

Working Paper Number 3

“Uneven Regional Distribution of FDI in China and Guangdong’s Experience”

by

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ABSTRACT

Guangdong Province in southern China has attracted the largest amount of foreign investment since the economy was opened in 1979. Its advantages of being economically integrated with Hong Kong, having close ties with Overseas Chinese, and having better infrastructure and more skilled labour have been instrumental in its ascendancy to top position among the eastern provinces. Moreover, it has enjoyed preferential development status under China's Coastal Development Strategy. However, recent governmental rulings have designated equal opportunities for investment of all coastal and inland regions, hence dealing a blow on Guangdong's leadership position. This paper argues that the province's fundamental strengths can overcome this setback and that it will regain its primacy in the high-technology industrial sector.

China established four Special Economic Zones (SEZs) in 1980 and allowed them preferential policies to attract FDI and develop export oriented manufacturing industries. Out of them, Shenzhen, Zhuhai, Shantou are in Guangdong province and Xiamen is in Fujian province. So far, about 60 per cent of the actual FDI in China and 80 per cent of the actual FDI in Guangdong have been from Hong Kong.

approximately 40 per cent of total global FDI. From 1979 to 1996, China had approved over 280 thousand FDI projects, and over 120 thousand projects had been put into operation, hiring 17 million employees. FDI has been a major contributor to the impressive economic performance of China for the past 17 years and will continue to play an even more important role.¹ But the regional distribution of FDI has been quite uneven. For reasons such as preferential policies and infrastructure conditions and most of FDI has located in the eastern region, especially in the Pearl River Delta and the Yangtze River Delta, and a very small share of FDI has located in the central and western regions. This important factor has caused varied economic performances between the East and the West.

2.1 The preferential policies of the central government

China established four Special Economic Zones (SEZs) in 1980 and allowed them preferential policies to attract FDI and develop export oriented manufacturing industries. Out of them, Shenzhen, Zhuhai, Shantou are in Guangdong province and Xiamen is in Fujian province. The incentives to foreign investors in SEZs included tariff waiver on imported machinery as foreign investment inputs, 15 per cent income tax on FDI enterprises (while state-owned and collective ownership enterprises had to pay 35-55 per cent income tax) and a five-year income tax holiday since the first profit-making year.

Meanwhile Guangdong and Fujian were also given some special treatments from the central government like keeping bigger percentage of export earning for themselves and allowing some tariff-free import quotas to speed their economic development. The low labour and land costs were main attractions to foreign investors. In addition to it, both Guangdong and Fujian are major origins of overseas Chinese, which make them easier to appeal to the compatriot investors. So it did not take long before foreign investment were pouring into these two provinces, Guangdong in particular, due to its easy access to Hong Kong. So far, about 60 per cent of the actual FDI in China and 80 per cent of the actual FDI in Guangdong have been from Hong Kong.

In 1984, the Coastal development strategy was announced by the central government and fourteen coastal cities were designed as Coastal Open Cities which had incentives towards FDI. They are (from north to south) Dalian,

Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai. In April 1988, Hainan became a province and China's fifth and the largest SEZ. In 1990, the concept of SEZ was extended to the Shanghai Pudong Development Area, which soon became another major attraction to foreign investors. In 1992, China announced that the capital cities of all the inland provinces were allowed the same policies as that of the Coastal Open Cities, and the whole country is opened to FDI.

2.2 The distribution of FDI in the eastern, central and western regions

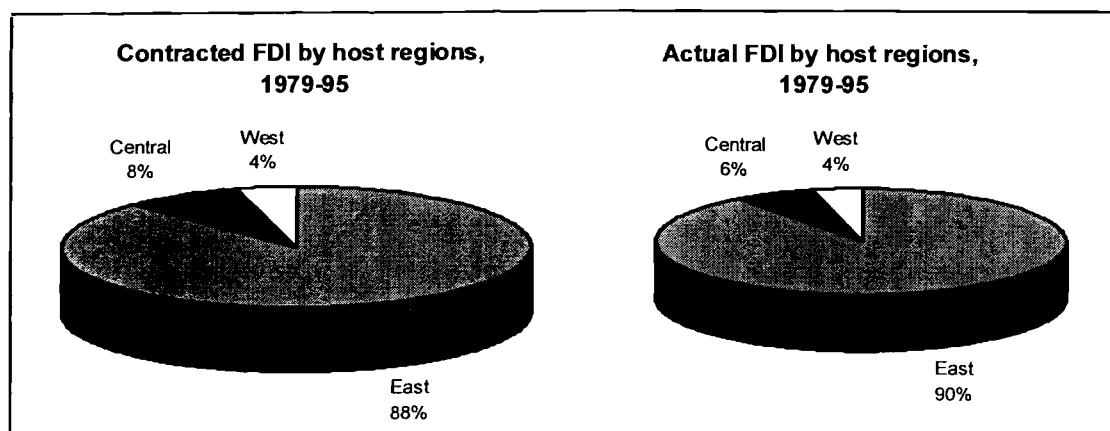
There are twenty-two provinces, four municipalities² and five autonomous regions in Mainland China. Traditionally and geographically they are divided into three regions. The eastern region is also called the coastal region which includes twelve provincial units and is a relatively developed area in China; the western region includes ten provincial units and is the less-developed area in China; the central region includes nine provinces and has moderate economic development.

