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THE IMPACT OF MULTINATIONAL TRADING COMPANIES ON CHINA-U.S. ECONOMIC RELATIONS: THE HISTORY AND SUCCESS OF THE NIKE COMPANY

Abstract. This paper Mainly Explain How multinational trading companies on China-US economic relations, focus on different parts: China-US trade war and analysis of Nike Company history and success. By using different data from Nike company and some other multinational trading companies, the statement can be proved: multinational trading companies are the bridge between China and US and it will help decrease the tension between these two nations.

Keywords: International Politics, International Relationships, Economic, Nike, International Company, China-US Relation.

Background

The economic relationship between China and the U.S. is one of the most important relationships in the world. In today's climate, China, as the world's second largest economy, is the fastest growing global financial market. The United States, as the world's largest economy and the biggest military power, has a pivotal position and is undoubtedly an economic superpower. China and the United States are each other's largest importers and exporters, making the two economies interdependent. The bridge between them is the structure of the multinational trading companies of various other countries. This paper will mainly discuss the impact of American multinational trading company Nike and other trading companies involved in China-US economic relations.

Nike, an iconic American manufacturer, is one of the world's largest sports brands. As a multinational trading company, with business not limited to the United States and China, it can be regarded as an international company. However, many of Nike's factories are built in China, providing many jobs for local Chinese regions. A benefit for the United States is the fact that such a company will undoubtedly make that country's GDP gradually rise.

The History of Nike

In 1962, Phil Knight, writing a paper at Stanford University, estimated that cheap sneakers made in Japan could compete with higher-priced ones made in Germany. The predecessor of Nike, the Blue-Ribbon Sports Company, was founded by Knight on January 1st, 1964. On January 1st, 1972, Nike was formally established, headquartered in Eugene, Oregon. After earning his MBA, Knight travelled to Japan to meet executives at manufacturing concern Onitsuka Tiger and tried to persuade them to let Blue Ribbon Sports become Tiger's West Coast agent. The idea was to sell sneakers made by Onitsuka Tiger. In 1964, Knight sent samples of Onizuka Tiger shoes to legendary track coach Bill Bowerman at the University of Oregon, where Knight had run mid-distance as an undergraduate. Bowerman suggested a partnership with Knight, and Bowerman offered ideas for sneaker design. They shook hands and each contributed $500 to start a new business, which evolved into Nike. Its first products were track running shoes.

In 1973, Nike hired Steve Prefontaine from the University of Oregon as its first spokesperson. Prefontaine, like his coach Bowerman, embraced a persistent mindset, which is the Nike brand philosophy.

The *Washington Post* once said that creative marketing was invented by Nike and Phil Knight. Nike's advertising has become a classic in the history of this field, and Nike is also the first manufacturer to become famous by using sports star endorsement.

Despite all the advances, Nike became involved in a lawsuit with Onitsuka Tiger; although Nike had independently designed new running shoes at same year, the effort was alleged to be a copy of Onitsuka Tiger design. Knight claimed that the Japanese company was seeking a way out of its exclusivity deal with Blue Ribbon and sought to sink the company. Onitsuka Tiger claimed that Nike copied their designs and started to sell in the US market. In 1973, Phil Knight filed a $33 million lawsuit against Onitsuka, the Japanese company whose shoes he started importing in 1964. Knight prevailed in the lawsuit, but not before giving a 1,300-page deposition and spending parts of 10 days on the witness stand. Though Knight had faced so many troubles, Nike successfully went public in 1981. In the same year, Nike began to enter the Chinese market and also began to build a factory in Oregon. However, the US factory production decreased in volume shortly after Nike went public since Nike planed moving manufacturing factories overseas, targeting on Asia.

Chinese Market

During the period of reform and commercial opening proposed by the Chinese leader Deng Xiaoping, the Chinese government established a special zone in Shenzhen to establish a trading base. Nike seized this opportunity to become an early multinational trading company that entered China. Nike demonstrated that a branch in Hong Kong could transact business when established in the Shenzhen Special Economic Zone. At that time, China had just quelled the Cultural Revolution and considerable social instability. These concerns, along with a state of economic crisis, were the main reasons for China's reform initiatives and decision to open itself to commercial activity. The impetus for Nike to enter the Chinese market was based in the fact that China had the largest population in the world as well as a relatively large trade market.

