

中华人民共和国对外贸易经济合作部



**FOREIGN INVESTMENT IN CHINA'S REGIONAL DEVELOPMENT:
*PROSPECTS AND POLICY CHALLENGES***

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What Type of FDI for the Chinese Hinterland?

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What is good for China is not necessarily good for FDI.

The "West Development Strategy", launched by China in 1988, which attaches a significant role to FDIs in the regional development of inner-China, has to be dealt with very cautiously by foreign investors. Till now, this strategy is a political concept with vague market orientation. But FDIs are best located, where market conditions allow comparative advantages. Investment incentives for FDIs, an essential aspect of China's "Go-West-Policy", are the expression of political will, which bear the risk of disallocating investive funds on a non-sustainable basis.

First some statistical facts:

Till 2000, according to the Chinese Statistical Yearbooks, 86 % of FDIs were invested in the coastal regions; only 10 % in central China and 4 % in the western regions.

Related to population this is a spread of USD 530 : 60 : 34 or roughly 18 : 2 : 1 per capita.

Predictions on FDI flows after China's accession to WTO forecast that the eastern regions will profit most from an upsurge of FDIs. This will even widen the gap between the coast and inner-China.

After opening China to FDIs in 1978 we have witnessed a considerable shift of FDIs along the coastline – away from Kanton with over 80 % and BeiJing with over 10 % in the early eighties. ShangHai at that time had less than a 2 % share. With regard to the unpredictable rise in cost it might be questionable, if ShangHai is the right location for FDIs. But there

remains a vast potential for investment in the coastal regions, which hasn't yet been utilized.

The attractiveness of the east is the disadvantage of the central and western regions. It is:

- more liberalized and developed economy;
- better infrastructure;
- closer connection with the outside world;
- markets with purchasing power;
- higher level in scientific research and technical innovation;
- higher quality of labour forces.

Looking at this attractiveness, Mr. Long YongTu said at the OECD: "It is a very big challenge to attract foreign investment to the inner part of China. ... It doesn't have any comparative advantage to manufacturing and service projects. ... You should not expect more FDI to your region than the coastal areas, because that is against the law of economics."

Chinese government till now hasn't had a coherent approach towards the development of inner-China. Eventhough FDIs were given a crucial role for its development, neither a development concept nor rules on implementation have so far been issued. After years of political propagation of the "Go-West"-Campaign these missing rules have been announced for the end of this year or the beginning of 2002.

With regard to inner-China Mr. Lin JiaBin of the DRC said: "We know that we first have to develop the conditions for FDIs." Thanks to the Asian financial crisis and the sluggish development of global economy the Chinese government has – among other messures – invested massively into the physical infrastructure of inner-China, to give impetus to China's economy. This is very good for future prospects of FDIs. But the gap to the east remains wide.

You can't develop inner-China as a whole at one time. Chinese have followed the idea of developing some regional centres like Xi'An, WuHan, ChongQing, ChengDu etc., which eventually will lead to trickling-down and spreading-out effects.

In this Chinese context, what type of FDIs may be suitable for inner-China? There might be some general guidelines to be followed by foreign investors:

- 1) Don't rely on exports! Better even: no exports at all. Concentrate on the fragmented market of inner-China. Are you given the permission to only serve the inner markets? Is the inner market you approach sufficiently large and equipped with purchasing power for your product?
- 2) Don't rely on foreign imports! Be close to needed raw materials or semi-fabricated products.
- 3) Keep transport short! Keep close to your branch. Keep close to your customers.

- 4) Inner-China advertises BOT- or TOT-projects in infrastructure. Be cautious: projects are closely monitored by state administration; prices are often subject to political opportunity.
- 5) Infrastructure and projects of environmental protection are often financed by development aid and tendered internationally. Know the rules! Build up contacts with concerned institutions.
- 6) Long YongTu suggested for the development of SMEs: "If some foreign enterprise invests in a big project in the coastal area ... then there are so many other factories providing components to that big project, so the inner part of china could be part of the investment scheme."
- 7) Others suggest that if conditions for mergers and acquisition ameliorate in China there are many SOEs with idle fixed capital worth while purchasing. Be cautious: these inner-Chinese SOEs were located there because of political reasons.
- 8) Maybe services and research, as connected to ITC and less to physical infrastructure are also possible fields for FDIs in inner-China.

All this might be true – but yet, it is music for the future.

Summing up: not specific FDIs can be recommended for inner-China. Realised FDIs operate on an ad-hoc basis as the Chinese government has not yet developed a sustainable surrounding for FDIs in inner-China. Some FDIs operating on a ad-hoc basis fare well. But risks remain high.

"Go west" is an adventure – be cautious!