Revaluation of FDI on the Economy Development of China
----- Is It an Entirely Unalloyed Benefit?

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Abstract

There is little doubt that the phase-in FDI contributed significantly to Chinese economic development, and much and perhaps most of the growth of China's exports can be attributed to foreign-invested enterprises and per capita income growth in those coastal regions of China where FDI is concentrated has been demonstrably higher than in other regions. FDI is fuelling much of the rapid economic leap of China, yet it is not well integrated into mainstream of Chinese economy and the significant inequity grow further, for the reason that these inflows of investment are, however, concentrated both by country of origin, industries and regions. The author concludes that the FDI policies are no longer producing optimal results, and there should be a caveat to the non-guided FDI since the FDI spillovers can not, in all probabilities, be easily disentangled from its economic cohesions.

Keywords: FDI, Economy development, Benefit

1. Introduction

The financial crisis of 2008 led to a revaluation of the world power and the development benefits from a degree of openness to FDI. The economy development of China dependent on the foreign investment rivets its attitude---to welcome FDI and espouse a new multinational economic order. There is little doubt that FDI has contributed significantly to Chinese economic development, and much and perhaps most of the growth of China's exports can be attributed to foreign-invested enterprises and per capita income growth in those coastal regions of China where FDI is concentrated has been demonstrably higher than in other regions.

Yet the story of FDI in China is not quite as rosy as what has been outlined above, and it is not an entirely unalloyed benefit. Many anecdotal evidences suggest that the role of FDI in Chinese economy is not high relative to this role as in other Asian economies (Lemoine 2000 op. cit.). The axis powers of donators is the proneness to monopoly in certain domestic lines, and the finance chaos underlying the capital under-dispersion if for some certain reasons the withdrawal or shrinkage of the capital backbone occur deliberately or inadvertently. Further, the sector and geographic distribution of the FDI is quite uneven. The majority of FDI in China is located in coastal provinces with Guangdong, Jiangsu, Fujian and Shanghai in descending order, and the residual majority even immediately adjacent to the coastal areas is slightly touched. Still, FDI is largely engaged in export-intensive manufacturing by performing labor-intensive operations on imported goods for re-export as OEM alleged loudly, thus it is not well integrated into mainstream of Chinese economy. The second FDI surge in the top 10 is non-traded commercial real estate development which has not been driven by positive changes in China rather than for profit dynamics.

In brief, China has, to some extent, forgone the major sources of benefits of FDI, that is, the benefits that come from the access to FDI totally tailored to the domestic economy agenda. This study is focused on controversies surrounding the effects of FDI in the proposed collaborative relationship with the developing host countries in stimulating the economies as in the ways of promoting market integration, diversifying market supplies, and exercising as strong backbones for the money injections of the economy appetites. Some threats and risks are definitely lying underneath as in the perspectives of over-concentration of FDI affiliates, the lack of industries zoning, the mal-allotment of funding sectors and regions etc. The first section of the study encompasses an introduction to the FDI in China. Section two outlines the FDI cohesions as exemplified by the affirmative data. Section Three sketches some reflections about some concrete actions to further the spread of FDI in a properly arranged business-led trigger.

2. Literature Review

Despite the importance of the issue, a limited profile is evident in the literatures on the implied negative effects of FDI with particular attention to the developing countries until recent years. Some Chinese scholars with a long list of Huang Jianjun (2001), Wang peizhi(2003), Wang Suqin (2005), many others in 2006 as Zhang wang, Jing Yuqin, Wu jun, Shu qin, and Si yong in 2007 sparks their eagerness in their essays of Chinese versions in the aspect of national security, FDI threats on the domestic industries development, the national threat toward foreign affiliates, and doubts on technology dispersion and so on.

