over the three decades. According to UNCTAD (2013) data in 2012, FDI aimed at developing countries exceeded the inflow of FDI from countries by 142 billion developed, representing a record that radically changes the historical trend (Alalshiekh, 2018).

The services sector has gained ground against the other sectors in the global FDI entries. The structure of FDI inflows has moved to the services, causing Significant decreases in inputs to the agriculture and manufacturing sectors. The growth of services became relevant from the '90s on the liberalization, promotion, and facilitation offered to investors in the same sector. According to UNCTAD (2013), in 2012, FDI attraction policies of at least 53 economies around the world were in 75 percent policies of promotion, liberalization, and promotion of investments in the services sector. This increases the outsourcing of some regions, mostly developing economies (H. Y. Liu, Tang, Chen, & Poznanska, 2017).

2.1 Theories of FDI

FDI has different impacts depending on the host country, the industrial sector, and the social and economic environment, analyzed by two schools that have contributed two opposed conceptions or models. First of all, there is the perspective that FDI brings a series of positive effects on the country's economy that receives the investment flows, the Benign Model. On the other hand, we have the detractors to the arrival of this type of investment, who with the argument that There are mainly adverse effects related to FDI that criticize the position of governments that try to make their countries attractive destinations for foreign capital, the Evil Model (Edwards, Naanwaab, & Romero, 2017). Although both points of view have essential theoretical and empirical supports, one cannot be so radical in totally positive or negative positions. In general, there are a series of effects that can be evaluated at the same time. In light of the empirical evidence available that helps identify the general conditions necessary for an FDI to have positive effects that justify its promotion, especially in developing countries (Al Hamdani, Lazarova, & Di Maria, 2017).

2.2 Contribution of FDI in the Economic Development of the Countries

There is a certain tendency to confuse the terms growth and development when we talk about improving some countries' economic conditions. Therefore, before continuing with our analysis of FDI and its relationship with economic development, we will present the formal definitions of these concepts to establish the possible influence that FDI has on improving its economic conditions. Economic growth is "the increase in the economic activities of a country. As far as economic growth is concerned with objective observations that can be measured in absolute or relative terms, its main manifestations are related to increases in production, sales, income, employment, savings, and investment (Ahmed, 2017).

The term economic development "refers to quantitative and qualitative changes that must impact better living conditions for the population. This social focus of improvements for people (qualitative changes) makes the development of economic growth different, since talking about it only represents an increase in macroeconomic variables, without such growth implying an improvement in the majority of the population". The benefits derived from FDI flows tend to vary between countries and regions; in any case, FDI becomes an important modernization factor for the receiving territory. The increase in development levels will depend on the potential for the diffusion of benefits, which depends on the gaps between the companies of origin and those of the recipient country. These gaps can be defined in terms of technology, productivity, workforce, processes, products, productive and administrative capacities, global standards, and best practices. Therefore, internal actors' role is to reduce the gaps between foreign and national companies; as these are reduced, the competitiveness of local companies is promoted, and it is in a better position to compete in international markets and boost internal development through access to other economies. Finally, we can also mention the benefits that local governments directly receive with the arrival of FDI since foreign companies generate significant additional flows of taxes derived from their host country's activities (W. Liu et al. 2016). This increase in local governments' resources can generate a better position to make investments for society's benefit in general and thus contribute to the improvement of the living conditions of the population, which is a fundamental part of the concept of economic development.

2.3 FDI in China Economy

China is the most populous country globally, with 1,364 billion people, which will only be surpassed in 2050 by India. Since its opening to the world, China has grown steadily to an average rate of 10% more than three decades ago. It has reduced its 62% extreme poverty rate between 1988-1992, at 12% between 2010-2018. The Chinese GDP has surpassed that of the United Kingdom, Germany, and Japan. Has become the second-largest economy in the world. Besides, China is the largest exporter and world importer and the largest holder of foreign exchange reserves. "China is also an excellent investment power since it has 18,000 companies in more than 170 countries worldwide, and as an external investor, it went from 33 ° place in the year 2010 to (Observatory of Chinese Policy, 2015). Although it has shown rapid growth, it is still a country with other indicators that are lagging. GDP per capita, gaps in income distribution, and imbalance in economic development between regions. The wealthiest provinces are rapidly converging with advanced economies in terms of income levels and economic structure. While the northeastern provinces face China's economic and commercial power to incredibly daunting challenges: keep a steady growth away from the heavy industry, its traditional comparative advantage, but also the main one's sources of chronic air pollution (Fan et al. 2016).

