

# The influence of return investment on enterprise financing cost

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## ABSTRACT

In this paper, the influence of return investment on the financing cost of enterprises is deeply studied, and several key factors related to it are discussed. Firstly, from the perspective of regional differences, this paper analyzes the influence of financial market characteristics, regulatory environment and tax policies in different regions on corporate financing decisions. It is found that fully considering regional differences will help enterprises to formulate financing strategies for return investment, reduce costs and improve efficiency. Secondly, by digging deep into the interaction between enterprise strategy and financing, it reveals how enterprise strategic choice shapes financing structure and its influence on financing cost. The choice of different strategies may lead to the difference of financing demand, and the synergy between the long-term stability strategy and financing cost highlights the complex relationship. Furthermore, from the perspective of global financial market, this paper discusses how enterprises can reduce costs through flexible financing by taking advantage of the opportunities of global financial market. The in-depth analysis of the factors of global financial market, such as exchange rate risk, interest rate difference and capital flow, enables enterprises to better grasp the financing opportunities on a global scale. Finally, suggestions for future research are put forward, including in-depth study of regional and industry differences, attention to the impact of emerging technologies on financing, and more interdisciplinary research methods.

## KEYWORDS

Return Investment; Enterprise financing cost; Theoretical analysis.

## 1. INTRODUCTION

Return investment is a special phenomenon of international direct investment. It refers to the flow of funds from one country to another and then back to the original country of origin. This kind of investment behavior usually involves foreign companies investing in areas other than their headquarters countries, and then returning the investment to their headquarters countries. Behind the return investment, it often involves the use of tax policies, regulatory environment and trade agreements in different countries. Return investment is a phenomenon of transnational capital flow, in which funds are invested in other countries by foreign subsidiaries and then returned to the headquarters country in various ways. This kind of capital cycle may involve various financial instruments, legal advantages and the strategy of flexible use of global resources by enterprises (Phillips, 2009).

The rise of return investment is closely related to globalization, the rise of multinational companies and the accelerated development of international trade. With the continuous integration of global economy, enterprises increasingly need to maximize benefits through global resource allocation and capital flow. Return investment provides a flexible way for enterprises to realize global resource integration by investing in different countries. On the one hand, enterprises may choose to invest in countries with loose tax policies to reduce their overall tax burden. By setting the capital flow between

different countries, enterprises can effectively plan their investments and find the most profitable investment opportunities. This may involve the use of preferential conditions of international laws and policies such as trade agreements and bilateral investment agreements. On the other hand, return investment is also related to enterprises seeking market opportunities and optimizing the allocation of production factors on a global scale. Enterprises may invest in subsidiaries in different countries to realize the efficient operation of global supply chain and better adapt to local market demand and regulatory requirements. However, the return investment has also brought a series of challenges and controversies. Some countries may supervise the circulation of such funds and take measures to ensure their legality and compliance. In addition, return investment may lead to tax evasion and other issues, which has become one of the focuses of international tax policy disputes. Generally speaking, return investment is a phenomenon worthy of attention in the global economy, which not only reflects the strategy of enterprises seeking maximum benefits on a global scale, but also leads to important discussions on international regulations and tax policies. Under this background, it is of great significance to deeply understand the motivation and influence of return investment for understanding the operating mechanism and future development trend of the global economy.

## **2. LITERATURE REVIEW**

The relationship between return investment and enterprise financing cost has always been a hot topic in international business research. In the existing literature, scholars have studied this relationship through various dimensions and methods to reveal the impact of return investment on the financing cost of enterprises. The following is a review of relevant literature.

### **2.1. Return investment and tax policy**

Early research focused on the phenomenon that enterprises use the differences of tax policies in return investment, which triggered a profound reflection on international tax rules. With the continuous advancement of globalization, it is more and more urgent for the international community to supervise the tax behavior of multinational enterprises. In this context, a series of international organizations and countries began to formulate and revise tax rules to cope with the tax challenges brought by cross-border capital flows of enterprises. The evolution of international tax rules is mainly reflected in two aspects. The first is to strengthen information transparency and tax compliance. The international community promotes the transparency standards of multinational enterprises, encourages enterprises to disclose their tax situation in various countries, and prevents the use of return investment and other means to regulate the flow of funds, thus protecting the tax rights and interests of various countries. The second is to strengthen international cooperation and information sharing mechanisms to ensure that countries can more effectively track and prevent corporate tax compliance (Maffini et al., 2019).