As of 2000, Edward M. Graham, Erika Wada in his thesis Foreign Direct Investment in China: Effects on Growth and Economic Performance, just as its name indicates, reports his findings of FDI effects on Chinese economic growth based on the empirical evidence and gains of FDI in 1990s and one of the concluding remarks is that there certainly remain potential gains that have not been realized. In as early as 2002, Assessing Globalization Critics by Kimberly Ann Elliott sketches the key issues and concerns that distribution of globalization's benefits is unbalanced particularly in developing countries. In 2003, Chun tao, from the Undergraduate College, Leonard N. Stern School of Business, New York University, firstly uncovers the rampant corruption in his thesis Corruption and FDI in China: inseparable issues or distinct entities? He remarks that foreign investors seem to be extremely adaptable to conditions in China, if they perceive corruption in the ruling bureaucracy of a particular target region, they will either reduce their promised FDI upon the start of the actual investment project or choose a mode-of-entry that will best mitigate the costs of corruptions. Robert M. Stern in the Canadian Council on international Law Conference 2004 shows the productivity initiatives in social dimensions and the coherent results in ten countries including Republic of China, Sri Lanka, Thailand, Vietnam and so on. Matthew Adler and Gary Clyde Hufbauer from Peterson Institute, in their working paper series August 2008 describes the policy liberalization and FDI growth from 1982 to 2006 and figures out three factors contributable to US outward and inward FDI increase, the growth of US real GDP level, policy liberalization and everything else—a combination of market forces and technological change. The Management& Marketing, Volume 4, 2009 by Patricia R. TODD of Western Kentucky University declares clearly the CSR and global standardization with reference to sustainable environmental management in the chemical industry. This new edition demonstrates the fact that the environment is a key issue in business today especially in many developing nations.

The general literature review discloses that the scholars or practitioners have realized the importance of FDI and certain worries as to the crypto-pressures of FDI in the forms of MNCs may pose on domestic society from the FDI sources and its allotment in the sectors and regions of China, and the hidden environmental problems as well.

3. Portrays of FDI in China

By almost all accounts, foreign direct investment (FDI) in China has been one of the success stories over the past 20 years. Starting from a base of less than US$19 billion in 1990, the stock of FDI in China ascended to over US$300 billion at the end of 1999. Ranked by the stock of inward FDI, China thus has become the leader among all developing nations and second among the APEC nations (only the United States holds a larger stock of inward FDI). (Note 1) This seemed to spark the rapid buildup of Foreign Direct Investment in China since the turn of the new century, during which it ranked the eighth in the foreign investment inflows and leaped to the forth host country in 2006 only behind the United States, the United Kingdom and France, then the fifth in 2007 with another forerunner of Canada. (Note 2) The foreign-funded enterprises in China amounted to 203,208 in 2000 and soared up proportionately along with the economy advancement and in 2007, the total was 286,232. (Note 3) Based on the disclosed 2009 data of the Ministry of Commerce China, China has topped the list of U.S. management consulting firm A.T. Kearney's Foreign Direct Investment Confidence Index. A.T. Kearney issues a report every year on global investment flows by analyzing opinions from presidents of 1,000 major multinational companies throughout the world with its report commonly recognized by the international community as an indicator of comprehensive attraction of investment environments in various countries. Hence, China was still the world's most attractive investment destination. According to figures released by the United Nations Conference on Trade and Development on January 19, 2010, the paid-in capital in China reached US$90.03

billion in 2009 and ranked the second in absorbing foreign investment, just following the United States.

Chart 1 shows the symmetry panorama of total foreign investment and the FDI with both soaring up at a steady rate for the recent years and the overseas investment in other forms a weak flicker. FDI is the mainstream of lures for multinational corporations to establish foothold operations often in forms of joint venture with foreign partners, or wholly-owned subsidiary.

In order to create an even more attractive environment for foreign investors, Chinese Premier Wen Jiabao held a State Council meeting on December 30, 2009 to implement further measures with a definite aim of attracting foreign investment in 2010. The core measures shall undoubtedly cement the up-soaring trend of the capital inflows, and consequently the multiplying number of affiliates of foreign-funded enterprises. It is undeniable that the current industrial corporation is thoroughly transnational in scope and impacts with its power arguably grown in giving a context of emerging consumer markets, an expanded worldwide search for cost-effective production and increasingly flexible marketing netting, this forms a growing combination of impulses to spur forward the economic development of China.