China's exports increased by 9.7% in December 2014, above 4.7% in November, and exceeding market expectations. The improvement was due mainly to the increase in exports of mechanical, electrical products and high-tech products. Imports were reduced by 2.4 percent in December 2014, compared with a 6.7 percent decrease in November and much higher than market expectations. On the other hand, China registered a trade surplus of USD 49.6 billion in December, from the highest record of USD 54.5 billion in November. The fall in current product prices is a challenge for China's production. China's competitive advantage in manufacturing has been undermined by the increase in wages, the contraction of its skilled labor base, and its currency appreciation. These factors have encouraged companies to move their production to neighboring countries such as Vietnam and Bangladesh. China's main exports are electronic equipment, machinery, and textile since 2002, and China has been the largest exporter of fishery products. In 2013, it also became the fifth largest

arms exporter in the world. The Asian giant is the leading country in exports of textiles, shoes, and toys. It is also the second-largest market for electronic elements of information and communications about technology that has attracted most of the leading multinational corporations (Binkhamis, 2016).

The increase in imports is due in part to the increase in disposable income and the increase in production costs in the country, and the pressure on farmland capable of satisfying domestic demand. It is the world's largest consumer of gold, and natural resources (including crude oil, iron, steel, and coal) are essential imports of Chinese. Besides, it was one of the three leading importers of fish from the United States and Japan in 2013. It has a growing demand for meat from pork, beef, and dairy products. In January 2015, the Ministry of Commerce of China unveiled the project of the Foreign Investment Law, said the law would give "national treatment before establishment" for potential foreign investors, and adopts the "negative list" approach used in the China Free Trade Zone Pilot (ZLC). China is considered the most polluting country worldwide that performs the more significant amount of greenhouse gas emissions that damage global commons. But it is also actively promoting technologies and policies of green growth. One of the main challenges for the following years is sustainable energy and the control of greenhouse gas emissions (Omri & Sassi-Tmar, 2015).

2.4 Theoretical Conceptualization of FDI

Direct investment is a category of related cross-border investment. An investor resident in an economy exercises the control or a significant degree of influence on the management of a company that is resident in another economy (IMF, 2007, p. 106). Therefore, foreign direct investment is summarized in international capital flows in those that a company in one country creates or expands in another country, which implies a transfer of resources and control acquisition. However, according to the Framework for Direct Investment Relations (MRID), a cross-border property acquires the category of direct investment according to the degree of control and influence. That exercise which must be signed on the management of the company is resided in another economy. When a cross-border company owns at least 10% of the company resident in an economy, it is considered a direct investment. It is sufficient evidence to prove that there is an abiding interest (Zheng, 2019). The objectives of FDI are different from those of portfolio investment, investment through which investors typically do not expect to influence the company's management. "Direct investment companies can be subsidiary companies when you have more than 50% of the voting power, or associated companies when it has between 10% and 50% of the voting power.

Direct investment is classified according to the relationship between the investor and the entity that receives the investment (BCR, 2014). In general, it can be classified as investments in a direct investment company or investment between related companies' residents and nonresidents. Finally, it is possible to separate foreign direct investment from other movements' International investment. The issuance of bonds and shares in the international markets, sale, purchase bonds in the international capital markets, and the Short-term credit instruments are not considered FDI (BCR, 2014). The transnational companies' subsidiaries are carried out production activities, which can be defined as Horizontal FDI. The subsidiary reproduces all the production process that is carried out in the matrix, in other parts of the world) and FDI vertical (the production chain is divided by transferring part of the processes to the subsidiary).