Most inflow FDI has located in the eastern region. From 1979 to 1995, the total contracted and actual FDI in China were US\$396 billion and US\$135 billion. Among them, the eastern region had US\$ 348 billion and US\$116 billion; the central region had US\$31 billion and US\$12 billion; and the western region had US\$17 billion and US\$7 billion (see Figure-1). The East took nearly 90 percent of the accumulative FDI in this period. Among the twelve eastern provinces, Guangdong's performance in attracting FDI was extremely impressive, and it alone had nearly 30 per cent of the national inflow FDI, while the share of some western provinces were well below 1 per cent, eg, Ningxia had 0.03 per cent, Qinghai 0.01 per cent, Gansu 0.06 per cent, Xinjiang 0.16 per cent, Guizhou 0.17 per cent, and Yunnan 0.21 per cent.³

In 1992, China announced that the capital cities of all the inland provinces were allowed the same policies as that of the Coastal Open Cities, and the whole country is opened to FDI.

Uneven Distribution of FDI in China

Figure 1. Regional distribution of FDI in China, 1979-95



2.3 The varied economic performance of the east, central, and west

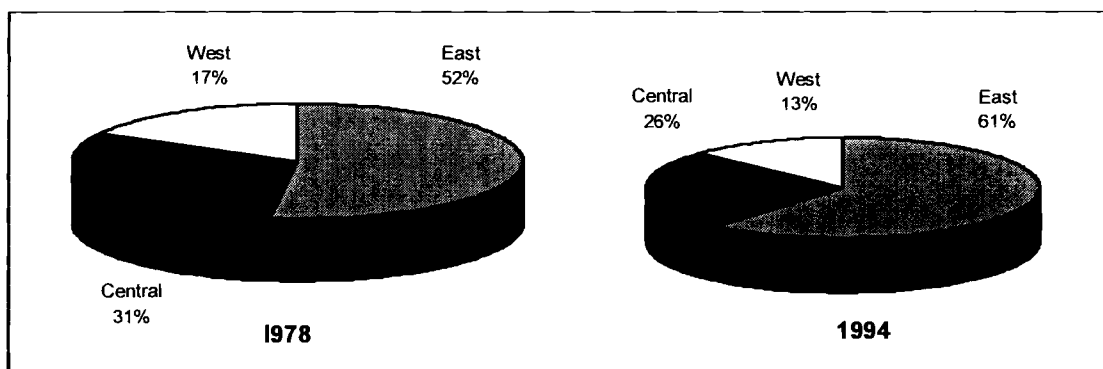
Even though all regions have benefited from China's rapid economic growth, achieving the fastest growth in East Asia, the eastern provinces have grown more quickly than those in the hinterland because of the better infrastructure endowments with more liberal policy environments. As the result, the share of the eastern region in the national economy rose from 52 per cent in 1978 to 61 per cent in 1994, while the share of the central region lowered from 31 to 26 per cent, and the share of the west region lowered from 17 per cent to 13 per cent (see Figure 2). The per capita GNP gap between the east and the central/west was considerably widened: from 1978 to 1992, the difference between the east and the central increased from RMB154 to RMB1211 yuan, and the difference between the east and the west increased from RMB209 to RMB1421 yuan. Personal incomes in different regions are varied. In 1995, the average wage was RMB8250 yuan in Guangdong, while only 4145 yuan in Heilongjiang, 4211 yuan in Jiangxi and 4475 yuan in Guizhou. Higher wage and personal income has been a major reason for the large scale labour flow from inland provinces to the coastal region in recent years. The income disparities has caused growing dissatisfaction in the inland provinces. This draws attention of the central government and some incentives are given to FDI in the central and west regions.

3. FDI AND ECONOMIC DEVELOPMENT IN GUANGDONG

Guangdong province has been as leader in China over the last seventeen years in introducing foreign capital, especially foreign direct investment, and main-

taining impressive economic growth. In 1995, the actual FDI in Guangdong was US\$ 10,180 million, which took up 27 percent of the country's yearly intake. By the end of 1995, the number of registered foreign funded enterprises (FTEs), *sanzi qiye*, in Guangdong reached 59600, which took up 25.5 percent of the national figure.⁴ The accumulative sum of actual FDI in Guangdong from 1979 to 1995 was US\$38.8 billion, which took up 29.1 percent of the national figure, US\$133.2 billion.

Figure 2. Regional Share of China GNP, 1978-1994



Since 1994, Guangdong has been facing more difficulties than before in utilising FDI to develop the local economy, and whether Guangdong can keep its top position in China in hosting FDI is questioned. Factors including the loss of preferential economic policies, rising labour and land cost, poor public security in some cities have made attracting foreign capital unprecedentedly difficult. On the other hand, Guangdong still holds obviously advanced position and has some advantages in this area. To keep the top position in China with FDI and economic development, the Guangdong provincial government has put into effect some new measures to encourage foreign investors.

