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The New Regional Patterns of FDI inflow:
Policy Orientation and the expected Performance

Prof. Jiang Xiaojuan
Chinese Academy of Social Sciences

The coastal areas of east China have markedly outstripped central and west China in the rate of economic growth since the late 1970s. Scarcity of inbound foreign capital in the central and west regions is a major reason behind this situation. Two factors will affect changes in the utilization of foreign capital in central and west China in the coming decade. First, the efforts of central and local governments in wooing foreign investors by offering better investment environments and more preferential policies. Second, with China's accession to the WTO, the Chinese policy towards foreign investment will be so liberal as to allow foreign investors in more fields and more flexible modes of investment. This paper takes a look at the impact of these two factors on, first, foreign capital utilization in central and west China, and, second, economic development of both regions as a whole.

I. China's Regional Economic Pattern: A Brief look

1. Big Regional Gap

According to the nation's administrative division, east China includes 12 coastal regions at the provincial level, that is, Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, Fujian, Guangdong, Beijing, Tianjin, Shanghai, Guangxi, and Hainan. Central China refers to the nine provinces of Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan. West China consists of 10 regions, including Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Tibet, Ningxia, Xinjiang and Chongqing.¹

1 This administrative division of east, central and west China has been in effect for many years. The "Go to West strategy" recently adopted by authorities, however, also includes the Guangxi Zhuang Autonomous Region and the Inner Mongolia Autonomous Region. To maintain consistency of information and statistics, however, the author of this paper has chosen to stick to the original division.

The Chinese economy is marked for uneven regional development. Judging from the level of economic development, east China is the most developed, central China comes second, and west China is trailing behind. Of China's 2000 GDP of 89404 billion yuan, east China accounted for 5752.7 billion yuan, central China 2625.0 billion yuan, and west China a meagre 1309.1 billion yuan. East China covers 13.5 percent of the nation's total territory and has 42 percent of the nation's total population, but it contributes 64.3 percent of the nation's GDP. It is thus clear that east China holds the key to the nation's economic growth. See Table 1.

Table 1: Basic Facts about East, Central and West China in 2000

Item Region	Area		Population		GDP		Per-capita GDP	
	Total (million km ²)	%	Total million	%	Total (100million yuan)	%	Total (yuan)	East China as 100
East	1.30	13.5	535.95	42.3	57527	64.3	10734	100
Central	2.85	29.7	434.82	34.4	26250	29.4	6037	56.2
West	5.45	56.8	295.06	23.3	13091	14.6	4437	41.3

Source: "China Statistical Abstract 2001".

2. The Gap between East, Central and West China: A Tendency to Wider

The gap between east, central and west China in economic development has been widening over the last two decades. This tendency is reflected in Tables 2 and 3.

The yawning gap between these three regions has been a result of different rates of regional economic growth. The national GNP registered an average annual increase of 9.8 percent during the period between 1979 and 1995, whereas the figures for east, central and west China were 12.8 percent, 9.7 percent and 8.7 percent respectively. The year 1999 saw the GDP grow 8.1 percent in east China, 7.4 percent in central China, and 6.2 percent in west China, and the tendency of east China ahead of central and west China in economic growth has remained to this day.

Table 2: Shares of East, Central and West China in the National GDP

Year	East	Central	West
1978	52.5	29.7	17.8
1992	56.6	28.6	14.8
1995	59.0	26.5	14.5
1998	56.0	29.1	14.6
2000	64.3	29.4	14.6

Source: "China Statistical Year Book" of related years, and "China Statistical Abstract 2001".

Table 3: Absolute and Relative Gaps between East and Central and West China in Per-Capita GDP (unit: yuan)

	1981	1985	1988	1991	1993	1994	1995	1998	2000
East	1602	2502	3262	3788	5235	6043	6823	9480	10734
Central and west	1099	1627	1986	2238	2782	3097	3405	4220	5390
Absolute Gap	503	875	1276	1550	2453	2946	3417	5260	5344
Central and west vis-à-vis East (%)	68.6	65.0	60.1	59.1	53.1	51.2	49.9	44.5	49.8

Source: "China Statistical Year Book" of related years, and "China Statistical Abstract 2001".

II. Regional Distribution of Foreign Investment and Trade

The regional economic gap in China in the last 20 years can be interpreted largely in terms of the degree of openness to foreign investment. East China is the major beneficiary of rising foreign trade and investment resulting from the open policy.