3. Methodology

The methodology used for the current research is the quantitative approach. In this approach, the researcher will use the secondary data. The use of quantitative methodology is better than the qualitative methodology for several reasons, such as that quantitative methodology provides more accurate statistical discoveries. Simplifying the number and types of the input data has been one of the leading research topics in this field for the last four decades, resulting in many models (Araya 2015,p.356). The quantitative methodology fits the current research because of the use of secondary data. Data that is collected to disaggregate secondary data at this time. Secondary data may refer to accumulated data from previously existing sources. All data is collected from the United Nations Conference on Trade and Development (UNCTAD), Economic Report, Department of Statistics and Ministry of Finance, China, World Bank. Different sources of secondary data from web searches, journals, and documents are obtained. The collected data were analyzed and examined using the SPSS. The examination used was descriptive statistics, correlation, and regression. At the end of this investigation, the samples that have been used depending on data from 20 years in annual premises, from 1998 to 2018. The data collected were framework, estimated by the government's consumption of progress in transport, correspondence, and open public services. For the exchange scale, the RMB / US \$ conversion standard is used as an intermediary, and the Gross Domestic Product (GDP) per capita estimates the size of the market. The exchange network is used to quantify the influence of universal exchange. The external direct entrepreneurship variable is estimated by the net input of remote direct speculation (FDI).

This study investigates the impact of foreign direct investment and international trade on Chinese economic growth. Several previous studies that focused on the same area shared the same measurements for FDI and economic growth. In contrast, several measurements were used for international trade; this study formulated the measurements of this study as follow:

1. Economic growth: measured by the gross domestic production.
2. Foreign direct investment: net inflow of cash flow from foreign investment
3. International trade: net goods and services imported from international markets.

For this investigation, Statistical Package Social Science (Coakes, Steed, Coakes, & Steed) is used to examine the entire data assortment and decipher the results' findings. The raw data collected in the field should be changed into data that answers the specialist's questions to recognize the relationship and connection between the direct external company with universal exchange and financial development.

Relapse research is a measurable system that strives to clarify the development of a variable called dependent variable as an element of development in many different factors called independent variables through the evaluation of a solitary condition. The objective is to build a relapse model or a forecast condition that can be used to represent, predict and control factors. There are two types of relapse investigation for a specific single relapse and a different relapse test. However, at this time, several relapse models have been used to assess the connection between direct external speculation and its potential determinants.

Multiple linear regression has at least three detectable factors on which the dependent or relapse variable is based on at least two logical or regressive factors. It is a useful fact strategy that can be used to calculate the ratio of at least two factors.

Linear regression function

$$Y = a + \beta_1 \text{ FDI} + \beta_2 \text{ IT} + \varepsilon$$

Where

Y = economic growth

a = constant

FDI = net foreign direct investment

IT = net international trade between China and the global

ε = standard error

4. Finding

The following table 1 shows the results of the descriptive statistics, followed by some explanations.

Table 1: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
FDI	3	8	5.6	1.712
International Trade	10.79	12.87	12.136	0.704
Economic Growth	9.38	22.58	19.573	4.057

According to the above table, the foreign direct investment (FDI) variable had scored a minimum value equals 3 and a maximum value equal to 8. In this regard, the data revealed that the mean score for the foreign direct investment (FDI) variable was 5.6, which means that the current situation of the FDI is growing correctly. The data showed that the FDI in China is in extraordinary situations compared to the previous years. Besides that, the results revealed that the standard deviation of the subscale variable is 1.712.

Table 4.1 revealed that the global trade variable had scored a minimum value equals 10.79 and a maximum value equal to 12.87. In this regard, the data revealed that the global trade variable's mean score was 12.136, which means that international trade's current situation is growing correctly and performing its best. The data showed that China's international trade is in extraordinary situations compared to the previous years. Besides that, the results revealed that the standard deviation of the subscale variable is 0.704.

Finally, table 4.1 revealed that the economic growth variable had scored a minimum value equals 9.38 and a maximum value equal to 22.58. In this regard, the data revealed that the economic growth variable's mean score was 19.573, which means that its current situation is growing correctly and performing its best. The data showed that China's economic growth is in extraordinary situations compared to the previous years. Besides that, the results revealed that the standard deviation of the subscale variable is 4.057. The correlation test is concerned with the equations of the relationship between two variables as they are about the extent of the relationship between two variables. In this case, it is possible to use correlation analysis to determine the strength of the relationship between the two variables (in the correlation analysis, both are assumed to be random variables). The result of the correlation analysis is a number called a correlation coefficient. Due to its definition, the value of the correlation coefficient is always between -1 and +1. +1 means that it is linearly related to being entirely positive; in other words, all points fall on a straight line with a positive slope. -1 indicates a linear correlation with being entirely negative; in other words, all points fall on a straight line with a negative slope. If the correlation coefficient's value is very close to zero, it indicates a relationship with wireless. The following table 4-3 will show the correlation test results followed by some conclusions drawn based on the results of table 4-3.

