Reforms Could Boost China’s Ability to Attract Foreign Investment

China’s scorecard for attracting foreign investment reads like this: Trying hard, doing well, but could do even better.

That is the assessment of a just-published OECD report, *Investment Policy Review of China -- Progress and Reform Challenges*. In 2002, China became the world’s largest recipient of total foreign direct investment (FDI), attracting nearly $53 billion. That performance comes thanks to China’s progress on structural reforms, its accession to the World Trade Organization, and efforts to bring regulations in line with international standards.

But there’s more to the story. At $30 per capita, China receives less FDI than other major developing countries, such as Brazil with $195 per capita. Moreover, in the 25 years since China opened the door to foreign investment, much of the spending has been concentrated in low-technology, labour-intensive manufacturing projects. A relatively low share of FDI has come from the world’s most prolific investors, historically OECD member countries.

China’s challenge now is to develop a more transparent business environment with a clear legal and regulatory framework. That should help attract higher-quality investments that are focused on long-term, high-technology, capital-intensive projects.

How can China do this? Working in co-operation with the Chinese government, the OECD has identified policy options designed to make China’s business environment more open, predictable and rules-based. Some options are:

- Replace the complicated system of authorized foreign investment categories with a simple and shorter list of sectors that the government wishes to remain closed to outside investors.
- Streamline and accelerate the cumbersome approval process for foreign investment projects;
- Open stock and bond markets to enterprises that are foreign-owned, a step that would enhance their role in restructuring China’s state-owned industries;
- Increase transparency, particularly in the process of formulating laws and regulations. Adopt clear, open rules on matters like taxation and labour benefits. Align official FDI statistics with international standards such as those recommended by the IMF and OECD.
- Continue efforts to establish the rule of law through improvements in the operation and independence of the court system.

Journalists may obtain a copy of the report from the Media Relations Division (news.contact@oecd.org). For further information about the report, journalists are invited to contact Ken Davies, Principal Administrator, Capital Movements, International Investment and Services Division (tel. 33 1 45 24 19 74 or ken.davies@oecd.org).

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