This document is circulated for information under item 9f of the agenda of the CIME meeting, 14-15 December 2000.
Introduction

1. China has actively sought foreign direct investment (FDI) and technology to promote its modernisation efforts and accelerate its export trade capabilities since its opening up in 1978. The total amount of incoming FDI rose from almost zero in that year to a high of about $110 billion in 1993 and $320 billion in 1999. Thus, China has become the world’s third (second until 1998) largest recipient of FDI, and the largest recipient among developing countries. The FDI volume has hovered around $40-50 billion in each of the past several years. China expects significantly increased inflows over the next five years following the anticipated WTO accession that would bring about the removal of a number of restrictions on foreign investment.

2. At present China is on the threshold of crucial developments and policy decisions concerning FDI, and keen to increase the level, quality and source diversity of incoming FDI, particularly from the OECD Member countries. The Chinese government continues its efforts to adjust its policy and institutional framework, as well as investment promotion policies, to the requirements of the changing international and domestic circumstances.

3. With a view to contributing to this ongoing process and as part of the OECD-China programme of co-operation and policy dialogue, this conference was co-organised by the OECD and the Chinese Ministry of Foreign Economic Co-operation and Trade (MOFTEC). The objectives of the conference included: (i) a thorough discussion of the driving forces and economic effects of FDI on China’s development; (ii) exchange of information and experiences on best FDI promotion practices, and (iii) elaboration of China’s future FDI plans and policies.

4. The conference provided a timely forum to discuss the impact of FDI in China and investment promotion policies in a unique setting involving all the key players. It brought together a representative group of more than 120 participants from the OECD, non-OECD and the Chinese central government, provinces, business and investment groups, international organisations, and research institutes.

5. Conference participants acknowledged the value and timeliness of the Conference. They recognise that it contributed to a better understanding of the issues regarding FDI in China and different perspectives of OECD Member countries, China’s central government and provinces, and foreign/Chinese investors, particularly at a time when China prepares for WTO accession and has been going through sweeping reforms. The following key points emerged in the presentations and discussions.

6. Attached is the final programme agenda. Papers presented to the conference can be consulted at http://www.oecd.org/media/release/Xiamenconf.htm
Conference Summary

**FDI Trends and Economic Impact**

7. In the first session, Chinese and international speakers discussed the recent FDI trends, determinants and policy challenges in both OECD countries and China. MOFTEC speakers emphasised that, although the quality of FDI in China improved in some sectors, there was a clear need to increase high-tech investment from diverse sources. They noted that FDI flows contributed significantly to the build up of the nation’s foreign exchange reserves, export drive, financial stability, and provided more than 20 million jobs. They explained that FDI’s contribution to China was not limited solely to the main economic indicators of employment, economic growth, trade and technology, but also to changing managerial concepts and invigorating the overall systematic vitality.

8. Chinese officials acknowledged the growing imbalance in regional distribution of FDI across the country – more in coastal areas and less in central and western China – and underlined the government’s determination to redress this situation. They also indicated that foreign investors were increasingly interested in the less developed western regions as a result of the government’s recent "Go West" development strategy. According to Chinese statistics, FDI flows to western regions increased by 19.60 percent last year. Tax revenues from foreign-invested enterprises in the country reached 36.2 billion yuan (1$=8.2 yuan as of November 2000) in January-March 2000 period, representing an increase of 31 percent over 1999.

**Investment Promotion: Best Practices and China**

9. The second session focused on the experiences of OECD member countries, non-member countries and regions in FDI promotion. Locate-in-Scotland (LiS) representative introduced the role of local government in FDI promotion, the institutional structures and policies deployed for this purpose, with a particular focus on the Scottish experience. LiS was working with Scottish enterprises and executives on three goals: aligning inward investment activities, integrating with the rest of the Scottish executives’ network, and delivering the best of Scotland.

10. Saxony Economic Development Corporation and Korean Ministry of Commerce, Industry and Energy also elaborated on their practices that might be relevant to China. The main theme was that the host country’s political commitment would play a key role in this process. Investment in France Agency and Malaysian Industrial Development Agency showed concrete examples of how best central government and local authorities could share roles in effectively promoting FDI inflows. The FIAS highlighted deficiencies and practical steps in assisting governments to attract higher levels of FDI through advice on improving the investment environment and marketing the investment environment more effectively.

