



## Analysis of Utilization of FDI in the Yangtze River Delta

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### Abstract

Since 1990s, FDI are booming in china gradually and become essential impetus in the development of world's economy and economy in developing countries especially. The Yangtze River Delta is an important region for foreign direct investment, including two provinces and shanghai city. FDI contributes a lot to the economic development in Yangtze River Delta. However, there exist many problems, for example, uneven development and scales of FDI in different cities, imbalanced development in three industries etc. In this paper, I analyze the problems and come up with resolutions to improve the FDI environment and its utilization for more economic boost to this region and China as a whole.

**Keywords:** The Yangtze River Delta, FDI

Foreign direct investment (FDI) is defined as "A company from one country obtains controlling interest in a (new or existing) firm in another country, and then operates that firm as a part of the multinational business of the investing firm. FDI is a momentum for economic growth. It plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. Since 1990s FDI developed very fast in China and becoming an important factor in the economic development. According to the United Nations Conference on Trade and Development, since 2002, the inflow of FDI in China has topped to more than US\$ 50 billion, overtaking the United States as the largest recipient of FDI inflows in the world. There is little doubt that FDI has been a significant part of China's economy especially in the manufacturing industries. Yangtze River Delta right now is an area with the fastest speed in economic development and greatest potential. And FDI is a great contribution to its development. However, a lot of problems occurred in the development of FDI. I will list some problems and analyze them in this paper for a better utilization of FDI in this region so as to make a greater contribution to China's economy and the world's economy as a whole.

### 1. Current situation of FDI in Yangtze River Delta

#### *1.1 Development of FDI in China and its tendency*

Since the reform and opening up, foreign investment flowed into China. After 1990, FDI grew rapidly and 1992 and 1993 are the landmark of the development of FDI. In 1992, it increased from \$5 million to \$11.5 million and in 1993 this number mounted to \$27 million, a multifold increase. The investment region extended from coastal and center cities to the inner land and the area expanded from state-owned enterprises to private companies, from manufacturing industry to service industry and the infrastructure construction. In 2006, FDI in China developed stably. There are 41,485 new approved foreign capital companies, of which the actually absorbed foreign investment \$69.47billion. As a result, the local economy was largely promoted. China's GDP increases approximately at a rate of 9%, of which 1%-2% has to be attributed to foreign investment. China's actual use of foreign direct investment (FDI) had cumulatively exceeded 750 billion U.S. dollars by the end of June this year since the beginning of its opening-up policy in 1978, according to a senior commerce official. Vice Minister of Commerce Wei Jianguo said the country had approved the establishment of 610,000 foreign-funded enterprises by the end of June this year. In the first half of 2007, exports of foreign-funded enterprises accounted for 57 percent of the nation's total, said Wei at a forum on the social responsibility of foreign-funded enterprises. Currently, more than 28 million people work in these enterprises, or about 10 percent of the employed population in cities and towns of the country. China actually used 36.93 billion dollars in FDI in the first seven months of 2007, a growth of 12.92 percent year-on-year, according to the Ministry of Commerce.

However, despite the large scale of FDI, its development in different regions is uneven. The eastern China is the main

region foreign investors choose, the volume of the FDI in the west area is relatively low with a high speed of development. In the first half of 2007, \$28.5 billion flew into this part, accounting nearly 90% of the total in the whole country. The west area absorbed \$1.5 billion from foreign investors, a 52% increase of the same period of last year. In the middle area, the number reached \$1.9 billion which increase 6% compared to last year. In the future, there will be more and more investment from multinationals instead of from small and media size companies of HK, Macao and Taiwan.

### *1.2 Development of FDI in the Yangtze River Delta*

Yangtze River Delta is an economic region comprised by Shanghai, Jiangsu and Zhejiang province, including Shanghai, Nanjing, Wuxi, Changzhou, Nantong, Yangzhou, Zhenjiang, Taizhou, Hangzhou, Ningbo, Jiaxing, Huzhou, Shaoxing, Zhoushan 15 cities. Since 1990s, FDI in Yangtze River Delta developed very fast. Take Shanghai for example, the actually absorbed foreign investment was \$177million and in 2006 it amounted to \$7.107billion, almost 71 times of that in 1990. (See Table one). The investment distribution in Yangtze River Delta appears like that: Shanghai is in the center and FDI descend through the cities along Huning railway and Huhang railway. The absorbed foreign investment in Shanghai, Suzhou, Wuxi cities accounted 55% of that in the whole region and Shanghai played a leading role in it. In 2004, Shanghai attracted \$6.541 billion FDI which is number one in the 15 cities.