1 Regional Distribution: High FDI Density in Coastal Areas

Most of the FDI that has found its way into China is concentrated in coastal areas. In the 1980s, upwards of 90 percent of such investment was made in these areas. The figure went down somewhat in the 1990s, but the general trend remains the same. The coastal areas still accounts for 88 percent of the accumulated volume of FDI in China. The share of central and west regions is only 14 percent. Table 6 shows the Cumulative FDI in the different Parts of China . Table 7 shows the detailed data of each provinces.

Table 4 Cumulative FDI in East Central and West Parts of China as of 2000
Unit: \$US 100 Million

Locality	No. Of Project	Share %	Contractual Value	Share %	Realized Value	Share %
East	292561	80.40	5835.73	86.31	2988.72	85.80
Central	44580	12.25	516.49	7.64	305.92	8.78
West	26744	7.35	408.76	6.05	188.82	5.42

Source: NOFTEC: "Statistics on FDI in China 2001".

2. Salient Features of FIEs in the Region

1) Low Share in the Total Output

Output of FIEs in central and west China accounted for only small share of the total output of the regions, markedly lower than their counterparts in east China. The proportion of value added of the FIEs in the total output was 22 percent nationwide, 31 percent in east China, 8 percent in central China, and 6 percent in west China. In some cost Provinces like Fujian and Guangdong , the figure was higher than 50 percent (See Table 6 and Table 7).

Table 5. FDI Distribution by Province and Municipality as of 2000
Unit:US\$10,000

Locality	No.of Project	Share%	Contractual Value	Share%	Realized Value	Share%
Total	363885	100	67609693	100	34834552	100
Beijing	14725	4.36	30775567	4.55	1439843	4.13
Tianjin	13029	3.75	2764503	4.09	1327461	3.81
Hebei	9619	2.64	1412797	2.09	676948	1.95
Sanxi	2106	0.58	359755	0.53	152585	0.44
Linner Mongolia	1512	0.42	170361	0.25	64089	0.18
Liaoning	21218	5.83	3766505	5.57	1484450	4.26
Dalian	9035	2.48	2074980	3.07	857922	2.46
Jilin	5964	1.64	562778	0.83	292167	0.84
Heilongjiang	6198	1.70	590977	0.87	366392	1.05
Shanghai	22032	6.05	6473959	9.58	2833979	8.14
Jiangsu	40569	11.15	8528740	12.61	4373047	12.55
Zhejiang	18369	5.05	2422142	3.58	1118759	3.21
Ningbo	5090	1.40	866962	1.28	399944	1.15
Anhui	4677	1.29	551384	0.82	303430	0.87
Fujian	27766	7.63	6408271	9.48	3351038	9.62
Xiamen	4795	1.32	1742620	2.58	1080139	3.10
Jiangxi	5236	1.44	467767	0.69	271287	0.78
Shandong	29046	7.98	4161716	6.16	2110910	6.06
Qingdao	7602	2.09	1378358	2.04	654744	1.88
Henan	6325	1.74	829036	1.23	431743	1.24
Hubei	8157	2.24	979907	1.45	642956	1.85
Hunan	5721	1.57	737737	1.09	524340	1.51
Guangdong	84237	23.15	17184960	25.422	9819210	28.19
Shenzhen	17612	4.84	2767197	4.09	1575982	4.52
Guangxi	7003	1.92	1338747	1.98	694350	1.99
Hainan	8894	2.44	1189665	1.76	622978	1.79
Sichuan	5404	1.49	779433	1.15	317858	0.91
Chongqing	2898	0.80	404758	0.60	224886	0.65
Guizhou	1423	0.39	162236	0.24	42238	0.12
Yunnan	1959	0.54	282019	0.42	96978	0.28
Tibet	20	0.01	1263	0.00	3	0.00
Shaanxi	3197	0.88	585219	0.87	304595	0.87
Gansu	1379	0.38	105908	0.16	45616	0.13
Qinghai	242	0.07	36876	0.05	1968	0.01
Ningxia	587	0.16	47215	0.07	12856	0.04
Xinjiang	1002	0.28	105834	0.16	36967	0.11
Central Ministries Commissions	1601	0.44	1119669	1.66	845870	2.43

Source: MOFTEC: "Statistics on FDI in China 2001".