11. In discussing China’s national and local experiences in this area, MOFTEC highlighted the varied efforts made for close co-operation among Chinese central and local governments, as well as co-operative schemes between China and other countries such as Japan, for example in the areas of banking and services sector institutions. Beijing Foreign Investment Service Centre (BFISC) elaborated the achievements of BFISC as an investment promotion agency in the capital city. As a result of specific measures to attract FDI, and of the increased confidence of foreign investors in the Chinese economic strategy, the inflow of FDI would expand substantially, Chinese experts stressed. However, there are limitations to attract further FDI, as outlined by foreign investors already operating in the Chinese market. They called for further reforms for a predictable framework if the Chinese government wanted to continue the upward FDI trend in the future.
China’s Future FDI Policy Orientation

12. Chinese speakers underlined that rational and active utilisation of FDI was a long-term strategic goal for China and that imminent WTO accession would further brighten the FDI prospects. Service industries would be the next target of FDI liberalisation. Despite some continuing challenges faced by foreign investors, the effort to make China a more hospitable environment for foreign investment, both in terms of rules at the sovereign level and operations on the ground, would continue slowly and steadily.

13. Chinese Academy of Social Sciences introduced China’s future FDI policy agenda, as embodied in the draft next five-year (2001-2005) plan: (i) further promotion of FDI into central and western region, (ii) more opening up of services sector, (iii) encouragement of the new technology transfer, and (iv) expediention of reform process of state-owned enterprises (SOEs) and (v) finally, more stimulation of mergers and acquisitions in the form of FDI. Chinese officials also stressed that China would continue to uphold the principle of "socialist market economy" and that SOEs would be financially reorganised with further liberalisation of small scale SOEs and more opening up of internationally competitive SOEs, but it would proceed gradually. China expects FDI to contribute to the painful process of SOE reform.

Prospects and Challenges

14. The third session "Experiences of FDI Companies in China" witnessed quite frank exchanges of opinion on the significance of China for foreign investment and specific problems that private investors have been facing. A.T. Kearney Group introduced the comparative FDI confidence index, which it developed for a number of emerging markets including China. China has ranked third on this index after the U.S. and the U.K. Speakers from foreign businesses in China such as Kodak Eastman Company, Xiamen Schaeff Engineering Machinery Corporation, Bayer China Limited, China International Capital Corporation, and BP Amoco offered insights as to how the existing problems could be addressed. The two particular cases from the petroleum and the telecommunications sectors were discussed, particularly with regard to CNPC and China Telecom’s going international through initial public offerings (IPOs) in New York, London and Hong Kong Stock Exchanges.

15. International speakers stressed the need for international co-operation and rules to provide the basis for greater stability and stronger economies. They emphasised the importance of a sound regulatory framework such as removing administrative barriers, rule of the law, efficiency and integrity of the public sector, good corporate governance, and national treatment. One panellist mentioned that, with 13 per cent share of FDI in total Chinese domestic capital, FDI was not a threatening force for the Chinese economy and that further liberalisation would be needed. There was a word of caution for foreign investors that the competition in China had become more intense in certain sectors and past habit of overestimation of Chinese market in those sectors should be cooled down.

16. In the concluding panel, it was stressed that China’s expected entry into the WTO would be a big step for FDI as it would reduce regulatory risks and open up sectors, previously off limits to foreign companies. Though there will be more growth in FDI in the services sectors, manufacturing is expected to account for a larger share of overall investment. The new areas that will open to foreign investment include telecom, energy, commercial banking, insurance, retail distribution, and agriculture. China’s adoption of laws, regulations and policies that are more consistent with international norms would mean greater transparency and a more level playing field for investors and this would lead to an improved investment climate. One speaker suggested that more provincial representation (reflecting the growing importance of provincial authorities in the relatively decentralised decision-making procedure) in future FDI conferences was needed for such discussions to be comprehensive. Chinese officials were also invited to pay more attention to economics rather than politics of FDI.
Next Steps

17. At the end of the conference, MOFTEC expressed appreciation for the wealth of information, exchange of experiences and views that occurred during the conference, and underlined that they would serve as useful inputs to China’s policy-making. MOFTEC also asked for the continuation of similar meetings in order for the Chinese and the international investors to better understand each other’s positions.