The global tax regulation behavior of enterprises has triggered an important discussion on ethics and legal norms. In the past, some enterprises may avoid tax by setting up subsidiaries in low-tax countries in a legal but sometimes controversial way. However, this kind of behavior has attracted the attention of the public and the international community, which has promoted the reform of moral and legal norms. More and more enterprises and international organizations have begun to emphasize the importance of corporate social responsibility, including observing the tax laws and regulations of various countries. In the process of this reform, some countries have strengthened the legal supervision of enterprises and promoted enterprises to more actively abide by local tax laws and regulations. At the same time, some multinational enterprises also realize that in the era of globalization, following moral and legal norms will help to maintain the reputation of enterprises, stabilize international relations and improve their competitiveness in the market.

## **2.2. Return Investment and Trade Agreement**

The synergy between international trade and return investment. The research shows that there is synergy between international trade and return investment, and enterprises can make better use of the advantages brought by trade agreements by making return investment in countries participating in trade agreements. Trade agreements usually include provisions such as tariff preference, trade facilitation and harmonization of laws and regulations, so that enterprises can enjoy more favorable trade conditions when investing among participating countries. This provides an important opportunity for enterprises to reduce financing costs. Secondly, the incentive effect of trade agreements on return investment. Some literatures deeply study the incentive effect of trade agreements on enterprises' return investment. Enterprises may realize the local production of products by setting up subsidiaries in countries participating in trade agreements, and then obtain the preferential tariffs and trade facilitation granted by trade agreements. This incentive mechanism may lead enterprises to participate in return investment more actively, thus promoting the global capital flow. Finally, the direct impact of trade agreements on financing costs. Some studies have further analyzed the direct impact of trade agreements on the financing costs of enterprises. Through the return investment of countries participating in trade agreements, enterprises may be able to obtain lower financing costs. This may be due to the improvement of the credibility of enterprises, because participation in trade agreements usually requires enterprises to abide by certain laws and standards, thus increasing the credibility of enterprises. On the other hand, trade agreements may provide a more stable market environment for enterprises, reduce investment risks, and thus reduce the cost of financing(Kox & Rojas, 2020).

## **2.3. Return investment and enterprise strategy**

First, global business planning and market adaptability. Enterprises plan their global business through return investment, which usually involves establishing branches or subsidiaries in different countries and regions. This diversified strategy makes enterprises more adaptable to the market and can better meet the needs of the local market. By diversifying investment around the world, enterprises can not only better cope with local market fluctuations, but also make full use of local resources and talents to provide more balanced and sustainable growth for their global business. Secondly, global resource optimization and the allocation of production factors. Return investment involves not only market adaptability, but also the optimal allocation of global resources. Enterprises can allocate production factors, such as labor, raw materials and technology, more effectively by making return investments in different countries. This helps to improve production efficiency and reduce production costs, thus having a positive impact on financing costs. Through the optimal allocation of global resources, enterprises can better cope with the changes of economic and political environment in different countries and improve their ability to resist market risks. Then, diversification strategy and the challenge of financing structure. Although diversification strategy is a strategic advantage for enterprise globalization, it will also bring the complexity and challenges of financing structure. The currency, regulations and market conditions in different countries may cause enterprises to adopt different financing methods and tools to adapt to their respective environments. This may increase the financing cost of enterprises, because diversified financial markets and regulatory risks need to be considered and dealt with.