This move would bring huge profits to Nike. China had a huge market with a population of nearly 1.4 billion and a steadily expanding middle-income group. These were enormous market opportunities. The Chinese government implemented standards for accepting multinational trading companies; it focused on continuing to relax market access, expanding the scope of foreign investment, and encouraging more foreign enterprises to enter the Chinese market. For Nike, expanding in the Chinese market was undoubtedly a wise move, as this market could provide more consumers and labor. In Asia, the labor force was very cheap during the 1960s and 1970s. Coupled with China's economic market, many multinational trading companies chose to enter China.

In 2011, China's entry into the WTO greatly accelerated its economic development. Among the world's 500 largest multinational companies, nearly 400 have invested in China and set up factories. These multinational companies came to China to invest resources and establish enterprises, which effectively promoted the development of China's economy and accelerated its integration into the world economy. The impact of multinational commercial investment in China is also reflected in many other areas, such as employment, taxation, and state-owned enterprise reform.

Nike's Chinese factories not only provide concrete production for Nike products but also produce sporting goods for other cooperative sports brands. Nike only needs to hand over the design drawings to the factory for production. From a global perspective, 65% of Nike's factories are in China, and the rest are in Europe and East Asia. China's labor force price is relatively small compared to European regions even though the cost of labor in China has already increased by a lot. That is because China has a full industry system which contains so many brunches of manufacturing, also with a large population in China.

According to financial reports, Nike Group's revenue in fiscal 2019 reached US $39.1 billion, a year-on-year increase of 7%. Its Chinese operations continued to maintain a strong growth rate, with revenue of US $6.2 billion, a year-on-year increase of 24%, leading the growth rate of Nike in the four major regions of the world. This was also the 20th consecutive quarter during which Nike China achieved double-digit revenue growth. The North American market, which accounts for the largest revenue share, also continued to accelerate its growth rate (3%) of the previous fiscal year, with a year-on-year increase of 7% in 2019, reaching 15.9 billion U.S. dollars. In addition, the revenue growth in China during this time exceeded US $1 billion, and the pre-interest and tax profits reached US $2.376 billion, a year-on-year increase of 31%. Nike CEO Mark Parker stated in a telephone interview with CNBC after the financial report: "We have always been and will continue to be a brand rooted in China and serving China (consumer services). We are and remain a brand of China and for China."

Over the past 40 years, the investment structure of multinational companies has been continuously optimized, reflecting characteristics that are highly consistent with China's economic transformation. In the early stage of reform and opening up, foreign investment was concentrated in labor-intensive manufacturing. In 2011, the use of foreign capital in China's service industry surpassed that of manufacturing for the first time. In the first seven months of this year, the actual use of foreign capital in the high-tech service industry, which focuses on R&D and design, scientific and technological services, and inspection and testing services, was 97.39 billion Chinese yuan, a year-on-year increase of 63.2%. The business of multinational companies has achieved rapid development in China, sharing and achieving common goals and prosperity with China.

Fortune 500 company Singapore Wilmar International Group is Asia's leading integrated agricultural group. Yihai Kerry Group, as its subsidiary in China, currently has a total investment of more than 30 billion yuan in China and has 27,000 employees. There are more than 70 production bases built and under construction in many parts of the country. Gu Xueming, Dean of the Institute of International Trade and Economic Cooperation of the Ministry of Commerce has been stated that "China's reform and opening up has created the miracle of Wilmar International and Yihai Kerry." Multinational companies have brought capital, technology and management experience to China, and their presence is one of the main driving forces for China's economic development. China's Ministry of Commerce recently pointed out in a research report on China-US trade relations that foreign-invested enterprises account for less than 3% of the total number of enterprises in the country, but they contributed nearly half of the foreign trade, one-quarter of the output value and profits of industrial enterprises above a designated size, and one-fifth of the tax revenue. This kind of volume is an important part of any open economy.

For instance, US-based Nike has more than 2.500 employees in China and has paid more than 20 billion U.S. dollars in taxes in China for 40 years. Its combined activities have provided more than 50,000 jobs for China.

China-US Trade War

Since the establishment of diplomatic relations and the signing of bilateral trade agreements between China and the United States in 1979, trade between the two countries has developed rapidly, but friction has also resulted. A series of actions against China provoked trade disagreements between the two countries.