18. As for future work, the following activities have been suggested during the concluding session of the conference for China’s possible participation and consideration:

- OECD Global Investment Forum (currently under consideration)
- Regional Corporate Governance Roundtable
- OECD Guidelines for Multinational Enterprises
- OECD Forum on Enterprise Development, and
ANNEX 1

OECD/CHINA CONFERENCE
FOREIGN DIRECT INVESTMENT IN CHINA - CHALLENGES AND PROSPECTS
FINAL PROGRAMME AGENDA

Objectives

1. China is on the threshold of crucial developments and policy decisions concerning foreign investment, and keen to increase the levels and quality of incoming FDI, particularly from the OECD Member countries. The Chinese government continues its efforts to adjust its policy and institutional framework, as well as investment promotion policies, to the requirements of the changing international and domestic circumstances. This conference has been co-organised by the OECD and the MOFTEC with a view to contributing to this ongoing process and as part of the OECD-China programme of co-operation and policy dialogue.

2. The objectives of the conference include (i) a thorough discussion of the driving forces and economic effects of FDI on China’s development and the future FDI plans and policies; and (ii) exchange of information and experiences on best FDI promotion practices. It will be attended by senior officials and executives from the OECD and the China government circles, business and investment groups, international organizations, and research institutes.

Background

3. China has actively sought FDI and technology to promote its modernisation efforts and accelerate its export trade capabilities. The amount of incoming FDI in China rose from almost zero in 1978 to a high of about $110 billion in 1993, when China has become the world’s second largest recipient of FDI in the world, and the largest recipient among developing countries. It has since hovered around $40-50 billion in each of the past several years. China expects significant inflows over the next five years following the anticipated WTO accession.

4. This spectacular growth in FDI has been fuelled by various factors, including the country’s large and continuously growing domestic market, its export-oriented strategy and successful penetration of world markets, the liberalisation of its inward-FDI regime, and spillover effects of industrial upgrading and economic growth in neighbouring economies. China’s investment abroad has also risen from politically motivated aid projects to large-scale commercial business ventures.

5. Despite some continuing challenges faced by foreign investors, the effort to make China a more hospitable environment for foreign investment, both in terms of rules at the sovereign level and operations on the ground, has continued slowly and steadily. As a result of specific measures to attract FDI, and of the

1. The realised FDI stock reached $320 billion at the end of 1999 while contracted value was $630 billion, according to MOFTEC.
increased confidence of foreign investors in the Chinese economic strategy, the inflow of FDI has expanded substantially. China’s markets are becoming more open to foreign investment. Some industries, such as banking, insurance and telecommunications, may be altered fundamentally. Yet others, such as consumer products and electronics, are already competitive and open to global competition and thus will see little real change. Overall, WTO membership will make China far more accessible to large non-Chinese companies.

6. China’s complex system of investment incentives has developed and expanded since the late 1970s. The Special Economic Zones of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, dozens of development zones and designated inland cities all promote investment with unique packages of tax incentives. The Pudong area in Shanghai is particularly noteworthy as a location for Chinese experiments in liberalisation, which are then extended nation-wide. In recent years, Chinese authorities have also established a number of free ports and bonded zones. The incentives available include significant reductions in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure services. The Chinese authorities have also established special preferences for projects involving high-tech and export-oriented investments.

7. Anticipated WTO membership and other reforms in progress, coupled with the pressing demands of globalisation, certainly do mark a crucial step in the transformation of the highly dynamic Chinese economy and, accordingly, its FDI policies. Hence, this conference will provide a timely forum to discuss the impact of FDI in China and investment promotion policies in a unique setting involving all the key players in China’s FDI scene.
PROGRAMME AGENDA

Session I: SETTING THE SCENE

11 September, Monday

8.00-8.50 Registration

Opening Remarks

09.00-09.15 Ms. Ma Xiuhong, Assistant Deputy Minister of Foreign Trade and Economic Co-operation, China


Recent Foreign Direct Investment (FDI) Trends and Determinants in the OECD and China

Co-Chairs: Ambassador Marino Baldi and Minister Ma Xiuhong

09.30-09.45 Recent Trends and Main Characteristics of FDI in China, Mr. Liu Zuozhang, Deputy Director-General, Foreign Investment Administration (FIA), MOFTEC

09.45-10.00 Main Determinants and Policy Impacts of FDI on the Chinese Economy, Mr. Rainer Geiger, Deputy Director, OECD Secretariat

10.00-10.15 Coffee Break

Panel Discussion

10.15-10.30 FDI Policy Framework and Guidelines in China – Mr. Ma Yu, Chinese Academy of Social Sciences

10.30-10.45 An OECD Member Country Perspective, Mr. Peter Kreutzberger, Counsellor, German Delegation to the OECD, Paris.