## **2.4. Return investment and enterprise risk**

First, internationalization risk and return investment. With the return investment of enterprises, the degree of internationalization increases, and the related risks also increase significantly. Among them, exchange rate risk is a factor that cannot be ignored. Return investment involves crossing many countries and regions, and the fluctuation of currency exchange rate in each region may have a far-reaching impact on the financial situation of enterprises. Enterprises need to consider the changes of

currencies in different countries in their financing plans and formulate effective exchange rate risk management strategies to reduce their sensitivity to exchange rate fluctuations and thus protect the stability of their financing costs. Secondly, political risk and global uncertainty. Return investment often puts enterprises in the political environment of different countries, which also brings political risks. Political instability, changes in government policies and fluctuations in international relations may have a major impact on the operation of enterprises, and then affect their financing costs. Enterprises need to establish flexible strategic reserves and coping mechanisms to cope with global political risks and slow down their impact on financing costs. Then, the complexity of managing the global supply chain. Return investment is usually accompanied by the reconstruction of the global supply chain of enterprises. However, this also increases the complexity of the global supply chain, making enterprises face more operational and operational risks. Problems in any link of the supply chain, such as natural disasters, political events or global health crisis, may have a negative impact on the production and supply of enterprises, thus affecting the financing cost. Therefore, enterprises need to strengthen risk assessment and monitoring in global supply chain management to ensure the resilience and sustainability of their global business. Finally, enterprise risk management strategy. In order to reduce the uncertainty of financing cost caused by return investment, enterprises need to establish a comprehensive risk management strategy. This includes but is not limited to regular risk assessment, establishing flexible supply chain and production system, formulating exchange rate risk hedging strategy, strengthening legal compliance system and establishing crisis management team. Through a sound risk management mechanism, enterprises can better cope with external uncertainties, improve the sustainability of operations, and thus maintain a more stable channel for obtaining credit and funds in the financing market(Hu & Yang, 2022).

## **2.5. Regional differences and return investment**

Some studies have analyzed the impact of return investment from the perspective of regional differences. Economic and financial differences between regions may lead to different impacts of return investment on financing costs. Understanding these regional differences is very important for enterprises to optimize financing structure and manage risks on a global scale.

First of all, the economic and financial differences between regions are important factors that enterprises need to consider when making return investment. There may be great differences in financial system, interest rate level and availability of financing tools in different regions, which directly affects the financing cost of enterprises. In some developed regions, enterprises may get low-cost financing more easily, while in some emerging markets, the financing cost may be higher. Therefore, enterprises need to carefully evaluate the financing environment in different regions in the return investment decision, so as to optimize their financing structure and reduce costs. Secondly, the influence of economic development level on return investment. The different levels of economic development between regions directly affect the return on investment and financing costs of enterprises in this region. In some relatively developed areas, enterprises may face more fierce competition, but at the same time they can get richer resources and better infrastructure. In contrast, some developing countries may offer lower production costs, but at the same time it is accompanied by higher operational risks. Enterprises need to weigh the investment return and financing cost according to the economic development level of different regions in order to achieve the best investment decision. Then, the regulatory environment of regional financial markets. Regional differences are also reflected in the regulatory environment of financial markets. Different countries and regions have different regulations on financial markets, which directly affects the financing feasibility of enterprises in return investment. Some regions may have higher entry threshold for foreign investment, while others may be more open. Understanding and adapting to the legal environment in different regions can reduce the legal risk of enterprises in the process of financing and ensure the enforceability of financing plans. Finally, the regional differences of exchange rate and monetary policy. The regional differences of exchange rate and monetary policy have a direct

impact on the financial situation and financing cost of enterprises' return investment. There may be fluctuations in currencies in different regions, and changes in exchange rates may cause instability to the financial situation of enterprises. At the same time, monetary policies in different regions may lead to differences in interest rates and affect the financing costs of enterprises. Therefore, in the return investment decision-making, enterprises need to carefully analyze and flexibly respond to the exchange rate and monetary policy risks brought about by regional differences(Zhang & Wang 2021).