On June 15, 2018, U.S. President Donald Trump disregarded the consensus reached between China and the U.S., approved tariffs on approximately US$50 billion in Chinese goods, and threatened China in other ways on June 18. Specifically, it was warned that if China resisted, an additional 10% tariff would be imposed on US$200 billion worth of Chinese goods. Adding tariff to Chinese imports can raise the price of products in the US since most of daily goods are made in China. This will bring significant effect on international trading since China and

US are two biggest economic countries. In response, China stated that if the U.S. insisted on going its own way, China would have to adopt a comprehensive measure involving a "combination of quantity and quality" to counteract it, and all the economic and trade developments collaboratively achieved by China and the U.S. through previous consultations would no longer be valid. On July 6, the United States formally imposed a 25% tariff on the first batch of US$34 billion worth of Chinese goods; as a counterattack, China adopted taxation measures of the same scale and intensity on the same day, and imposed a "301" action which specified the first action that Chinese government made toward the Trade War. The taxation measures formally implemented are under investigation by the World Trade Organization (WTO). At present, the Sino-U.S. trade friction has officially escalated into a trade war.

The China-U.S. trade war has had a great negative impact on multinational trading companies like Nike. Nike's factories in China must comply with U.S. tariff requirements if they want to transport goods to the United States for sale. It is precisely because of the trade war and the resulting U.S. tariffs that multinational goods manufactured in Chinese factories are becoming more difficult to sell in the United States. As a result, costs will increase, leading to higher commodity prices. Multinational trading companies function as a bridge between China-U.S. economic ties, providing a mitigating role in the state of China-U.S. relations.

The Effect of Covid-19

As of December 31, 2021, the cumulative number of confirmed cases of Covid-19 in the United States has exceeded 54 million, and the cumulative number of deaths has exceeded 820.000; both are the highest recorded figures in the world. Based on WHO, within the same time frame, the total number of confirmed (reported) cases of Covid-19 in mainland China was less than 85.000, and the total number of deaths was less than 4.650. The total population of China is four times that of the United States. According to Johns Hopkins University Covid Statistic, on July 31, 2020, the infection rate in the United States was 14.301 people per million, with a corresponding death rate of 476, while the infection rate per million in China was only 60.2, with a death rate of only 3.3 people per million.

Due to the impact of the pandemic, it is estimated that the overall loss of China's GDP in 2020 will be about 0.5 trillion U.S. dollars, accounting for about 3.5% of 2019's GDP (14.2 trillion U.S. dollars). It is estimated that the overall loss of the U.S. GDP will be about 1.8 trillion U.S. dollars, accounting for about 8.5% of the 2019 GDP (21.4 trillion U.S. dollars). Regardless of the absolute level or the relative level, the number of deaths in China due to the Covid-19 pandemic is much lower than that of the United States, and the resulting GDP loss to China is also much lower than that of the United States. For multinational trading companies, the Covid epidemic has undoubtedly brought huge losses. In many U.S. manufacturing headquarters, including Nike, large numbers of employees are facing job losses. In China, Nike also announced the news of 400 layoffs. The world economy has also stalled due to the pandemic.

Multinational trading companies already facing the impact of the pandemic must also face the ramifications of the China-U.S. trade war. For example, Nike's total annual revenue in 2020 has dropped by 20%, and its revenue in China has dropped by 23%.

Conclusion

Multinational trading companies play a very important role in China-U.S. economic relations and have built a basic bridge between China and the United States. The bridge is the official trade exchange between the two countries. Nike's success in China is not only dependent on China's complete industrial chain, but also on China's low-cost labor force and large consumer market. Nike has gradually integrated into the state of China-U.S. affairs. Nike needs investment from its U.S. headquarters and labor from the Chinese factories. These various needs and developments also connect private business exchanges between China and the United States. Moreover, multinational trading companies pay taxes in China and provide large numbers of jobs in China. For example, Nike, Apple, Google and other companies are all players in this regard. So far, China-U.S. economic relations have been affected by the trade war and the pandemic. However, the China-U.S. economic relationship requires both countries to take the first step at the same time, and easing the climate of the relationship is the most important thing. After all, China and the United States are going to have to reach this high level of cooperation out of necessity. It is hoped that China and the United States will work together to become a collaborative pioneer in the economic field and bring a great leap forward to the economies of all countries in the world.

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