Yet, it is somewhat ominous that much of the foreign furor over foreign-controlled enterprises in China is an offshoot of rich raw materials, comparatively cheap labor force, and the great market potentiality alleged by the huge population. On the other hand, the new FDI entrants have often received practical investment incentives. That is, for the purpose of pooling up funds for domestic economy development, the foreign-funded firms are honorably offered an easier access to resources and other opportunities than their host rivals.

4. FDI Cohesions as reflected in China

Multinational companies are the concrete existence of FDI, which have long undertaken philanthropic work particularly in the form of donating money, and lending skilled workers to local communities. They are on their ways to reconcile their aspiration for maximal profits with a pro-business agenda. Yet, if the government, the environment campaigners, or the public with some educated background may spare part of their attentions from the superficial economic leap to the downsides embedded underneath such huge cash inflows, they may be alert of the by-products of globalization---the environmental degradation, the non-pointing sectors and regions dislocation etc.

4.1 The over-concentration of FDI donators

On account of the disaggregated data of 2006 and 2007 exclusive of the last month of the corresponding calendar year, from table 1 it is extremely obvious that the FDI inflows of China from 2006 to 2009 are overwhelmingly concentrated, with the ten countries or regions occupying a high proportion of the total as 83.62% in 2006, 87.13% in 2007, 86.85% in 2008 and 88.3% in 2009. Hongkong, a largely self-governing "special autonomous region" of China itself, has been the largest source, whilst its dominance is somewhat illusory in that much FDI normally from Hongkong in reality is from elsewhere with some Hongkong-source FDI in China in fact investment by domestic Chinese that is round-tripped through Hongkong and others from various western countries, say, some U.S. and Japanese firms place their investment on the mainland via subsidiaries in Hongkong, so that this investment shows up in the home country data as direct investment in Hongkong. (Note 4) Taiwan, also, has gradually became another doorsteps of FDI inflows to China. It is worth to point out the Virgin Islands and the Cayman Islands are part of the UK, thus it predominates an extraordinary key position within the chosen time span. Besides, Japan, the Republic of Korea, the U.S. and Singapore are the core of capital injection of China.

The detrimental effect of the dominating overseas stakes is the proneness to monopoly in certain domestic lines, and in this regard the Chinese government should be wary of the finance chaos underlying the capital under-dispersion if for some certain reasons the withdrawal or shrinkage of the capital backbone occur deliberately or inadvertently.

4.2 Lack of industrial zoning and mal-allotment of the sectors funded by substantial FDI

According to the statistical data of China, the agriculture, forestry and fishing only account for a low percentage in the early age of the 21st century and fade away in the coming years. As recorded by the 2009 released data by the Ministry of Commerce China, the foreign investment in the agricultural sectors increased rapidly, the number of new foreign-invested companies and the paid-in capital accounted for 3.82 percent and 1.59 percent of the country's total, respectively.

Though we are confined to the missing data for computer& software, hotels& restaurants as in the year of 2002 and 2003, table 2 shows that the manufacturing always tops the list of the domestic lines with heavy FDI appetites within the chosen time span. As supported by the 2009 released data by the Ministry of Commerce

China, manufacturing industries are still the major force attracting foreign investment. From January to December, 2009, 9,767 foreign-invested manufacturing companies were established and the paid-in capital in this amounted to US$ 46.77 billion. The number of newly established foreign-invested companies and the paid-in capital took up 41.68 percent and 51.95 percent of the country's total respectively.