### **3. THEORETICAL ANALYSIS**

#### **3.1. International Business Theory**

International business theory emphasizes the strategy that enterprises choose to enter the market on a global scale, and this choice is directly related to the financing demand and cost. Through return investment, enterprises can deepen their participation in the market they have entered and realize more diversified market access. For enterprises, this means greater capital demand, because expanding business scale usually requires more financial support. In this process, the financing cost may be affected by market competition and capital market conditions. International business theory focuses on how enterprises allocate global resources, which has a direct impact on financing structure and cost. Through return investment, enterprises can allocate funds, talents and technology more flexibly to meet the needs of different countries and regions. This may lead enterprises to adopt diversified financing methods and choose appropriate financing tools according to the financial market conditions in different regions, thus affecting the overall financing cost. The concept of international division of labor in international business theory emphasizes how enterprises divide and integrate production factors on a global scale. In the global supply chain, return investment may involve different links of capital flow, including raw material procurement, production, logistics and so on. Enterprises need to consider how to support the operation of global supply chain through financing means, so as to ensure that the implementation of return investment is not subject to capital bottleneck, and at the same time reduce the overall cost of operation Contractor et al., 2021).

#### **3.2. Capital structure theory**

First of all, the balance of financing methods and return investment. Capital structure theory emphasizes how enterprises find a balance between debt and equity to maximize shareholder value. In return investment, enterprises need to carefully balance the advantages and disadvantages of these two financing methods. Debt financing may provide relatively low cost, but it is also accompanied by financial leverage and repayment pressure. Equity financing can reduce financial risks, but it will dilute shareholders' rights and interests. The choice of financing mode in the return investment decision of enterprises will directly affect the formation of their capital structure, and then affect the stability of financing costs. Secondly, the relationship between debt level and financing cost. Pay attention to the debt level of enterprises in the theory of capital structure. In the process of return investment, enterprises may obtain funds by issuing bonds or loans, but the level of debt directly affects the financing cost. High debt level may reduce the cost of financing, but it also increases the pressure of repayment and financial risks. Therefore, when considering debt financing, enterprises need to comprehensively consider debt repayment ability and interest expenses to ensure the sustainability of financing. Then, the equity ratio and investor confidence. The theory of capital structure involves the choice of the proportion of corporate equity, that is, the proportion of equity in the financing structure. In the return investment, choosing equity financing may improve the financial flexibility of the enterprise and reduce the repayment burden, but it may also lead to the dilution of the company's equity. Changes in the equity ratio may have an impact on investor confidence and the market value of stocks. Therefore, in the return investment decision, enterprises need to comprehensively consider the choice of equity ratio to maintain investor confidence and the company's valuation level(Sari & Sedana ,2020).

### **3.3. Global Financial Market Theory**

First, the formulation of transnational financing strategy. The global financial market theory provides enterprises with more choices, and they can obtain funds through financial markets in different countries and regions. When formulating the financing strategy of return investment, enterprises can consider choosing the most profitable financing tools with the help of the opportunities in the global financial market. This may include issuing bonds in international bond markets, using loans provided by international financial institutions, and raising funds on a global scale through stocks. By using the global financial market flexibly, enterprises are expected to reduce financing costs and improve financing efficiency. Secondly, exchange rate risk and financing cost. Global financial market theory guides us to pay attention to the potential impact of international exchange rate fluctuations on corporate financing costs. In return investment, enterprises may set foot in many countries, involving financing in different currencies. Exchange rate fluctuations may have a direct impact on financing costs, especially in debt financing. Enterprises need to regulate this potential risk through effective exchange rate risk management mechanism, such as currency options or forward contracts, in order to protect themselves from the adverse effects of exchange rate fluctuations. Then, the interest rate difference and financing choice. The global financial market theory points out that interest rates in different countries and regions are different. Enterprises can reduce financing costs by raising funds in areas with lower interest rates. This may involve choosing to issue bonds in different countries or using low-interest loans provided by international financial institutions. In order to achieve a more economical and efficient financing structure, enterprises should fully consider the global interest rate difference in financing choice in return investment. Finally, capital flow and financing liquidity: Global financial market theory emphasizes the free flow of capital. In return investment, enterprises need to pay attention to the global capital flow, because it is directly related to the liquidity of financing. If the global capital market is highly liquid, enterprises may get funds more easily and be less restricted in the financing process. However, the volatility of capital flow may also bring the uncertainty of financing liquidity, so enterprises need to carefully evaluate and formulate corresponding financing strategies(Siegel, 2021).