3.1 FDI stimulated the economic development in Guangdong

The economic reform and openness of China since 1979 has led to the most rapid economic growth in its history. Guangdong has greatly benefited from, and contributed much to this process and has become the leading economic giant of the country. From 1979 to 1995, the real average annual GDP growth of Guangdong was 14.2 per cent (China as whole had 8 per cent), even faster than Hong Kong, Taiwan, Singapore and South Korea at their "take-off"

period; the income per capita of urban resident increased from RMB402 to RMB6850 yuan; and the income per capita of rural dwellers increased from RMB193 to RMB2699 yuan (Zhou Liao-gang, 1996). In 1994, the population of Guangdong was 66.9 million (5.6 per cent of the nation), and its land was only 1.9 per cent of the whole country, but its yearly GDP was 9.7 per cent, fixed assets investment 13.4 per cent, residents saving 11.8 per cent, import value 29.6 per cent, and export value 38.8 per cent of the nation.⁵

The incredible economic achievements of Guangdong during past seventeen years have resulted from the successful use of foreign capital. The annual GDP and actual FDI growth rate between 1980 and 1995 was 14 per cent and 34 per cent.

The incredible economic achievements of Guangdong during past seventeen years have, to a great extent, resulted from the successful use of foreign capital. Since 1979 Guangdong has had both the most foreign capital and the fastest economic growth of all the provinces. The annual GDP and actual FDI growth rate between 1980 and 1995 was 14 per cent and 34 per cent.

FDI has made a tremendous contribution to output, employment and export growth and has been playing a more and more important role in Guangdong. In 1995, the industrial FFEs completed production value of RMB 282 billion yuan in Guangdong, which took up 36.5 per cent of the total provincial industrial production value, and the percentage was over 50 percent in Shenzhen, Zhuhai, Shantou and Huizhou (Chen Lin-hui, 1996). The export value of FFEs in 1996 was US\$30.7 billion, which took up 51.7 per cent of the yearly provincial exports, US\$59.4 billion.

3.1.1 Supply capital in need and ease capital shortage

The realised foreign capital from 1986 through 1995 absorbed one-quarter to one-third of fixed assets investment in Guangdong⁶; in the three Special Economic Zones, i.e., Shenzhen, Zhuhai, and Shantou, the share was even higher. Cumulative realised foreign capital from 1980 through 1995 in Guangdong totalled US\$ 53,000 million, more than two-thirds of which was FDI. This is essential for the local economic development, particularly at its early stage when capital shortage would very likely be the main constraint.

Given the ambitious development goals set by the provincial government for the year 2000 and the year 2010, the domestic capital supply could hardly meet the huge investment demand. By 2000, GDP per capita is targeted to reach RMB 7,000 yuan (at 1990 price), which requires a 13.4 per cent annual growth during the 1990s. By 2010, GDP per capita is targeted to reach RMB 20,000 yuan (at

1990 price), which would require 12.4 per cent annum growth on average between 2001 and 2010 (Fu Xiao-ping, 1993). To maintain the high annual growth, investment will certainly need to increase beyond the domestic capital supply capability,⁷ so that foreign capital will need to play an important, or even decisive, role.

3.1.2 Some advanced technology brought in with FDI helps to raise productivity and improve the technique and equipment of established enterprises.

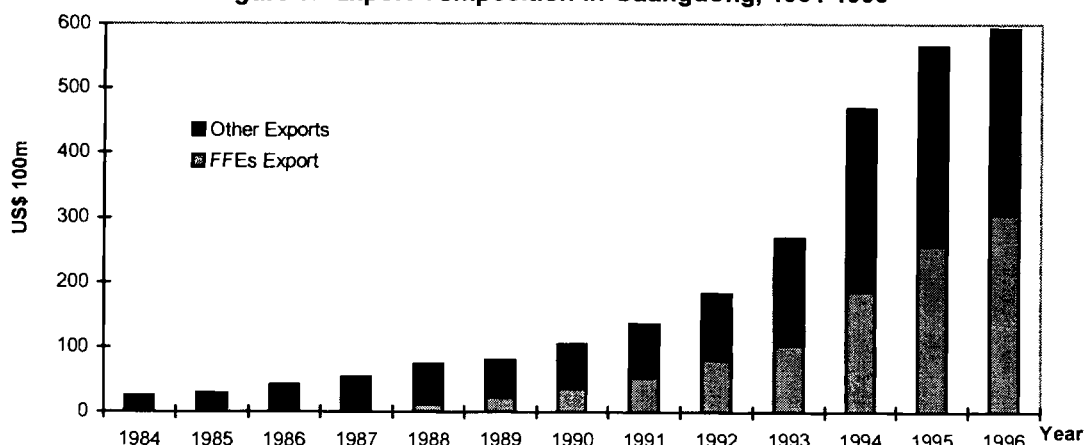
By the end of 1995, more than 6000 established manufacturing enterprises, about two-thirds of all those in Guangdong, had improved their production operation by introducing new technology, equipment, management skill and expertise brought in by foreign investors or partners. In recent years, some state-owned, deficit-making enterprises have been sold or rented to foreign investors. Most of them have made ends meet by improving their management, introducing new products and raising production efficiency.