Table 6. Share of Value Added of Industry of FIES in Provinces (2000) (100 million)

Provinces	Total Value Added of Industries	Value Added of Industries by FIEs	Share of Value added of FIEs in the Total (%)
National Total	21564.74	4850.92	22
Beijing	584.48	218.01	37
Tianjin	490.09	178.78	36
Hebei	976.62	89.46	9
Sanxi	400.65	14.01	3
Inner Mongolia	235.73	14.49	6
Liaoning	935.84	153.11	16
Jilin	412.22	72.72	18
Heilongjiang	933.80	35.08	4
Shanghai	1541.71	727.25	47
Jiangsu	2234.58	544.12	24
Zhejiang	1267.75	217.39	17
Anhui	494.51	40.27	8
Fujian	665.02	369.85	57
Jiangxi	248.97	19.05	8
Shandong	2098.80	262.28	12
Henan	993.62	75.15	8
Hubei	946.42	101.96	11
Hunan	461.82	26.34	6
Guangdong	2788.16	1504.70	54
Guangxi	281.80	29.01	10
Hainan	54.63	11.07	20
Sichuan	239.47	30.71	13
Chongqing	634.31	40.17	6
Guizhou	196.04	4.05	2
Yunnan	491.12	18.69	4
Tibet	8.42	0.02	0.2
Shaanxi	345.95	35.79	10
Gansu	225.57	6.14	3
Qinghai	58.32	0.92	2
Ningxia	61.60	5.07	8
Xinjiang	256.72	5.28	2

Source: Cumulated by the date form NOFTEC: "Statistics on FDI in China 2001", and "China Statistical Abstract 2001".

Table 7. Share of Value Added of Industry of FIES in Regions

Region	Total Value Added of Industry	Value Added by FIEs	Share of Value added of FIEs in the Total
National total	21564.74	4850.92	22
East	13919.48	4305.03	31
Central	5127.74	399.07	8
West	2517.52	146.84	6

Source: Cumulated by the date form NOFTEC: “Statistics on FDI in China 2001”, and “China Statistical Abstract 2001” .

2) High Density of Project by Large Multinationals in Some Cities

Although central and west China compare unfavourably with the rest of the country in terms of number of foreign investors and percentage of foreign capital secured, they attract relatively more investment from large international companies. Our 1999 survey of 1,196 of joint ventures in China with investment from the globe’s Top 500 indicates that these international giants have fewer investment projects in Guangdong and Fujian provinces than in Shanghai, Tianjin, Beijing, Shenyang and such western cities as Xi’an, Chongqing and Chengdu.

Our survey of some of the enterprises shows that they are able to attract giant international companies because of their low production costs, their proximity to their clients, the great potentials of local and perepheral markets, and their geographical closeness to ancillary firms. (See Table 8.)

Table 8. Reasons for Multinationals to Investing in the Central and West Regions (N=96)

Reasons	Ratio of Enterprises pointed •%•
low production costs	87
Proximity to their clients	65
Closeness to ancillary firms	63
Potentials of local and perepheral market	57

Because of the diversity of choices available, the sum total is larger than 100 percent.

Source : Jiang (2000A).

3) Low Share of Exports

The FIEs in central and west China enjoy an export percentage markedly lower than their counterparts in east China. The proportion of exports of the FIEs in their total output is 43 percent nationwide, 46 percent in east China, 13 percent in central China, and 13 percent in west China. (See Table....)

Table 9. Proportion of exports of the FIEs in their total output by Provinces (2000)

Provinces	Total Output of FIEs (\$100 mil.)	Export of FIEs		Proportion of exports in their total output (%)
		(\$100mil.)	(\$100 mil.)	
National	23010.8	1194.41	9913.60	43
Beijing	10.340	28.71	238.29	23
Tianjin	1136.0	63.79	529.46	47
Hebei	381.2	10.12	84	22
Sanxi	59.2	1.52	12.62	21
Inner Mongolia	56.0	1.38	11.45	20
Liaoning	797.4	62.45	518.34	65
Jilin	312.2	3.92	32.54	10
Heilongjiang	132.8	2.67	22.16	17
Shanghai	3366.0	142.61	1183.66	35
Jiangsu	2894.8	144.53	1199.60	41
Zhejiang	1215.8	53.49	443.97	37
Anhui	187.7	4.00	33.2	18
Fujian	1538.7	75.97	630.55	41
Jiangxi	98.3	1.63	13.53	14
Shandong	1168.8	79.82	662.51	57
Henan	257.7	3.09	25.65	10
Hubei	352.4	4.30	35.69	10
Hunan	107.5	1.82	15.11	14
Guangdong	7206.5	495.10	4109.33	57
Guangxi	107.9	3.41	28.30	26
Hainan	43.6	3.05	25.32	58
Sichuan	126.4	0.90	7.47	06
Chongqing	158.4	3.42	28.39	18
Guizhou	16.5	0.40	3.32	20
Yunnan	57.1	0.81	6.72	12
Tibet	0.1	0.04	0.33	--
Shaanxi	126.2	1.16	9.63	8
Gansu	31.7	0.38	3.15	10
Qinghai	4.8	0.02	0.17	4
Ningxia	16.8	0.43	3.57	21
Xinjiang	18.8	0.91	7.55	40

Source: Cumulated by the date form NOFTEC: "Statistics on FDI in China 2001", and "China Statistical Abstract 2001".