This exemplifies the successful strategy of MNCs that most of them usually locate a fragment of its production activity in the source country, an activity that is absolutely being motivated by huge energy and resources inputs. The MNCs get every reason for the location of externality-rich economic activities in the host country, under the explicit roof of a generous donor of money, technical know-hows, managerial expertise and huge manpower etc. In macro sense, along with the advancement of world economy, the global industrial labor division was formed with East Asia the supplier of parts and components and China the processing and manufacturing base, while European countries and United States researchers and practitioners of core technologies. This shall definitely lead to a trade surplus of China to Europe and United States, moreover, the exacerbated trade frictions and dramatically declined exporting environment. In micro sense, this over-feeding preference will expedite many new issues that are as broad as to include combating pollution, deforestation, preserving ecosystems that are particularly rich in biodiversity, illegal dumping of industrial wastes, chemical incidents—either sporadic release or chronic nuisance emissions, plausible exertion of raw materials, and non-point source biological pollution of rivers etc.

As reflected by the 2009 released data by the Ministry of Commerce China, the FDI proportion of service has increased in 2009 and the paid-in capital stood at US$37.87 in total and accounted for 42.06% percent instead of 41.3% in 2008. The real estate ranks the second in the FDI inflows exemplifies by the statistics of the Ministry of Commerce China 2009, with 569 foreign-invested real estate companies established. The list is followed by Leasing& commercial service, and zigzag of Wholesale &Retail, Logistics, Warehousing & Postal Service etc. This preference for money donation alleges that profit maximization and cost minimization is the guideline of MNCs choices based on the common sense that service development and real estate in particular is far more fruitful and lucrative.

4.3 Regions dislocation of FDI

The steep gap of FDI dispersion in the eastern, central and western regions of China will definitely be a stimulating force to the economy disequilibrium. According to the Statistics Bureau of PRC, the eastern regions may include Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi, and Hainan. The western region is a union with Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Ningxia, Qinghai and Xinjiang.

Chart 2 is a direct epitome of the amount of total investment injection in eastern, central and western regions in China from 2000 to 2007. Obviously the eastern China is in a high conjunction with the foreign inhabitants, and the central and western regions are wandering at nearly the same pace. The eastern region enunciates its warm welcomes to the foreign funds in the chosen time span and show climbing future charms as well, with Guangdong, Jiangsu, Fujian and Shanghai in descending order always the axis powers strengthened by Zhejiang, Beijing, Tianjin and Liaoning. The optimum geographic location, well-established major infrastructures, the cluster of enterprises and talents employed combine together to trigger cash inflows, and fuel much of the rapid economic growth. Yet with the central and western regions of China hardly touched by the external spurs, the uneven distribution of the FDI may consequently cement the unbalanced development phase and make the eastern and the western regions polarize in contrasting positions.

5. Conclusions

The FDI in the concrete form of multinational corporations of diverse kind are making contributions to the economy advancement of China to a great extent, yet there exist many uncrowned perils due to the fact that the FDI is not strategically tailored to suit the domestic requirements of economic development. One can not quibble that FDI has robustly benefited the coastal regions while most of the rest of China has benefited less and the disparity exists between the fast-growing, FDI-fueled coastal provinces and the sluggish interior provinces. Since the FDI spillovers can not, in all probabilities, be easily disentangled from its economic cohesions, the Chinese government should refresh the definition of FDI as no more than a cosmetic exercise but well designed to ward off implied threats.