Major foreign investors in the Yangtze River Delta include General Motors, Shell, Matsushita, Exxon, Sony, Siemens, and Volvo etc. many of them have even set up their regional headquarters here, such as Siemens, AMD and General Electric. Foreign investment in Yangtze River Delta is mainly engaged in manufacturing activities, including the manufacturing of computers, mechanical and electrical products, hardware and chemical product etc. however, foreign investment has increasingly been channeled into services industry in recent years. Given China's WTO commitment to further liberalize its service sector, an increasing share of FDI is expected to go into the service sectors in the coming years.

### *1.3 The reason why FDI thrives in Yangtze River Delta*

Yangtze River Delta is an economic zone with the largest population of 350 million and the most developed economy in China. Its importance also lies on its geographic advantage: it is both the hub of water communication and gold coast in China with 1000km of coastal line and 600km inland navigation line along which are located Shanghai, Ningbo, Zhoushan, Nanjing and Zhengjiang etc. From there, vessels can reach the ports of over 160 countries and areas with Shanghai as the center of the modernized network. The main agriculture products cover the half of the national products and the markets are quite potential. The network system in this region is also in the leading place in China. What's more, The Yangtze River Delta has a relatively stronger cluster of higher education institutions turning out a greater local supply of quality workers, prevailing as the base of R&D in the hi-tech industry. The development of Yangtze River Delta will also give the credit to Shanghai's Financial Radiation. Besides financial aspect, its influence covers large areas including policies, the way the organizations act. While Shanghai has more developed financial and trading services, its leading role is irreplaceable.

## **2. Some new problems**

### *2.1 problems occurred in the development*

#### *2.1.1 Uneven development in different cities of this region*

Due to the distinction of investment environment and competitive edge, FDI in Yangtze River Delta is unevenly distributed. The population in Shanghai and Suzhou cities only account for 25% of the total, the land area only 15%. But the accumulative FDI of these two cities has been up to 58%. They are the only two that have accumulative FDI surpassing 30 billion US dollars. The main cities that attracted high FDI are Wuxi, Nanjing, Ningbo, Hangzhou, Changzhou, Zhenjiang, Nantong and the rest shared relatively low ratio. In 2004, the utilized FDI reached 24 billion dollars of which Jiangsu province, Shanghai city, Zhejiang province shared respectively 47.5%, 27%, 25.5%. The absorbed FDI of Shanghai exceeds that of Zhejiang province and FDI of Jiangsu province almost twice of that in Zhejiang. There exists large gap between different cities in Yangtze River Delta.

This gap was generated by two reasons: first, due to the differences of city scale, geographic situation, and relative industry etc, the orientation of foreign capital that flowed to is too simple; second, some government officials only concern about the political record and pursue the quantity of investment instead of the quality. There are too many overlaps in the so called "pillar industry". Many cities are eager to bring in more investment on electronic, chemical engineering, and medicine industry and ignore the different situations of these cities. For example, there are 11 cities picking automobile industry and 8 cities choosing petrification industry. This kind of disorderly development will lead to tremendous waste of resources and imbalanced investment proportion.

Another factor that caused the gap is that different cities adopt different economic developing models. For example, Zhejiang used to spur its economy in nongovernmental economic model. Most part of its GDP is from private

enterprises Jiangsu and Zhejiang have the largest number of private enterprises in China, and according to a survey of Jiangsu private enterprises conducted by HKTDC in 2003, 56% of the responding private enterprises considered overseas market expansion as their top development target, while 8% said their top priority was listing. As the demand caused by economic development and increasing international economic confliction, the disadvantage of purely relying on private enterprises has appeared in a daily basis. Right now, Zhejiang province started attracting foreign investment to boost its economy. As a result, the ratio has ascended gradually.

### 2.1.2 Imbalanced development in different industries

As changed taking place in global industries, the tendency of FDI is turning from labor intensive industry into capital and technology intensive industry, from manufacturing industry into tertiary industry that mainly rely on service and new and high-tech industry as well as infrastructure construction. Apparently, investment in Yangtze River Delta focus on the second industry, and especially manufacturing industry, of which the electronic and communication equipment manufactures are the number one. It accounted for 15.4% of the total manufacturing industry that foreign investment aimed at. From these statistics, the focal point of investment is on the capital and technology intensive industry, especially processing and packing industry in the labor intensive industry.

The ratio of agriculture industry account little in the whole investment. But under the encouragement of our country, there is much increase in utilization of agriculture and infrastructure construction. This demonstrates that some foreign investors throw their eyes to basic industry and infrastructure construction. The investment of tertiary industry centered in tourism and hotels. In recent years, as the fast development of real estate, the ratio of investment in this area ascended slightly. On the whole, investment of tertiary industry in the last 20 years has fallen.

