

Influences and Countermeasures of the Policies Expanding Domestic Demand for Foreign-investment Enterprises

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Abstract

Since 2007, the global financial crisis induced by the subprime crisis of US has been more and more serious, with bigger and bigger influencing range. The global economy begun to slide, the financial market fluctuated, many enterprises went bankrupt, the unemployment rate further increased, and the consumption descended, which all make the development of foreign-investment enterprises in China be challenged seriously. In the change of economic situation of the world, to continually develop, foreign-investment enterprises must consider the situation, find a foothold to expand the domestic market, and further utilize the policy advantage of expanding the domestic demand to promote the healthy development of the economic enterprises.

Keywords: Financial crisis, Expanding domestic demand, Foreign-investment enterprises, Financing

1. The current policies expanding the domestic demand in China

To expand domestic demand is not to expand domestic consumption which includes the investment demand and the consumption demand. But expanding the domestic demand is to start the investment market by many positive financial and monetary policies such as issuing bonds and properly loosen monetary policies, and start the consumption market by the economic levies such as credit to drive the growth of the economy.

Expanding domestic demand is a strategic guidance which should be insisted for China, and the positively financial policies should be implemented continually, and the financial behaviors have been the important part of the strategic guidance of expanding domestic demand. Both expanding domestic demand and positive financial policies should be insisted for a long time, which needs new policy measures. Up to now, in the policy research, the personnel income tax adjustment, the change from the production-value-added tax to the consumption-value-added tax, and the reform of the agricultural tax are all closely related with expanding domestic demand. It is obvious that to adjust the social and economic relationship among many aspects by the tax reform will be the important direction that the financial policies participate in the strategy of expanding domestic demand.

At Nov 5, 2009, the premier of the State Council, Wen Jiabao convoked the executive meeting of the State Council, and studied the measures to further expand domestic demand and promote the stable and quick growth of the economy. In that meeting, ten measures were confirmed to further expand domestic demand and promote the stable and quick growth of the economy.

2. The actuality of the foreign-investment enterprise in China

Using foreign investment is the important part of the basic national policy of the opening up, and the attractive force of China to foreign investment has been ranking first. From Jan to Nov in 2007, the practical using of foreign investment in China was 61.674 billion dollars, a comparative growth rate of 13.66%, which ranked first in the developing countries, and fourth in the world. From Jan to Dec in 2008, there were 27514 foreign invested enterprises founded in China, a comparative decrease rate of 27.35%, and the actual used foreign investment was 92.395 billion dollars, a comparative growth rate of 23.58%. Because of the influence of financial crisis, in the Dec of 2008, there were 2562 foreign invested enterprises founded in China, a comparative decrease rate of 25.78%, and the actual used foreign investment was 5.978 billion dollars, a comparative decrease rate of 5.73%. The used foreign capitals in 2009 in China were 90.03 billion dollars, a comparative decrease rate of 2.6%. Up to the late of 2009, there were 683 thousand foreign-invested enterprises in China, and the direct foreign capitals used in China had achieved 945.4 billion dollars. In 2009, the industrial production value, the tax, and the export of foreign-invested enterprises respectively achieved 28%, 22.7%, and 55.9% of the total level of China, and the direct employment achieved 45 million workers. In the situation that the transnational direct investment decreased for 40%, there still were 90 billion dollars capitals attracted to China, only a comparative decrease rate of 2.6%, ranked second in the world. In the first season of 2010, the above two numbers respectively increased

19.9% (5459 new founded foreign-invested enterprises) and 7.7% (23.44 billion dollars). Because of the excellent representation and quick development of Chinese economy and continually perfecting investment environment, the foreign-invested enterprises in China operated well in 2009, and many enterprises had been the growth spot and the profit center of the global business of the mother company. The "Commercial Environment Investigation of 2010" issued by the American Chamber of Commerce in China indicated that there were 71% of American companies in China realized payoff in 2009, and 82% of foreign-invested enterprises showed optimism for the future business in China, and 91% of foreign-invested enterprises were optimistic for the future five years' development in China. The foreign direct investment confidence index investigation about numerous large transnational companies issued by the Kearney Company and the UNCTAD showed that China had been the most attractive invested host country in the world again.