10.45-11.00 Challenges Faced by Foreign Investors, Mr. Mick Shadwick, Minister-Counsellor, Senior Australian Treasury Representative, Embassy of Australia, China
11.00-11.15 An Academic Perspective on FDI in China, Dr Chunlai Chen, Adelaide University Australia
11.15-12.00 Interventions/Question and answers

**Session II: INVESTMENT PROMOTION POLICIES, EXPERIENCES AND PRACTICES**

**Co-chairs:** Mr. Andrew Proctor and Mr. Xie Jian Chen, Deputy Director General, FIA, MOFTEC.

**International experiences:**

14.00-14.15 Role of Local Governments in Foreign Investment Promotion: The Case of Scotland, Mr. Brian Shaw - Director Asia, “Locate in Scotland”.

14.15-14.45 *Promoting Foreign Investment in Saxony*, Mr. Günter Metzger, President and CEO, Saxony Economic Development Corporation, Germany.


15:00-15.15 *The French Experience*, Mr. Jean-Louis Gaudin, Regional Manager, DATAR/Invest in France Agency for Hong Kong and Singapore.

15.15-15:30 *The Malaysian Experience*, Ms. Kaziah Abdul Kadir, Director, Industrial Development Agency

15.30-15.50 Interventions/Question and Answers

15.50-16.05 *Foreign Investment Advisory Services (FIAS)*, Mr. Andrew Proctor, Regional Manager for Asia

16.05-16.20 World Association of Investment Promotion Agencies, Mr. Arvind Mayaram

16.20-16.35 Coffee Break

**China’s National and Local Experiences**

16.35-16.50 Role of Central Government in Foreign Investment Promotion

16.50-17.05 City and Provincial Investment Promotion Experience

- Shanghai Foreign Investment Development Bank – Mr. Douglas Dang, Assistant to President

- Beijing Foreign Investors Service Centre, Mr. Guo Song, Deputy Director General

17.05-18.00 Interventions/Question and Answers
12 September, Tuesday

**SESSION III: BUSINESS COMMUNITY PERSPECTIVES**

Chairman: Mr. Thomas Klotz, Vice-President, A.T. Kearney

09.00-9.20  *Global Companies and Investment in China*, Mr. Thomas Klotz, Vice-President, A.T. Kearney

09.20-9.35  *Perspectives of International Companies*, Mr. Kenneth Tung, Vice President and Director of Legal Affairs, Eastman Kodak Company, Greater China Region

09.35-9.50  *The Findings of the Questionnaire to Foreign Investors in China*, Ms. Yang Fang, Director, China Association of Enterprises with Foreign Investment.

09.50-10.05 Coffee Break

**Panel on Sectoral Issues**

10.05-11.45

− Prospects and Challenges for Foreign Investment in China’s Energy Industries, Mr. Mehmet Ogutcu, Principal Administrator, OECD

− Investment Banking and Telecommunications, Mr. Xu Zhaotong, Manager, China International Capital Corporation

− Heavy Machinery Industry: Hands-on Experience, Mr. Bernhard A.F. Ewald, General Manager, Laeis Bucher Foshan, China

Interventions/Questions and answers
THE WAY FORWARD

11.45-12.45

Co-Chairs: Mr. Rainer Geiger and Mr. Hu Jing Yan, Director General of FIA, MOFTEC

Panelists

- Professor Christopher FINDLAY, Asia-Pacific School of Economics and Management, Australian National University
- Mr. Tom Delare, Deputy Director, Office of Investment Affairs, U.S. State Department, United States
- Mr. Rainer Geiger, OECD
- Mr. Liu Zuozhang, MOFTEC