3.1.3 Foreign investment helped to raise the competitiveness of Guangdong products and successfully shape the externally oriented economy.

Because of the requirement by central government for international sale and the obvious advantage China has in labour-intensive production, most foreign-invested enterprises are overseas market oriented, especially in easy-processing and the export of manufactured products. FFEs have helped to establish the leading position of Guangdong in China's foreign trade, exports in particular (see Figure 3). This province had cumulative export/import trade volume of US\$ 382,300 million from 1979 to 1995 and has been the leader in foreign trade volume since 1986.⁸ The exports of Guangdong was US\$59,350 million in 1996, 39.3 per cent of the national total.

By the end of 1995, more than 6000 established manufacturing enterprises, about two-thirds of all those in Guangdong, had improved their production operation by introducing new technology, equipment, management skill and expertise brought in by foreign investors or partners.

Figure 3. Export Composition in Guangdong, 1984-1996



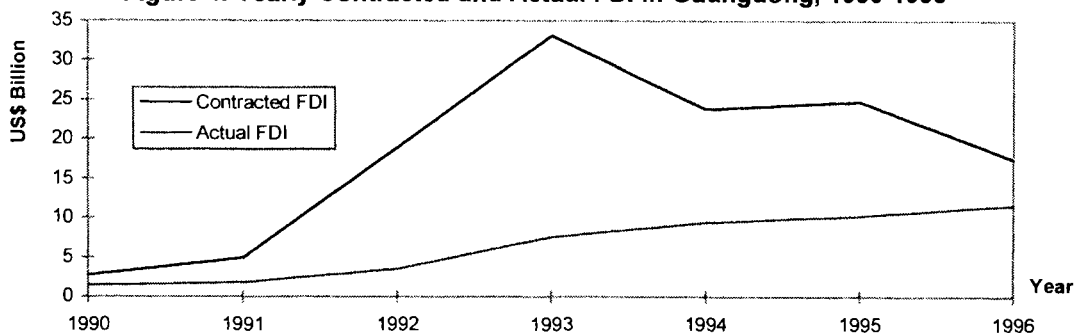
Source: 1) Statistical Yearbooks of Guangdong (1981-1996); 2) The Statistical Bulletin on the Economic and Social Development of Guangdong Province in 1996.

3.2 Some new features of foreign direct investment in Guangdong

3.2.1 The growth of FDI has slowed down.

Both contracted and Actual FDI experienced rapid growth during 1991-93 period, but then slowed down and even decreased in 1994-1996 period (Figure 4). Such a fluctuation resulted from Deng Xiaoping's "southern" speech early in 1992, which stimulated a new wave of foreign investment, and then the central government's macroeconomic adjustment and control policies which firmly cut total domestic investment to ease the serious inflationary pressure. Other reasons include the weakening of the advantageous position of Guangdong, and espe-