3. Influence of the policy expanding the domestic demand on the foreign-investment enterprises

3.1 Opportunities of foreign-investment enterprise in China

3.1.1 Improving the consumption environment in China

As is known to everyone, China has continually kept about 10% GDP growth rate in five years, and its economic gross has exceeded Germany, ranking the fourth in the world. In the year of 2009, the worst year of financial crisis, the GDP growth rate of China still achieved the anticipated target, 8%, and the per capita GDP first exceeded 3000 dollars at the same year. One important cause that China could attract such more foreign investments is that the large consumption market in China. In addition, to promote the stable and sustainable development of China, the government is expanding the consumption demand, especially for the residents' consumption demand. Expanding consumption should be combined with perfecting the income distribution policies, expanding the employment, and developing the service industry. The most important is to increase the residents' income and enhance the consumption ability, strengthen the adjustment of the national income distribution and enhance the low and middle income residents' income proportions, try to eliminate the systems and policies obstacles limiting the consumption and improve residents' consumption anticipations, lead and promote residents to expand the consumption demand. For Chinese enterprises including foreign-invested enterprises in China, it is a good opportunity.

3.1.2 Further improving the investment environment

In 2009, facing the serious challenge of the international financial crisis, Chinese government adopted total countermeasures to expand the domestic demand as the base guaranteeing the growth, insist the opening-up, largely push the convenience of investment and trade, and create good development environment to go out from the corner and realize the growth for those various enterprises including foreign-invested enterprises.

3.1.3 Solving the problem of financing difficulty for foreign-investment enterprises

First, simplify the examination and approval procedures, enhance the work efficiency, loosen the policy, and reduce the loan interests. Second, support enterprises to live through the financial crisis, and provide unsecured petty loans to small and middle enterprises. Third, reduce the loan threshold of national banks, and lower the loan interest of the credit association based on the base interest. Relative personnel in the Foreign Investment Department of the Ministry of Commerce told the reporter of China Securities Journal that the department would strengthen the financial services for foreign-invested enterprises, research and perfect relative policies that foreign investment enterprises came into the market in China, and induct good-quality foreign-invested enterprises to come into the market at proper time to deliver the capital pressure, and provide convenience for these enterprises to develop the domestic market, and help the enterprises to stabilize the production scale and reduce production stopping and staff reducing.

3.1.4 Providing fresh opportunity for the foreign-investment enterprises investing in the Midwest of China

Through the ablation of the financial crisis, to expand domestic demand and attract foreign investment, China reduced the admittance standard that foreign investment enterprises entered into the Midwest of China, and strengthened the traffic infrastructure construction of the West, and improved the western medial and educational career, and welcome the entrance of foreign investment enterprises by better investment environment, and provided better opportunity for the development of foreign-invested enterprises.

3.2 Challenges of foreign-investment enterprises in China

The implementation of one policy certainly would bring some negative influence on the economic body with some opportunities. Though the expanding domestic policy of China has been widely welcome by domestic and foreign cycles, but it inevitably would make the economic enterprises to be challenged.

3.2.1 Impacting the foreign-investment enterprises in special industries

The new “Catalogue for the Guidance of Foreign Investment Industries” has adjusted the policies about some industries, but for other special industries, the issuance of the new catalogue would largely impact and influence some projects which have been invested in the former stage for foreign-invested enterprises. For example, the development and construction of the common residence for foreign-invested enterprises was deleted from the encourage catalogue; and in the limitation catalogue, the item that foreign-invested enterprises could invest in the secondary market transactions of the real estate and the estate agency or the broker company was added; and the foreign-invested enterprises could not been encouraged to invest in some rare or irreproducible important mines, and some important irreproducible mines would not be allowed to be explored or developed by foreign-invested enterprises; the foreign-invested projects with high energy consumption, high material consumption, and high pollution would be limited or forbidden to enter into China; and the news web, the network video service, the internet service business place, the internet culture management, the construction and management of golf course would forbid foreign-invested enterprises to enter, and in the industries which foreign-invested enterprises were forbidden, many projects including the human sperm, the gene diagnose and treatment technology development and application, the land measurement, the sea mapping, the aviation photograph and mapping, the district borderline mapping, the relief mapping in the map marking, and the navigation electric marking of the common map marking were added.

3.2.2 The value-added tax reform will increase the competitive force for domestic enterprises and enlarge the market pressure of foreign-investment enterprises

In ten measures of expanding domestic demand issued by the Central Government, one of them was to comprehensively implement the value-added transformation reform in all regions and industries in China, and encourage the technical reform of enterprises, and reduce the burden of 120 billion Yuan for enterprises, which extent exceeded the estimation of the market. It is another important measure after the combination of two taxes in the taxation reform, and comparing with other measures, its meaning is more important. In the big environment of global economic regression, China government properly pushed the value-added tax transformation reform, which is very important to strengthen the development power of enterprises, and enhance the competitive force and the anti-risk capacity for Chinese enterprises, and overcome the disadvantageous influences to the economy of China from the international financial crisis. Though it is an absolute advantage for domestic enterprises, but not for foreign-invested enterprise, that means foreign-invested enterprises will lose the tax preference in China, and with the combination of two taxes in 2007 and the issuance of new labor law, foreign-invested enterprises will face more challenges in China.