Table 10. Proportion of exports of the FIEs in their total output by Regions

Regions	Total Output of FIEs (\$100 mil.)	Export of FIEs		Proportion of exports in their total output (%)
		(\$100 mil.)	(\$100 mil.)	
National	23010.8	1194.41	9913.60	43
East	20890.7	1162.51	9648.83	46
Central	1563.8	24.33	201.94	13
West	556.8	8.47	70.30	13

Source: Cumulated by the date form NOFTEC: "Statistics on FDI in China 2001", and "*China Statistical Abstract 2001*".

The low export percentage of FIEs in central and west China keeps their rate of contribution to local exports far below their eastern counterparts. In 2000 FIEs accounted for 48 percent of the nation's total volume of export; the figure was 51 percent in east China, but it was only 16 percent and 16 percent respectively in central and west China. (See Table).

Table 11. Contribution to local exports of FIEs by Provinces (2000)

Provinces	Total Export (\$100 mil.)	Export by FIEs (\$100 mil.)	Contribution to local exports of FIEs (%)
National	2492.1	1194.41	48
Beijing	76.6	28.71	37
Tianjin	76.8	63.79	83
Hebei	32.8	10.12	31
Sanxi	20.9	1.52	7
Inner Mongolia	11.2	1.38	12
Liaoning	105.9	62.45	59
Jilin	14.9	3.92	26
Heilongjiang	24.2	2.67	11
Shanghai	246.4	142.61	58
Jiangsu	263.8	144.53	55
Zhejiang	204.8	53.49	26
Anhui	21.2	4.00	19
Fujian	136.3	75.97	56
Jiangxi	11.9	1.63	14
Shandong	160.9	79.82	50
Henan	15.8	3.09	20
Hubei	19.0	4.30	23
Hunan	16.3	1.82	11
Guangdong	934.3	495.10	53
Guangxi	16.4	3.41	21
Hainan	6.1	3.05	50
Sichuan	10.6	0.90	8
Chongqing	14.3	3.42	24
Guizhou	4.8	0.40	8
Yunnan	10.9	0.81	7
Tibet	1.1	0.04	4
Shaanxi	13.3	1.16	9
Gansu	4.2	0.38	9
Qinghai	1.4	0.02	1
Ningxia	3.5	0.43	12
Xinjiang	11.5	0.91	8

Source: Cumulated by the date from NOFTEC: "Statistics on FDI in China 2001", and "China Statistical Abstract 2001".

Table 12. Contribution to local exports of FIEs by Regions (2000)

Regions	Total Export (\$ 100 mil.)	Export by FIEs (\$ 100 mil.)	Contribution to local exports of FIEs (%)
National	2492.1	1194.41	48
East	2261.1	1162.51	51
Central	155.4	24.33	16
West	75.6	8.47	11

Source: Cumulated by the date from MOFTEC: "Statistics on FDI in China 2001", and "China Statistical Abstract 2001".

III. Major Reasons Why Central and West China is Lagging Behind in FDI Inflow

There are several reasons behind the fact that central and west China is trailing way behind east China in attracting foreign investment.

1. Government policy

The opening up of China to the outside world is promoted gradually from one region to another. Throughout the 1980s and the first half of 1990s most of China's open areas were found along the sea coast, which became foreign investors' first choices thanks to their preferential policies and fine investment environment.

2 Graphic Location

As most investors in China are engaged in export-oriented processing industries, the coastal areas are convenient outlets for their products. Additionally, most investors from Hong Kong, Macao and Taiwan, and overseas Chinese, have their ancestral roots in Guangdong, Fujian and other coastal Chinese areas, and they have the desire to do business in their native places

3.Natural Conditions

The natural conditions of central and west China are harsher than those of coastal east China. West China, in particular, is covered by too many highlands, deserts and snow-clad mountains that are uninhabitable and too many lands that are not arable, and the farming conditions there are very harsh as compared with east China. This is also the case with regard to development of transportation, telecommunication and other branches of the infrastructure. Therefore, from a historical point of view, central and west China has all along been trailing behind east China in economic growth -- except for the first 30 post-liberation years in which considerable central government investment had brought a relatively faster growth rate in central and west China.