Figure 4. Yearly Contracted and Actual FDI in Guangdong, 1990-1996

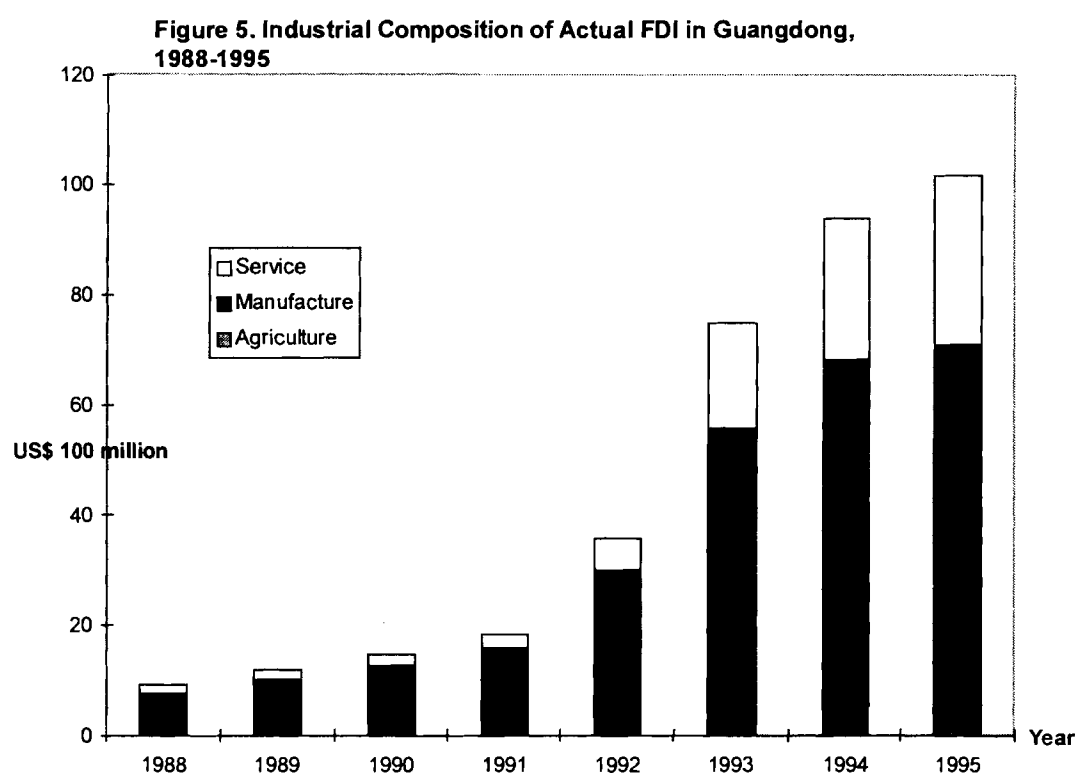


Source: 1) Statistical Yearbooks of Guangdong (1991-1996); 2) The Statistical Bulletin on the Economic and Social Development of Guangdong Province in 1996.

cially its SEZs, after 1993 when the central government gradually unified its policies towards foreign investment throughout the country.

3.2.2 Investment sectors of foreign capital expanded

In the 1980s, FDI in Guangdong was mainly focused on the manufacture industries like textile, clothes, shoes, toys and electronics components, but since 1990, more capital has been invested into real estate, transport, telecommunication and other service sectors (Figure 5).



Source: Statistical Yearbooks of Guangdong (1989-1996)

3.2.3 Investment projects have become larger

During the 1991-95 period, the average volume of foreign invested projects was US\$2.12 million: in 1995 it was US\$3.03 million, tripled the average US\$0.93 million invested during 1986-1990 period. In 1996, the average volume reached US\$3.37 million. This partly reflected the greater interest shown by multinational corporations in investing in China, and the fact that Guangdong was one of major target areas for such international business players as AT&T, GE, GMC, Pepsi, Canon, Mitsubishi, Panasonic, BHP and Philips.

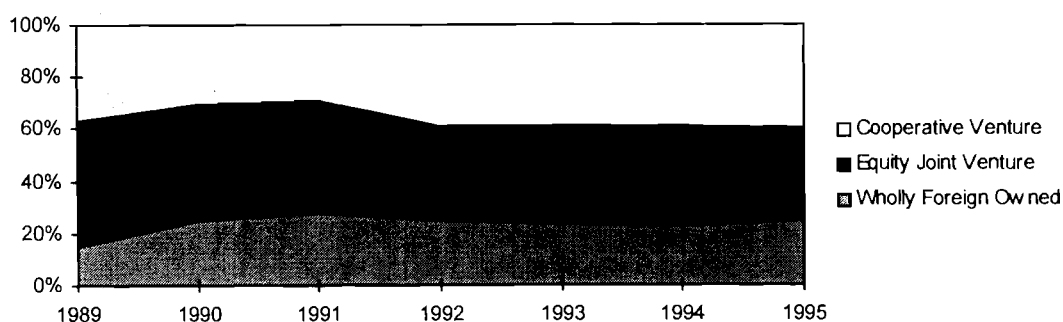
3.2.4 FDI has spread to more parts of the province

In the 1980s, FDI concentrated on the three SEZs and the Pearl River Delta region, but more recently it has been spreading further into the East, West and North mountain areas. Their share of the province's FDI rose from 25 per cent in 1990 to 31 per cent in 1995.

3.2.5 The structure of FDI in Guangdong has changed

While all three kinds of foreign invested ventures kept trending upward into the 1990s, wholly foreign owned ventures grew even more quickly than equity joint ventures and cooperative ventures. The share of wholly foreign owned venture investment within total realised FDI rose from 15 per cent in 1989 to 25 per cent in 1995 (Figure 6), reflecting the more encouraging attitude towards wholly foreign owned ventures, the opening of more areas for these ventures, and the fact that foreign investors have become more familiar and more confident with the investment environment and tend to run business by themselves. At the same time, the share of equity joint ventures fell from 48.3 to 35.1 per cent and the share of cooperative ventures rose from 37.1 to 40 per cent, which implied that more and more joint-venture projects now may be involving with technical transfer and cooperation instead of financial input alone.

Figure 6. Structure Change of Actual FDI in Guangdong, 1989-1995



Source: Statistical Yearbooks of Guangdong (1990-1996)

3.3 The difficulties and problems with FDI in Guangdong

3.3.1 The loss of preferential policies and higher labour and land cost make Guangdong less attractive to some foreign investors.