Table 2: Correlation Test

Variables	1	2	3
	FDI	IT	EG
FDI	0.893		
IT	0.620	0.897	
EG	0.807	0.884	0.914

FDI: Foreign Direct Investment, IT: International Trade, and EG: Economic Growth

Based on table 2, it seems that there is a positive and significant relationship between foreign direct investment and the economic growth in China with $r = 0.893$. Also, there is a positive and significant relationship between international trade and China's economic growth with $r = 0.897$.

The so-called regression test is that in the software life cycle, whenever the software changes, it may cause problems to the software product; therefore, whenever the software changes. Researchers must retest the existing functions to determine whether the modification has reached the intended purpose, check whether the modification has broken the original normal function. Regression testing is a system-wide test designed to ensure that small changes in one part of the system do not break existing functionality elsewhere in the system. This is important because, without regression testing, it is very likely that the expected fix is introduced into a system that will generate more problems than they solve. For the current research, the regression test is used to determine the dependent variable's future contribution, economic growth based on the independent variables, a foreign direct investment, and international trade. Table 3 explains that the adjusted R2 of the model is 0.690, which confirms that this model explains China's economic growth with 69 %. In comparison, the rest of the explanation (31%) is determined by other variables.

Table 3: Model Summary

Model	Adjusted R Square	Std. Error of the Estimate	R Square	F	Sig. F
				Change	Change
1	0.69	0.045	0.049	290.937	0

a. Predictors: (Constant), foreign direct investment, and international trade.

Table 4 discloses that; foreign direct investment has a significant and positive influence on the economic growth in China, it recorded a right regression equation, which is ($\beta=0.158$, $t=2.835$, $p=0.005$). Also, international trade has a significant and positive influence on China's economic growth; it recorded a right regression equation ($\beta= 0.550$, $t=10.284$, $p=0.000$).

Table 4: Coefficients

Model	Std Beta	Std Error	t-value	p-value	Tolerance	VIF
H1	0.158	0.056	2.835	0.005	0.353	2.832
H2	0.550	0.053	10.284	0.000	0.284	3.516

5. Discussion

This section is developed to provide the most important results of the current results and compare them with the previous studies' findings and results. According to the current research, the descriptive statistics had revealed that the foreign direct investment (FDI) variable had scored a minimum value equals to 3 and a maximum value equal to 8. In this regard, the data revealed that the mean score for the foreign direct investment (FDI) variable was 5.6, which means that the current situation of the FDI is growing correctly.

The data showed that the FDI in China is in extraordinary situations compared to the previous years. Besides that, the results revealed that the standard deviation of the subscale variable is 1.712. It also revealed that the global trade variable had scored a minimum value equal to 10.79 and a maximum value equal to 12.87. In this regard, the data revealed that the global trade variable's mean score was 12.136, which means that international trade's current situation is growing correctly and performing its best. The data showed that China's international trade is in extraordinary situations compared to the previous years. Besides that, the results revealed that the standard deviation of the subscale variable is 0.704. And finally, it revealed that the economic growth variable had scored a minimum value equals to 9.38 and a maximum value equal to 22.58. In this regard, the data revealed that the mean score for the economic growth variable was 19.573, which means that the current economic growth situation is growing correctly and performing its best. The data showed that China's economic growth is in an extraordinary situation compared to the previous years. Besides that, the results revealed that the standard deviation of the subscale variable is 4.057.

These results are not different from the previous study's results, where BCR (2014), direct investment is classified according to the relationship between the investor and the entity that receives the investment. In general, it can be classified as investments in a direct investment company or investment between related companies' residents and non-residents. Finally, it is possible to separate foreign direct investment from other movements' international investment. The issuance of bonds and shares in the international markets, sale and purchase bonds in the international capital markets, and the Short-term credit instruments are not considered FDI (Salahuddin & Gow, 2019). Production activities are carried out by the subsidiaries of transnational companies, which can be defined as horizontal FDI (the subsidiary reproduces all the production process. That is carried out in the matrix, in other parts of the world) and FDI vertical (the production chain is divided by transferring part of the processes to the subsidiary).