5.1 Enunciate Laws and regulations

FDI is a window-dressing if not regulated properly to meet domestic echoes. The legislative members, government officials, enterprise staffs, intelligence communities, and constitution overseers should, in general, be able to find adequate justification in current legislation and regulations to deal with the threats and mitigate the risks. The laws, regulations and charters nowadays have had some competence over both government policies and actions affecting FDI. However they are rather weak and would not have per se provided for strong governance of host-nation policies and practices. They laid out no rules such as host or home-nation investment incentives or performance requirements. So, binding procedures to arbitrate the entrance of FDI are requirements of a satisfactory accord. And such fresh procedures should obligate governments as well as international firms with FDI conducts to certain business standards, with rights and obligations of each party explicitly spelled out. This may be translated directly into more specific ones aimed to monitor the operations of global corporations, say, the dynamic price trajectories for non-renewable resources to impinge on the environment abuses, just like those forerunners as American clean-air regulations on gasoline or the European ban on hormone-treated beef. What's more, China should launch a major policy shift and cling to its hard-line position, thus to block FDI inflows under the cases where national security is impaired or threatened to be impaired by the establishment of an affiliate of a foreign-controlled firm on China soil through a merger, acquisition, or takeover of an existing Chinese operation. From about the time of the first oil crisis in 1974 until the debt crisis of 1982, the bloc of developing nations (the Group of 77) lobbied the UN to create a new international economic order to foster developing nations' interests. One of the keystones of it is to promulgate code of conduct for multinational firms. This appeal echoes positively in the post-financial crisis age and boils down on the certification of eligibility for the FDI access. For example, a foreign organization is trying to limit its contributions to mere cash donations or occasional charitable giving is immediately crossed off in the list of potential incomers. In some cases, these requirements on responsibility assessment can serve the interests of incumbent operations of multinational firms that have carved out dominant positions in certain sectors. Still, the implicit and explicit policies and measures should be figured out to under-whelm the characterized take-over of existing enterprises but to orientate more green-field investment. The practice of screening inward investors and the planning of their business cores combine together to alleviate further environmental problems, and the increasing polarization of the industries, sectors and regions.

5.2 Strengthen the funding of domestic firms

The demands on domestic corporations seem more strident. Through advance negotiations or bilateral talks, the technological or managerial expertise held by the MNC should be made conditionally available to the local firms, thus the intellectual property protection and incentives for diffusion may be balanced and the possible gains of the host business and government shall be assessed in a sound way. To safeguard the underlying purpose of the increased transparency and access of core technology, and in putting pressure on individual companies to change their practices, the Chinese government would authorize a wide range of government-funded or organized consortia in research& development and commercialization of advanced technologies. Meanwhile, the domestic firms may gain asymmetry position with those of MNCs, thus make innovative use of technologies and further acquiring the core know-hows possible.

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Notes

Note 1. Edward M. Graham, Erika Wada, *Foreign Direct Investment in China*: *Effects on Growth and Economic Performance,* P2

Note 2. the results of calculation and deduction from UNCTAD Database year2000-2007

Note 3. *National Bureau of Statistic* (2000-2007) China Statistical Yearbook, Beijing: Chinese Statistical Press.

Note 4. Edward M. Graham, Erika Wada, *Foreign Direct Investment in China: Effects on Growth and Economic Performance*, P5

Table1. The Leading Ten Countries/ Districts of FDI Inflows from Year 2006 to 2009

Unit: USD Billion

Ranks	Year 2006	Year 2007	Year 2008	Year 2009
1	Hongkong （17.499）	Hongkong （22.432）	Hongkong （41.036）	Hongkong （53.993）
2	The British Virgin Islands （9.663）	The British Virgin Islands （14.166）	The British Virgin Islands （15.954）	Taiwan （6.563）
3	Japan （4.074）	The Republic of Korea （3.229）	Singapore （4.435）	Japan （4.117）
4	The Republic of Korea （3.161）	Japan （2.99）	Japan （3.652）	Singapore （3.886）
5	The U.S. （2.421）	Singapore （2.464）	The Cayman Islands （3.145）	The U.S. （3.576）
6	Taiwan （1.934）	The U.S. （2.221）	The Republic of Korea （3.135）	The Republic of Korea （2.703）
7	Singapore （1.932）	The Cayman Islands （2.154）	The U.S. （2.944）	The United Kingdom （1.469）
8	The Cayman Islands （1.663）	Samoa （1.599）	Samoa （2.55）	Germany （1.227）
9	Germany （1.656）	Taiwan （1.434）	Taiwan （1.899）	Macao （1）
10	Samoa （1.372）	The Republic of Mauritius （1.046）	The Republic of Mauritius （1.494）	Canada （0.959）
The FDI Inflow Percentage of the ten in the Total China FDI Inflows	83.62%	87.13%	86.85%	88.30%

Source: UNCTAD Database

Table 2: the Sectors of FDI Inflows from Year 2002 to 2008

Measurement Unit US$ billion (1 billion=1,000,000,000)