Now, unified policies and fair competition for all the provinces/municipalities /autonomous regions are the basic principles of Chinese government concerning

FDI, which means that taxation, import duties, foreign invested projects approval and other regulations related to FDI are basically the same throughout the country. Guangdong has been pulled down from its advantageous position created by the central government preferential policies, which contributed a lot to Guangdong's rapid foreign investment development and externally oriented economy growth. At the same time, after 17 years rapid economic growth, now the land cost, office rent and wage level in Guangdong are higher than in most other provinces, which are discouraging foreign investors. The cheaper land and labour competition comes not only from other provinces, but also from some low income neighbour countries like Vietnam.

3.3.2 "Soft" environment for foreign investment needs to be improved

In recent years, though the infrastructures like transportation, utilities have been improved a lot, the problems of crime and public security in some cities of Guangdong have become serious, which make foreign investors worried about property safety and social stability. Safety and profitability are always two major concerns of foreign investors. Besides, some government officials corruption and willful levy on local enterprises also cause headaches for foreign investors.

3.3.3 The percentage of realised FDI from total contracted FDI is low

From 1979 to 1995, the cumulative contracted FDI valued at US\$ 123 billion, but the realised sum was US\$ 39 billion, ie. 31.6 per cent. Even though the figure of 1995 rose to 41 percent, it is still well below reasonable expectations. The main reasons for this are being lack of reliable feasibility analysis on investment projects, being short of domestic support capital supply and having ineffective contracts. Some rashly-pushed investment projects by local officials have little economic feasibility, but valuable for the cadres to show off their achievements to higher authorities.

3.4 The advantages of Guangdong in attracting FDI

3.4.1 Relatively developed economy, market mechanism and infrastructure

The rapid economic growth since 1979 has set up the leading position of Guangdong's economy over other provinces(see Table 1). More importantly,

Now, unified policies and fair competition for all the provinces/municipalities / autonomous regions means that taxation, import duties, foreign invested projects approval and other regulations related to FDI are basically the same throughout the country. Guangdong has been pulled down from its advantageous position.

the market and market mechanism has been better developed in Guangdong than in other provinces. And, partly with the help of FDI, the transportation, telecommunication and other infrastructure in Guangdong have been greatly improved within this period. Guangdong is now on the top of the nation in per capita telephone(including mobile phone) quantity, highway length, port capacity, airline passenger and cargo transportation, etc. The newly-completed Guangzhou-Meizhou-Shantou Railway, Guangzhou-Shenzhen Super-highway and Shenzhen-Shantou Super-highway, plus other railway, highway, seaport, airport development projects have made Guangdong more accessible to foreign investors and more integrated with other part of the world economy, Hong Kong economy in particular. And one of the three Internet outlets of China is in Guangzhou. All of this will certainly give some weight to Guangdong when foreign investors make their location choices, especially at the time when we are moving towards a more efficient information era of the 21st century.

3.4.2 The potential both to develop high-tech industries and to find low-cost production sites for labour-intensive manufacturing within the province

The economic development of Guangdong has been quite unbalanced between different districts. As early birds, three SEZs and the Pearl River Delta have hosted most foreign investment and enjoyed faster economic growth due to the

Table 1. Some Economic Indicators of Five Major Provinces of China

Provinces	GDP (RMB Billion)				Export (US\$ Billion)		Gov? Revenue (RMB Billion)	
	1985		1995		1994		1994	
	Value	Place	Value	Place	Value	Place	Value	Place
Guangdong	55.3	4	538.2	1	49.99	1	29.87	1
Jiangsu	65.2	1	515.5	2	8.93	3	13.64	5
Shandong	63.1	2	500.2	3	7.08	5	13.33	7
Sichuan	58.5	3	353.4	4	2.25	8	13.55	6
Zhejiang	41.2	8	352.4	5	6.26	7	9.46	10

Note: Place is the position among all the 30 provincial units of mainland China.

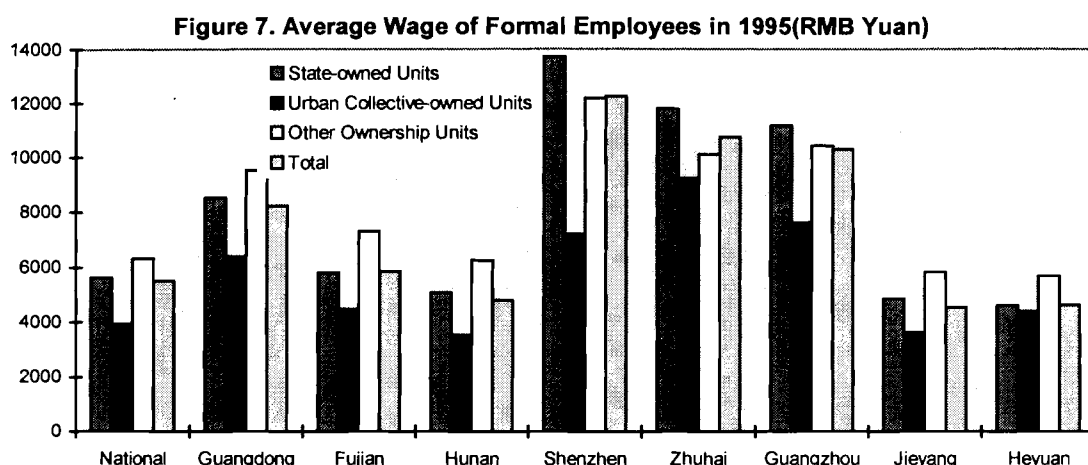
Source: China Statistical Yearbook (1986-1996).

preferential government policy, better infrastructure and easier access to foreign investors. The unbalanced economic development in Guangdong allows foreign investors potential both to introduce more advanced technology and equipment into some areas in order to raise productivity and competitiveness on international high-tech products market and to find low-cost locations in other areas so to keep easy-processing, labour-intensive products profitable.