4. Central Government's Investments

For a long time after the adoption of the policy of reform and opening up to the outside world, China's strategy for development had been in favour of the eastern coastal region. During the 6th Five-Year Plan period (1980-1985), the government had positioned large numbers of major projects along the coast, boosting the share of this region in the nation's total volume of investment to 47 percent, which was considerably larger than those of central and west regions. That percentage continued to grow in the following five-year period, reaching 51.7 percent, while that of central and west China dropped further to 40.2 percent. This tendency continued to grow in the first five years of the 1990s, in 2000, with east China accounting for 57.8 of the nation's total investment, and he share of central and west China dropped to 38.7 percent. See Table 13.

The difference in the investment by the central government has brought about different investment environments for the three regions. East China has acquired a relatively complete infrastructure and a high urbanization level, and holds strong appeal to foreign investors. By contrast, central and west China is less appealing to perspective investors because of inconvenient transportation, backward telecommunications services, and poor urban environments.

Table 13 : Shares of East and Central China in the National Volume of Investment in Capital Construction during Different Five-year Plan Periods (%)

Period	East	Central and west	Central	West
1953-1957	36.9	46.8	28.8	18.0
1963-1965	34.9	58.2	32.7	25.6
1966-1970	26.9	64.7	29.8	34.9
1971-1975	35.5	54.4	29.9	24.5
1976-1980	42.2	50.0	30.1	19.9
1981-1985	47.7	46.5	29.3	17.2
1986-1990	51.7	40.2	24.4	15.8
1991-1995	54.2	38.2	23.5	14.7
1997	53.3	39.3		
2000	57.8	38.7	22.4	16.3

Sources: Statistics of surveys conducted in different years.

Note: The percentages of east, central and west China do not add up to 100% because some investment projects, such as those concerning the means of transportation, are not counted on a regional basis.

5. Resource-intensive Industries and Large size of Enterprises

Economic development of central and west China, industrial growth in particular, depends to a large degree on those large projects in mining, heavy and chemical industries invested by the government from the 1950s through the 1970s. For this reason, mining and heavy and chemical industries hold a high proportion of the industrial structure of central and west China.

Of the 40 industries, the ten with the largest output values in central and west China, are, in proper order: chemical raw materials and chemical manufacturing industry; non-metal manufacturing industry; foodstuff processing industry; transportation equipment industry; ferrous metal metallurgical and rolling industry; the supply of power, steam and hot water; textile industry; oil and gas industry, coal-mining industry; and tobacco industry.

Most of these industries, with the exception of the manufacturing of transportation equipment, are traditional industries plagued by slow growth and outdated processing techniques. The mining and raw materials industries are two glaring cases in this category.

Relevant to the high portion of mining, heavy and chemical industries in the industrial structure of central and west China is the fact that there are too many large enterprises in this region. For details, see Table 14.

In the past two decades, especially prior to the mid-1990s, foreign investment in China came mostly from medium-sized and small investors from Hong Kong and Taiwan, and most of it went to processing trade industries. Central and west China lacked the appeals to foreign investment because their industrial structures were predicated on resource-related industries, heavy and chemical industries as well as large enterprises.

Table 14. A Comparison of Scales of Industrial Enterprises Listed as Independent Accounting Units in 1998 (%)

	Nationwide			Central and west China		
	Large enterprises	Medium-sized ones	Small enterprises	Large enterprises	Medium-sized ones	Small enterprises
Value Added	43.9	13.3	42.8	47.4	12.0	40.5
Total number of workers	30.3	17.1	52.6	33.1	16.5	50.4
Net value of fixed assets	53.0	15.8	31.2	57.3	16.5	30.8
Total volume of profits and taxes	60.8	10.8	28.4	67.2	9.3	23.6

Sources: Wei Houkai: Tables 7-1, *Strategy for 21st-Century Industrial Development of West China*, 2000 edition, Henan People's Publishing House.

6. An Overweighed State Sector

The bulk of the industrial of the industry of central and west China was built after the founding of New China and under central planning, and that is why the state sector in this region held a higher portion than in the rest of the country in the early days of reform. See Table 15. In 1980, the state sector made up upwards of 80 percent of the industry of the nine provinces and autonomous regions in central and west China (Heilongjiang, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang) in terms of total industrial output value; the figure ran as high as 92.2 percent in Heilongjiang, which meant that the state owned almost the entire economy of that province².