### 2.1.3 Resource shortages

The lack of resources made Yangtze River Delta not that desirable and attractive. Right now, the extensive economic growth mode featured high input, large consumption, high growth and low benefit is no longer suitable for today's society. A shortage of electricity, land, water, and technicians has ringed the alarm to this region.

Electricity shortage. Since 2003, the amount of the limited electricity power used have reached 5.6 billion kilowatt which is almost the number of that in 2002. That set a new historical record and companies had to cut production because of this.

Land shortage. More and more development zone to some extent spurred the economic development but on the other side lead to the decreasing arable land.

Lack of Technicians. Human resources especially the lack of advanced technicians was the problem facing this region. For instance, in Wuxi, there was a shortage of technicians totaled over ten thousand. A survey covering more than 700 foreign companies and joint ventures gave this result.

Resources shortages significantly influence the investment environment of Yangtze River Delta and had some side effect to attract investment, like moving the confidence of foreign investors' investment plan. Experts said, the power shortage will speed up the shift of foreign capitals.

## 2.2 Problems in all these places

### 2.2.1 "People problem"

We're now faced with an era in which globalization deepens with each passing day. And the competition between nations has been the competition among talented people. Lots of managers announced that "our people are our biggest asset" In a knowledge economy we need to attract and hold on to people who know a lot. In such cases, attracting talented people to work in this region in a way means attracting more foreign investment. Although the supply of labor resources surpasses the demand in the job market in China, and we have the advantage of cheap labor, but obviously, we are lack of talents. Despite the relatively advanced technology and education in Yangtze River Delta., it is still hard to meet the demand of the highly developing economy in China, especially the demand for technology talents. By the same token, the rapid speed of the development of FDI requires a large number of professional technology talents. The school education, however, can not meet the requirement of labor market for different talents, not even the demand of foreign investors. Therefore, the exploration of labor resources is the bottleneck for China to transform it economic developing model and to achieve sustainable development.

### 2.2.2 Approval system needs to be improved

In administration, some departments have not held the belief to serve the people and barricade too much approval procedure which made it very complicated to approve a program.

When they passed through the approval procedure, all the business opportunities have gone. There existed some management problems. The departments that have the power will fight with each other for the programs that are in their interests, while troubles came, nobody would take the responsibility. For such reason, administration departments have

very low efficiency, and companies have more challenges to conquer. All of these lead to bad situation for investment attraction and promotion and make it even harder to develop FDI in Yangtze River Delta. Hence, the entry barriers of various service sectors must to be lowered for foreign investors and we should improve the approval system.

### **3. Solutions for the problems mentioned above**

#### *3.1 Balancing the interregional development of FDI*

Adjust interregional Economic Structure to balance the development of FDI in different cities. Suzhou, Shanghai Wuxi should stick to the opening up policy, taking the advantage of foreign capitals to promote the capital-intensive and technology-intensive industry. In Shanghai Pudong new area, Suzhou Industrial Park as well as all kinds of national economic & development area, the environment and equipment should be improved. We also need to expand our investment scale to improve the software and hardware environment. The rest of the place is better to make full use of their local resources and advantage, promoting innovation to attract more foreign capitals. Private enterprises need to be innovative in systems and management as well as in technology, said Zong Qinghou, chairman of Wahaha Group. Zhejiang should take the advantage of their nongovernmental economy to bring in more FDI through private companies. This is not only an innovation of FDI development model but also a model for economic development. Through attracting foreign capitals with their local resources, we can combine the two markets together and boost this kind of mixed economy.

#### *3.2 Attract more investment to the first and tertiary industry*

The government should lead the investment orientation and promote construction of rural area. Although our country pays great attention to the rural area construction, the fixed asset investment in Yangtze River Delta has not been the stake in investors' hand. Hence, the agriculture industry needs more capital to develop. Jiangsu and Zhejiang provinces have large land areas and it will be significant to boost agriculture industry.

Government should encourage the development of the service industry because the service industry together with the manufacturing industry now serves as an engine for the region's overall economic growth. Yangtze River Delta should take the opportunity of macro control in China, and transform the economic growth pattern, optimizing the economic structure and bringing about a virtuous cycle of the national economy and the environment. At the same time, the investment structure of second industry need to be adjusted. To achieve this, we should strengthen the innovation and add more value to the product. Moreover, Shanghai city and the two provinces should avoid the overlaps of the industry structure and shape differentiation competition so that to be competitive in the world market.