## **4. POLICY ANALYSIS**

### **4.1. In-depth study of regional differences**

In the in-depth study of regional differences, it is necessary to pay attention to the characteristics of financial markets, regulatory environment and tax policies in different regions, so as to more comprehensively understand the specific impact of regional differences on corporate financing costs. First of all, we should examine the characteristics of financial markets in various regions, including the degree of development of financial institutions, the liquidity of the market and the monetary policies of different countries. This will help enterprises to better grasp the opportunities and risks of financing in various regions, so as to formulate more accurate financing strategies. Secondly, in-depth study of the regulatory environment in various regions, especially those related to financing. Understanding the laws and regulations formulated by different countries and regions on enterprise financing activities, including the legal requirements of debt financing and equity financing, will help enterprises to better regulate the legal risks and ensure the legitimacy and transparency of their financing activities. In addition, it is also very important to inspect the tax policies between regions. There are differences in tax policies in different countries and regions, and enterprises can effectively reduce the overall financing cost by using these differences flexibly. Through in-depth study of tax policies in various regions, enterprises can choose their own financing methods more pertinently, maximize benefits and reduce tax burden.

## **4.2. Explore the interaction between corporate strategy and financing**

It is very important to dig deep into the interaction between enterprise strategy and financing to understand the relationship between return investment and financing cost. First of all, we need to pay attention to the shaping of financing structure by corporate strategic choice. Enterprises may choose different market entry methods, product positioning and business scope when formulating return investment strategies. These strategic decisions directly affect the demand for financing and the choice of financing structure. For example, if an enterprise chooses to make a return investment through mergers and acquisitions, it may need a lot of financial support, which will affect the design of its financing structure. Secondly, study how corporate strategy affects financing costs. Different strategic choices may lead to different risks and uncertainties, thus affecting the pricing of financing costs. The long-term, stable and consistent with market expectations of enterprise strategy will play an important role in determining the financing cost. If enterprises choose a high-risk and high-return strategy, they may face higher financing costs, because investors may demand higher returns to make up for potential risks. Further, we should examine the complex relationship between strategy and financing. The formulation of enterprise strategy is not only influenced by internal factors, but also by external environment. This complexity means that enterprises must carefully consider the financing cost when formulating strategies, and flexibly adjust the financing structure to adapt to the changing environment in the implementation of strategies. In addition, the study of the impact of corporate strategy on financing costs also needs to take into account the special factors of different industries and regions. Market competition, technological innovation and capital demand faced by different industries may have a significant impact on the relationship between strategy and financing. At the same time, the regulations, culture and financial market conditions in different regions may also lead enterprises to adopt different strategies in return investment and financing.

## **5. CONCLUSION**

After deeply studying the influence of return investment on the financing cost of enterprises, this study draws a series of key conclusions. First of all, regional differences are one of the important factors that affect corporate financing decisions. The analysis of financial market characteristics, regulatory environment and tax policies in different regions shows that enterprises should fully consider regional factors and formulate financing strategies for return investment in a more refined way. This will not only help to improve the financing efficiency, but also reduce the overall financing cost. Secondly, there is a complex and close relationship between enterprise strategic choice and financing. This study reveals how corporate strategy plays a key role in shaping financing structure, and points out the potential impact of different strategies on financing costs. The long-term, stability and consistency with market expectations of enterprise strategy are important factors to determine the financing cost, which needs careful consideration when making strategies. Furthermore, the analysis of global financial markets reveals how enterprises can use global opportunities to reduce financing costs. The in-depth analysis of exchange rate risk, interest rate difference and capital flow provides enterprises with more comprehensive financing options and enables them to adapt to the global financing environment more flexibly. Finally, the suggestions for future research emphasize digging deep into regional and industry differences, paying attention to the impact of emerging technologies on financing and adopting interdisciplinary research methods. These suggestions provide a useful direction for deepening the understanding of the relationship between return investment and enterprise financing cost in the future. On the whole, this study not only provides a new theoretical perspective for the academic research of return investment and financing, but also provides specific practical guidance for enterprises to make financing decisions on a global scale. This comprehensive and profound analysis is expected to promote enterprises to cope with the financing challenges in the era of globalization more scientifically and realize the optimal allocation of financing costs.

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