With Guangzhou, Shenzhen, Zhuhai and their satellite cities, the Pearl River Delta has had the most rapid economic growth both in Guangdong and in China for past 17 years and is the comparatively developed area in Guangdong. The Delta has a population of 21 million and an area of 41596 square kilometres, which take up 31 per cent and 23.4 per cent respectively of the whole province. But it created 70 per cent and over 80 per cent of the provincial GDP and exports in 1996. Because of the rapid economic development and income rise, thousands of talented and well-educated people, most of them are young, have been attracted into this area from all over the country in past years. Therefore the Delta now has one of the most educated and skilled labour forces in China.⁹ This is a major advantage of Guangdong in attracting high-tech and knowledge-intensive FDI projects over most other provinces. In fact, the provincial government and some municipal governments like Guangzhou, Shenzhen and Zhuhai have shifted their policy incentives towards such FDI projects from the traditional, labour-intensive FDI projects.

The Delta now has one of the most educated and skilled labour forces in China.

At the same time, since the gap of income level and labour cost between these relatively developed areas and other backward areas could be greater than the difference between Guangdong and other neighbour provinces(see Figure 7), it is possible for foreign investors to find cheap labour and land within the province and keep their labour-intensive production profitable for a few years. The average wage of all formal employees in Jieyang city and Heyuan city, both in Guangdong province, in 1995 were RMB 4553 and RMB 4678 yuan respectively, about one-third of that of Shenzhen, RMB 12276 yuan, and less than one-tenth of the average Hong Kong manufacturing worker's salary of HK\$62000 and lower than that of the neighbour provinces like Fujian, Hunan and the national average.



Source: China Statistical Yearbook(1996); Statistical Yearbook of Guangdong (1996)

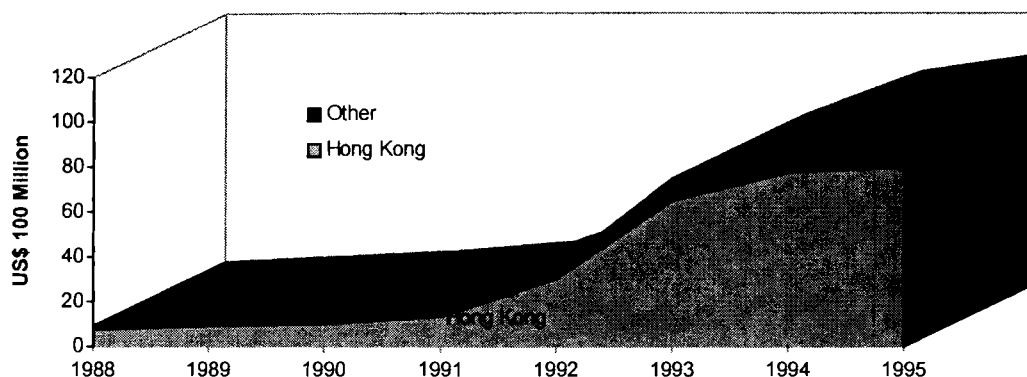
3.4.3 The close relation and economic integration with Hong Kong

Hong Kong is the largest FDI investor in Guangdong. In 1995, it had actual FDI of US\$ 8 billion in Guangdong, which took 78.1 percent of the provincial yearly in-take.

There are now over 2300 Hong Kong invested enterprises and 80 thousand factories processing export goods for Hong Kong within the Pearl River Delta alone. By estimate, the Hong Kong capital are employing over 3 million workers in the Delta.¹⁰ So Guangdong, the Pearl River Delta in particular, has become a huge factory for Hong Kong re-exports. The actual FDI from Hong Kong takes a lion share of the total actual FDI in Guangdong (see Figure 8). Hong Kong is both the major export market and import origin of Guangdong. The externally oriented economy of Guangdong¹¹ is in fact the Hong Kong oriented economy. In 1995, Guangdong's export to and import from Hong Kong were US\$48.45 billion and US\$30.35 billion respectively, 87 percent and 79.5 percent of its total exports and imports. The financial and economic ties between Guangdong and Hong Kong have become quite strong in past 17 years.