4. Countermeasures of foreign-investment enterprises

4.1 Developing new domestic market

The emphasis of expanding domestic demand of China is to improve the people’s livelihood and stimulate the domestic consumption, which is good news for foreign-invested enterprises in China. By improving the people’s livelihood, solving the problem of employment, strengthening the construction of the social welfare system such as medicine, residents’ fears could be eliminated and they could spend freely. At present, most foreign-invested enterprises in China orient their market in international market and the front-line cities in China, and pay more attention to citizens’ purchasing power, so foreign-invested enterprises could extend the market to the second and third-line cities and wide rural market. The second and third-line cities have relatively loose competition and wider market space. Many big enterprises always centralize in the front-line cities, with drastic competition, and the market share of each enterprise is limited, and with expensive operation cost, the profit growth is difficult to be exceeded. Comparing with that, the second and third-line cities have relatively lagged market competition, and with the continual enhancement of the people’s life level, the people’s consumption strength will strengthen continually, and the consumption foreground will be more anticipated. But these cities also have higher requirements for foreign-investment enterprises, and the first one is the “localization”.

4.2 Strengthening the investment in the Midwest of China

In recent years, the investment environment of the Midwest of China is continually being improved, and the relative advantage is being ascended, and the market condition transferring foreign investment begins to form, and the government improves the occasion and increases the guidance and encouragement degree. The FDI in the east coastal regions of China begin to transfer to the Midwest, centralizing in Hunan, Hubei, Jiangxi, Sichuan, and Chongqing, and these provinces and cities have convenient traffic, quick information communication, and lower labor cost, and have been the new spots attracting the FDI in coastal regions. Comparing with other countries in the world, foreign-invested enterprises have large opportunities in China, especially for some

industries facing domestic demands, such as quick consumable, retail, financial industry, and the consumption industries about the infrastructure. The cheap labor force and the enhancement of the labor quality in west China more suit for the foreign-invested enterprises in the third industry. Because the market admittance condition of the service industry is gradually descended, with the preference policies of financing, foreign-invested enterprises in west of China will certainly have good foreground in the service industry. To relieve the financing difficult of foreign-invested small and middle enterprise, the ministry of finance issued a series of support policy, which contain large commercial opportunities for the financing expansion and the transformation development of small and middle enterprises.

4.3 Establishing the R&D center in China

China has deep human resources, and the labor cost of the R&D is lower, and with the preference tax policy, foreign-invested enterprises could establish their R&D centers in China to centralize more excellent R&D talents, and accumulate talents for the long-term development. For the market, more and more transnational companies begin to enter into China, and the competition is more and more drastic, for example, in the telecom equipment market which scale and growth speed rank first in the world, the product lifecycle of transnational companies is reduced, and the price would descend about 12% each year. Some insiders claimed that the present price level was lower 30% than the level in US. Therefore, to keep the profit, the manufactures only provide the products which could satisfy the demands of China, so they should transfer their R&D centers to China, which could realize the integrated strategy from the scientific research to the production, and strengthen their own competitive forces and the quick reaction ability in the global market. From above aspects, it is very important for transnational companies to establish their R&D centers in China, which could fully utilize the Chinese wisdom and realize the talent localization, and develop the Chinese market more conveniently, and it is also an opportunity for foreign-invested enterprises to further adjust their management strategies in China.

4.4 Paying more attention to the industries which are encouraged by Chinese government for foreign-investment enterprises

A series of adjustment in laws and policies utilizing foreign investments by Chinese government is not only the necessary selection when the society and economy develop to the present stage, but also a kind of tactical change of attracting foreign investments when the total strategy situation of opening up keeps unchangeable, and it belongs to the enhancement adjustment, not the reverse change. In fact, in any one country or region of the world, transnational companies will face changeable market environment and policy environment. Therefore, the emergency treatment is the competitive force, and the enterprises which could treat these changes rationally and take advantage of an opportunity will keep their legs and grasp the opportunities. At the same time, the issuance of new tax law and the new catalogue has specially confirmed the concrete industries which were encouraged to enter by Chinese government for foreign-invested enterprises, and the foreign-invested enterprises should pay more attention to these new policies and establish corresponding strategies combining with their own advantages.

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