During the 1980s, when market-oriented reform was making steady headway and non-state sectors were burgeoning in southeast coastal areas, non-state economy also begin to sprout in central and west China, though to a lesser degree. In 1992, when non-state sectors made up 51.5 percent of the national industrial output value, and reached as high as 74.1 percent and 71.8 percent respectively in the east Chinese provinces of Zhejiang and Jiangsu, the figures were only 38.90 percent for central China and 33.29 percent for west China; in Qinghai and Tibet it was less than 20 percent.³ By 2000, the portion of non-state sectors in the economy was 86.3percent in east China, 70.8 percent in central China, and 55.2 percent in west China. During the years of reform, non-state economy has emerged as a staunch force in China's national growth. The tardy development of the non-state sectors has seriously hampered economic growth of central and west China.

Table 15 : Shares of Non-State Sectors in the Total Output Value of Manufacturing Industry in East, Central and West Regions %

Region	1981	1989	1992	1995	1997	2000
National	25.24	43.94	48.50	66.00	74.48	79.2
East	29.79	56.26	59.64	72.67	79.76	86.3
Central	22.50	41.83	38.90	54.69	68.64	70.8
West	15.09	31.84	33.29	45.29	52.66	55.2

Source: Date before 1997, refer to Tan(1997), date for 2000 come from "China Statistical Abstract 2001" .

2 Refer to Tan Chenglin: *A Study of Differences in the Regional Economy of China*, 1997 edition, China Economic Press.

3 *Ibid.*

Medium-sized and small firms from overseas found it hard to cooperate with state-owned enterprises, the large ones in particular. For this reason, very few foreigners were making investment in central and west China.

IV. New policy Orientation and the Key Points

1. Policies in general

Since 1997 the Chinese government has formulated a series of preferential policies to encourage development in central and west regions. In The West Forum held in Xian in September 2001, some new policy framework are released to promote western Development. These policies cover the following three fields.

1) Increasing Government Investment in Central and West China

Since 1997 the central government budget has markedly increased the portion of funds for central and west China. As a result the figure rose from 41.5 percent to 51.5 percent during the 1993-1998 period. With a number of large projects coming under construction in west China, in particular, the increase of central budgetary funds in this region has been even more impressive. In 2000, the percentage of investment in west China in the central budget rose to 23.74 percent as against 18.7 percent in 1996. Sixty percent of the 117 key state industrial construction projects announced by the State Development Planning Commission in 1998 are located in central and west China. Construction of large projects with central government investment has triggered off an outpouring of non-government funds into central and west China.

The new Policy framework required that The central basic construction investment fund and proportion of long-term construction bonds funding western region should be increased. The loan of state policy bank, international financial organizations and foreign governmental preference loan to the western region should be increased.

In General, however, The Dominating Position of east region as the destination of capital investment has not changed so far due to the small portion of government fund in the total investment. In 2000, the share of east region in the nation's total investment in fixed assets was 57.8%, the central and west region were only 22.4% and 16.3% respectively.

2) Priority for the infrastructure Facilities

The central authorities have decided to continue to increase the portion of government investment in west China, and give priority to west China in arranging projects in energy, transportation, resources, high and new technology, and in shifting defence enterprises to civilian purposes, so long as the region holds some advantages in these projects.

3) Increasing fiscal transfer disbursement.

The scale of central fiscal transfer disbursement should be enlarged. A special fund will be set for the transfer disbursement of ethnic areas. Preference will be given to the western region in allocating the special fund of agriculture, social security, technology, education, politics and law, health, culture and relics. The central fiscal poverty reduction fund will mainly focus on poor western area.

4) Applying land use preferential policy.

Who ever restore the forest and grassland from cultivated land or plant forest and grassland on barren land will have the right to operate and use the grassland and the forest. They can obtain the land utilization power through leasing and be reduced on leasing charges. Land utilization privilege will last for 50 years, which can be renewed, inherited and transferred after that. The efficiency of land acquisition approval procedure should be improved.

5) Encourage rational movement of personnel. Subsidy system should be set for those working for border areas, burdened by central finance. Flexible policy will be applied to those working for the west. Entry and exit freedom will be given to foreign high-tech personnel, high-level managers and investors. Those with legal fixed residence, profession and income resources in cities or townships can apply for urban permanent residence permit according to their own willingness.

2. Policy of Encouraging FDI in the Regions

More preferential policies concerning FDI into the regions have been put into practice.

1) Applying tax preference policy.

For foreign invested enterprises of areas encouraged by the Government in the west, the enterprise income tax will be reduced to 15% for the next ten years. For minority areas, they will get more preferential policies. For newly established transportation, power, water conservancy, post and broadcasting enterprises in the west, their income tax will enjoy "two-year exemption and three-year reduction". Foreign incensement in energy high-tech, centralized-circuit and software will have preference same as other areas. For special production avenue out of reforestation and grassland restoration, the agricultural special production tax will be exempted for ten years. For land acquisition of national and provincial road construction, railway and civil aviation construction, the land acquisition tax will be exempted. These policies also fit domestic-funded enterprises .