Direct investment is a category of related cross-border investment with the fact that an investor resident in an economy exercises the control or a significant degree of influence on the management of a company which is resident in another economy". Therefore, foreign direct investment is summarized in international capital flows in those that a company in one country creates or expands in another country. This implies not only a transfer of resources but also the acquisition of control. However, according to the Framework for Direct Investment Relations (MRID), a cross-border property acquires the category of direct investment, according to the degree of control and influence that exercise must be signed on the company's management. That is resident in Another economy when a cross-border company owns at least 10% of the company resident in an economy is considered a direct investment and is sufficient evidence to prove that there is an abiding interest. The FDI objectives are different from those of portfolio investment, investment through which investors typically do not expect to influence the company's management. "Direct investment companies can be subsidiary companies when you have more than 50% of the voting power, or associated companies when It has between 10% and 50% of the voting power. It can also be quasi companies, as in the case of branches that are 100% ownership of their respective matrices" state that the investment is considered an external flow of FDI when a local company buys more than 10% of a foreign company. This is known as investments in existing facilities (cross-border mergers and acquisitions or Brownfield FDI). In conventional economic theory, capital flows, FDI, move with the essential purpose of expanding control over activities that take place in two or more countries. Theories of companies constitute a basic framework to understand the factors that determine the existence of FDI.

One of the fundamental assumptions of neoclassical economic theory regarding a market with perfect competition characteristics is the idea that capital mobility exists. Therefore, these can flow freely from one country to another (Lis, 2018). The above, along with the assumption that individuals will seek to maximize their benefits, is the basis of the factors that determine the presence of foreign direct investment. Although there are no highly developed theories about FDI, though some elements from the theory, a basic framework can be constituted emphasizing crucial elements that explain a multinational's existence, such as the rate of return, minimization of risk, and market size.

It is based on the assumption that capital flows from countries with low return rates towards those that show a high rate of return. "It arises with the idea that, when evaluating their investment decisions, companies expect to match marginal revenue with marginal cost capital." Among the most important incentives to invest abroad, the expected marginal returns are higher abroad. This theory does not apply to countries that experience inputs and outputs simultaneously; similarly, there is an uneven distribution of FDI in different industries (Kheng, Sun, & Anwar, 2017).

The previous theories do not allude to the imperfections or failures existing in the markets, including the main objective of FDI, which is to allow the formation of multinational organizations with the essential purpose of expanding market control. The companies' market structure and specific characteristics play a crucial role in explaining foreign direct investment from the above. This theory is based on the fact that multinationals exist because it results in more beneficial to carry out these transactions within a company that enters Business. This is the reason why the rationale of multinationals is called Internalization. The above rests on the idea that market imperfections can result in expensive for companies. Therefore, it is easier for them to perform chains within the same company, so, for example, the production of a subsidiary becomes a productive factor in the production of another; or technology developed in one country can be used in others, avoiding all those barriers existing in the market. The two previous characteristics: productive chain and technology transfer, are the main characteristics that drive and support companies' multinationals. "Internalization allows coordination problems if there are uncertainties of offer and demand. Besides, if the companies located above and below are combined in a single company "vertically integrated," the problems regarding pricing, technology, etc., can be eliminated or reduced.

6. Conclusion

According to the correlation test, it was found that there is a positive and significant relationship between foreign direct investment and the economic growth in China with $r = 0.893$. Also, there is a positive and significant relationship between

international trade and China's economic growth with $r = 0.897$. Finally, the regression test was applied, and it showed that the adjusted R² of the model is 0.690, which confirms that this model explains China's economic growth with 69 %. In comparison, the rest of the explanation (31%) is determined by other variables. The regression test also revealed that foreign direct investment has a significant and positive influence on China's economic growth; it recorded a right regression equation, which is ($\beta=0.158$, $t=2.835$, $p=0.005$). Also, international trade has a significant and positive influence on China's economic growth; it recorded a right regression equation ($\beta= 0.550$, $t=10.284$, $p=0.000$). This research appears to positively impact foreign direct investment and international trade on economic growth based on the obtained results. The positive impact is seen in several aspects: foreign direct investment and international trade provide more job opportunities that reduce China's unemployment rate. Also, it can be seen that international trade will provide lots of substitutes to the materials used in different industries and sectors, which reflects on decreasing the cost of materials.

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