#### *3.3 transform the economic growth model*

The problem of resources shortages that mention above alarms us that we need to change our economic growth model for a better utilization of energy resources. In 2006, China started to alter its old extensive growth model to a more intensive one. The Chinese leadership has realized that China's past development norm is physically unsustainable, and politically and socially undesirable. The basic features of Intensive development model are increasing economic growth through improving the quality of material and work efficiency with a relatively low consumption and cost. The transformation of economic growth model will at the same time cushion us from the effect of resources shortage. Easing the urgent problems of the resources shortage in turn will spur another round of FDI development. What's more, pay attention to technology is in some way saving energy. We should improve the energy efficiency and use renewable energy. This solution does not only help to create a desirable environment for FDI development, but also do good to our country's economic growth. Apparently, our government has concerned about energy problems, but there is still a long way to go to achieve this.

#### *3.4 Cultivate professionals in different areas*

With an increasing number of foreign enterprises making their way into Chinese market the "people issue", especially the management of local and foreign staff, have been brought to the forefront more than ever before. For most foreign companies operating in China, it is not surprising that they would like to acquire professional services that align with international practice and their parent companies' standards. These foreign companies would also appreciate a service provider who is familiar with the China market. As a result, there is a need for a large amount of talents that are proficient in different areas. They may be specialists in laws, finances, English, international trading etc or people who have professional knowledge in several areas. Cultivating such kind of talents is now the task facing this region for its better development. We can set up relevant course in universities that provide training course to different kinds of people for the practical use in daily life. Sufficient speculative knowledge plus experience will make a specialist in one area. What's more, bringing in more technology is also crucial. We should associate technology with innovation and establish an open, fair and orderly labor market to meet the need of the fast development of Yangtze River Delta. During the past 30 years since China's reform and opening up, there are an increasing number of students' studies abroad. Students leaving this region for west countries accounts for a large proportion. If we can reduce the phenomenon of brain drain, seemingly, the "people problem" will be reduced.

### 3.5 Improve the hardware and software environment to attract foreign investment

While governments enlarge the input into basic industry and infrastructure construction to improve the hardware environment, we have to pay great attention to software environment. We need to improve the political and legal environment for foreign investment, and to enhance legal administration level. Government should further simplify the examination and approval procedures for foreign investment and adopt a standardized examination and approval system; reinforce our sense of legality, try to be open, just and transparent, and establish an incorruptible, industrious, pragmatic and effective government, creating a good administrative environment for foreign investment. Besides, we should maintain and improve an open and fair market environment. We should combine this with the current work of rectifying and standardizing the order of market economy, prohibit firmly the improper collecting fees from foreign companies as well as improper inspection and fine of them. Measures should be taken to destroy local protectionism and industrial monopoly. We should also enhance the lawful measures to protect the intellectual property right and take strong actions against illegal piracy, therefore, establish an open, unified and fair market environment, further perfect the complaining mechanism of foreign-funded and protect the legal rights of foreign merchants according to law.

### 4. Conclusion

Yangtze River Delta is a major destination for foreign direct investment (FDI) and is becoming increasingly popular among foreign investors in recent years. So far, Hong Kong is the largest source of FDI in this region, followed by Taiwan, Japan, and the US. However, there are more and more problems in Yangtze River Delta and are becoming more apparent. Some part of administration apartments and the environment obviously are holding back its development. This paper focus on the problems exists in the process of FDI development and I gave the analysis as well as corresponding solutions. The five problems are: imbalanced development of FDI in this region, and three industries, resources shortages, approval system in government administration and people problems. What we need to do is try to improve the investment environment and strength the whole region's competitiveness, balancing the interregional development problems as well as handling the bumpy thing on the road of approval. Only through this way, we can reach the goal of developing FDI in Yangtze River Delta, coordinating social and ecology problems and at last achieve the sustainable development of our nation.

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Table 1. Foreign Direct Investment in Main Years

Indicators	1990	2000	2005	2006
Number of Signed Contracts (item)	203	1 814	4 091	4 061
# Joint Ventures	161	441	601	540
Cooperative Ventures	12	226	44	27
Sole-foreign Funded Enterprises	30	1 146	3 442	3 486
Contracted Foreign Capital (100 million USD)	2.14	63.90	138.33	145.74
# Joint Ventures	1.10	13.86	19.62	24.27
Cooperative Ventures	0.38	5.86	2.66	2.86
Sole-foreign Funded Enterprises	0.66	44.14	109.47	117.37
Foreign Investment Actually Absorbed (100 million USD)	1.77	31.60	68.50	71.07
# Joint Ventures	1.08	12.94	14.25	15.84
Cooperative Ventures	0.67	2.99	1.62	1.86
Sole-foreign Funded Enterprises	0.02	15.67	45.87	53.30
Note: Data in this table are provided by Shanghai Foreign Investment Commission. (Same as follows).				