2) Expanding areas of foreign investment.

Expand service and trade in the west. Sectors invested by foreign investment should include resources development, tourism development and banking. Experiment of foreign branch of banking, commercial retail enterprises and foreign trade enterprises be expanded to the western provinces, municipalities and autonomous regions. Foreign bank can have RMB currency business in the western region. Foreign investors can invest in telecommunication, insurance, tourism, lawyer firms, project design companies, railway and road cargo transportation and municipal public facility enterprises and etc.

3) Extending foreign investment channels.

Encouraging the foreign enterprises in China to reinvest to the west, BOT pilot projects can be expanded in the west to attract more foreign fund. TOT modality will also be tested. BOT and TOT project management method should be formulated soon. Regulations and methods for foreign-invested enterprises to list on the domestic or overseas stock market, attracting foreign investment by transferring of operation, equity and acquisition should be formulated and improved. The preferential loan of international financial organizations and foreign government should be well used to soften the loan conditions of international financial institutes for education, health, poverty reduction, ecological environment protection of the western region. We should try to get more grams from international and bilateral organizations and give priority to the projects of western region.

4) Releasing conditions for foreign fund use.

The foreign equity investment percentage can be released for foreign invested western infrastructure and advantage industry projects according to different industries. For the projects encouraged by the government, the percentage limitation of domestic loan will also be loosened. Foreign-invested projects can get co-financing including Renminbi currency. The proportion of foreign preferential loan can be increased according to real situation and conditions.

5) preferential policy on mineral resources .

Foreign investors involved in mineral resources other than petroleum can enjoy related preferential policies and exempt from one year of prospection and mining privilege premium and reduction of that for two years. Five years reduction of mineral resources compensation charges will be applied.

V. Impact on FDI inflow and the region's economy

The Central government's preferential policy, as discussed before, covering a wide range. Concerning the reality of the major aspects related to the FDI in central and west region, in the coming five to ten years time, the FDI inflow into the regions and the regional economic development may show the following features.

1. FDI inflow and the Reform of Large SOEs in the region

A major factor withholding economic growth in central and west China is the fact that the economies of both regions are dominated by so many large state-owned enterprises. In growth rate and efficiency level, however, these enterprises compare unfavourably with state or non-state enterprises of medium or small sizes in coastal areas.

It is a consensus that state-owned enterprises in China have been allowed to withdraw from ordinary competitive industries and trades since the 15th National Congress of the Chinese Communist Party was held in 1997. The 4th Plenary Session of the 15th Party Central Committee in 1999 set the guideline for adjusting the state asset stocks of large and medium-sized state-owned enterprises by reducing and cashing state-owned stocks.

However, The reform of large-scale of SOEs has failed to take off quickly. a major reason behind the lackadaisical progress is that very few qualified non-state investors at home are involved in this field. In the coming years, China will formulate policies to encourage foreign businesses to take part in reform of state-owned enterprises by such means as acquisition and merger. This will definitely speed up reform of large state-owned enterprises in central and west China.

To make these policies a success, however, three major problems have to be tackled: first, encouraging foreign investors to invest in state-owned enterprises through mergers and acquisitions; second, creating favourable conditions for solving these enterprises' overstaffing problems by speeding up establishment of a sound social security system; third, making sensible plans to solve the enterprises' debt problems. If a good job is done in solving these three major problems, then state-owned enterprises will definitely become hot cakes for foreign investors.

2. Accelerating in FDI inflow and Economic growth in some Cities

The consensus among economists at home and abroad concerning China's strategy for developing the west regions is that, instead of region-wide implementation, this strategy should be first implemented in a number of cities and areas where conditions are relatively good. Despite the overall backwardness of central and west China in economic and technological development, some of the large cities are actually in the front ranks in China in the potentials for science and technology, especially in terms of numbers of colleges, research institutes, and teachers and researchers. Xi'an (capital of Shaanxi Province), Chengdu (capital of Sichuan Province), and Chongqing (a municipality under the direct jurisdiction of the State Council), for instance, ran among the top ten cities in China with the largest numbers of colleges and research institutes. Secondly, west China holds unquestionable advantages in machinery and electronics and defence industries, thanks to the many well-equipped enterprises, built during the "Third Front" construction period, in the aircraft, aviation and chemical industries as well as the manufacturing of telecommunications devices and electronic components and equipment.