Sectors \ Year	2002	2003	2004	2005	2006	2007	2008
Manufacturing	36.79998	36.9357	43.01724	42.45291	40.07671	40.86482	49.89483
Real Estate	5.66277	5.2356	5.95015	5.41807	8.2295	17.08873	18.58995
Leasing& Commercial Service	2.94345	3.16095	2.82423	3.74507	4.22266	4.01881	5.05884
Wholesale &Retail	0.93264	1.11604	0.73959	1.03854	1.78941	2.67652	4.43297
Logistics, Warehousing &	0.91346	0.86737	1.27285	1.8123	1.98485	2.00676	2.85131
Computer& Software			0.91609	1.01454	1.07049	1.48524	2.77479
Production& Supply of Electricity, Gas& Water	1.37508	1.29538	1.13624	1.39437	1.28136	1.07255	1.69602
Hotels& Restaurants			0.84094	0.56017	0.82764	1.04165	0.93851

Source: http://www.stats.gov.cn

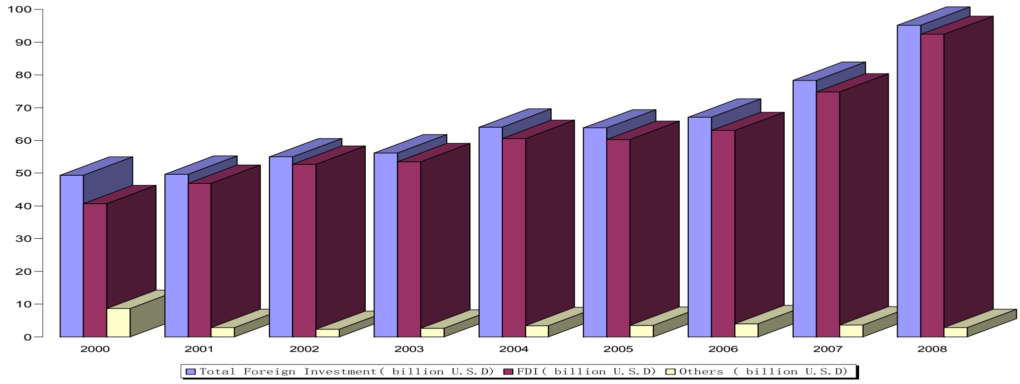

Chart 1. Total Foreign Investment, FDI and Other Investment in China from Year 2000 to 2008

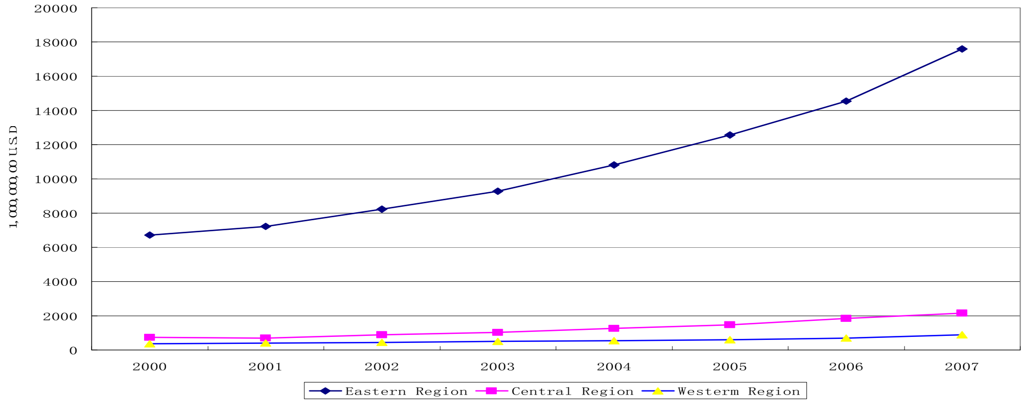

Chart 2. The Amount of Total Investment by Eastern, Central and Western Regions in China from Year 2000 to 2007