With the amelioration of the investment environment and the adoption of a policy of more openness towards foreign investors, major cities in central and west China will become more appealing to prospective investors from at home and abroad with their powerful technological resources, good industrial foundations, and relatively low costs. This trend has already manifested itself in the last couple of years, and quite a few transnational companies have already conducted inspections or invested in a number of central and western Chinese cities with a sound technological basis.

3. Acceleration of High-tech Industries

China's 10th Five-year Plan(2001-2005) attaches more importance to the high tech industries, Transnational companies, as major providers of technology and organizers of global division of labour, enjoy a considerable competitive edge in the development of high technology.

Foreign investment has dominated Chinese new and high technology industry since the mid-1990s. In 2000, foreign-invested enterprises accounted for about 55% of the added value of the new and high technology industry in this country, two thirds of the total number of applications for patent rights for new and high technology, and about four fifths of the total volume of Chinese new and high-tech exports. China's decision to speed up the high- tech industries has provided much more opportunities for foreign investors.

4. Stronger competitiveness of Labor-intensive Manufacturing Industry

Given the yawning per-capital income gap between different regions, central and west China will be able to keep their advantage in the labour-intensive manufacturing industry for a long period of time. Lack of new technology, information about the world market, and sales channels has prevented central and west China to bring the advantages of local labour-intensive industries into full play. With the Chinese market becoming increasingly open, the advantages of central and west China in low labour and other costs and local markets' large geographical coverage will eventually draw the attention of foreign investors.

With the adoption of the strategy to develop central and west China in a big way, the investment environment in these regions will be vastly improved. Some enterprises that have lost their competitive edge in coastal regions will move to central and west China in order to regain their competitiveness. We have ample reason to believe that traditional manufacturing industries in central and west China will be further strengthened. its competitive edge for a considerably long time to come.

5. Beneficial for West China to Expand Economic Relations and Traded with Neighbouring Countries

With a long borderline, southwest and northwest China is bordered by quite a few south and central Asian countries and Russia. China's WTO entry will help boost trade and investment relations with these neighbours and provide a great impetus for the economic development of west China.

There is great leeway for the development of trade between China and south Asian countries. According to an 1999 year-end *Economist* prognostication, in the first three years of the 21st century, the Chinese economic rim will lead the globe in economic development, and this will be followed by South Asia, where India will maintain its 7 percent annual economic growth rate while Pakistan, Nepal, Sri Lanka and Bangladesh will keep a growth rate of 4-5 percent. Economic growth will trigger off expansion in domestic demands.

China's trade relations with Russia and Kazakhstan, Kirghizstan and Tadzhikistan are small in scale. There are, however, some Salient Characteristics in Chinese Trade Relations with these Countries. That is the mutually complementary Relations. China's exports to these countries are basically the light manufacturing goods, especially the consumption goods. Textiles, leather and fur and their products, shoes, hats and umbrellas, vegetables and fruit constitute the lion's share of Chinese exports to Russia and the three central Asian countries. China's major import commodities from these countries are metals and products, chemicals, automobiles, aircraft, ships, transportation equipment, and mineral products.

in general, Because the trade and investment relationship between West China and its neighbouring countries are more mutually complementary than conflicting, once West China becomes a more open area, it will provide the west region more opportunities to share the benefits of development of the region with its neighbours.

6. Impact on The Region's Social Stability

Increases in FDI will also have some adverse impact on the economies of central and west China. A major aspect of it is that social stability will be up against more destabilizing problems. uncompetitive enterprises specially the SOEs, will be confronted with tougher competition. Some will go bankrupt more quickly than usual, causing structural unemployment problems and bad bank accounts and the Problem of unemployment.

These problems will have certain impact on social stability. To dealing with them, Local Government should study the experiences of other countries in maintaining social stability during the period of opening up to the outside world. More effective measures will be adopted to readjust the relationships between different interest groups, protect the disadvantaged members of society, do what it can to reduce the impact of the opening-up effort on the domestic scene, and ensure smooth progress of reform and the opening-up initiative.

Conclusion

With further implementation of "Go to West " Strategy,, economic development of central and west China will draw far more attention than before, their investment environment will be vastly improved, and their policies will be more beneficial to those who care to come to invest. Thus the influx of foreign capital will grow considerably. The influx of foreign capital will not only boost financial input in central and west China. More importantly, it will provide a major impetus to the economic restructuring, technological progress, international competitiveness, and openness of both regions, thereby putting their economies on a road of sustained and fast growth.

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