The close economic relation and geographic connection between Guangdong and Hong Kong give Guangdong not only opportunities to share the prosperity of Hong Kong but also a unique position among China's provinces, ie, it has greater influence on Hong Kong's economy. This will give Guangdong more weight in the central government policy-making process, especially in this

Figure 8. Hong Kong's Share of the Total Actual FDI in Guangdong, 1988-1995



Source: Statistical Yearbooks of Guangdong (1989-1996)

crucial period when Hong Kong's prosperity is important to keep the local people's faith on its future, to set a successful example of national unity for Macau and Taiwan, and to show the world the ability of Chinese government to maintain Hong Kong as one of the major financial, trade and shipping centres in the world after it is back into China's sovereignty. The central government may find it necessary to keep Guangdong economy dynamic and prosperous in order to keep Hong Kong's prosperity.

3.4.4 Lighter burden of deficit-making state-owned enterprises

As the coastal front, Guangdong had got less state capital input from the central government than most inland provinces from the 1950s to the 1970s. This inclined investment policy led to a comparatively smaller state-owned sector and fewer large state-owned enterprises(SOEs) in Guangdong. This used to be viewed as one weakness of Guangdong and the major reason for its poor and backward industrial base in that period of time. But now it turned to be one advantage of Guangdong because it has much lighter burden of the over human-powered, poorly equipped, low-efficiency, and deficit-making state-owned enterprises, which in many inland provinces have become main absorber of government revenue and most important cause of unemployment or underlying unemployment.

It is also interesting to see that, because most of SOEs in Guangdong were set up later in 1980s and 1990s, which means that they have relatively advanced technology and equipment and a mainly market-oriented management mechanism, so SOEs in Guangdong have a better performance than those in inland provinces. In fact, Guangdong has been on the top of the nation in holding accumulative state assets since 1993. SOEs is a major resource and contributor to the provincial revenue.

Since the share-holding companies have had to pass a complicated assessment process to list their shares on the market, which means they have better credit worthiness, the foreign investors are also more interested in considering them as partners for joint ventures than other enterprises.

3.4.5 Foreign investment through stock market

The common experience is that foreign capital involvement usually starts with loans then extends to joint ventures, and then to portfolio investment. Foreign investors have become more and more interested in the listed share-holding companies in China.¹² Since the share-holding companies have had to pass a complicated assessment process to list their shares on the market, which means they have better credit worthiness, the foreign investors are also more interested in considering them as partners for joint ventures than other enterprises.¹³ As Guangdong hosts one of the two stock exchanges in China (Shenzhen and Shanghai) and has more listed companies than other province, so it has benefited some and will benefit more from this trend in the future.

3.5 New policies of Guangdong government to encourage foreign direct investment

Since the central government has turned its main attention to speeding up the central and western regions economic growth to narrow the gap of economic development and income level between the East and the West, Guangdong no longer have the favourable position in the central government policy-making process, which it held from early 1980s to early 1990s. It has to totally rely on itself to keep its leading position of introducing foreign capital and outward-oriented economic development. Being aware of the difficulties it is facing, the Guangdong provincial government has decided to have a more positive and encouraging policy towards foreign investment, and promised to gradually open the local market to foreign investors. The basic idea and way is to swap part of the local market and state ownership for foreign capital and technology. Some new policies were put into effect in 1996.

3.5.1 Loosen restriction on domestic sales share of FFE products.

- Provided that those joint-ventures and cooperative production projects invested into the encouraging industries have advanced technology, with foreign capital taking 50 per cent or more of the total invested capital, up to 50 per cent of their products could be sold on domestic market if the total investment amount is below US\$ 5 million; up to 60 per cent could be sold domestically if the total investment is between US\$ 5 million and US\$ 15 million; up to 100 per cent if the investment is over US\$ 15 million.¹⁴
- Joint ventures in agriculture like cultivation with high technology, high efficiency and high productivity, up to 100 per cent of their products could be sold on domestic market regardless to invested amount. If the invested projects are totally owned by foreign capital, up to 40 per cent of their products could be sold domestically.¹⁵
- If foreign investors purchase state owned enterprises evaluated by State Assets Administration Bureau and take 25 per cent or above of the ownership, up to 60 per cent of the enterprise products could be sold domestically.
- If foreign investors invest into the encouraging industries in mountain or island cities/counties with total investment being over US\$ 1.5 million and foreign capital being more than 50 per cent, up to 100 per cent of the products could be sold domestically.¹⁶

Being aware of the difficulties it is facing, the Guangdong provincial government has decided to have a more positive and encouraging policy towards foreign investment, and promised to gradually open the local market to foreign investors.

3.5.2 Gradually grant foreign funded enterprises national treatment

FFEs used to have both super-national treatment like income tax waiver, tariff exemption on capital goods imports and under-national treatment like local market access restriction and investment sector restriction. Now the Chinese government is considering imposing national treatment to FFEs step by step. Some preferential policies towards FFEs, eg, two-year waiver and three-year half waiver on their income tax, have been rescinded. Meanwhile more industries and business areas such as banking, insurance, securities, foreign trade, retailing, tourism, transportation, real estate, infrastructure, accountancy and legal consultation are either newly opened to FDI or opened wider to FDI, eg, allow wholly foreign-owned enterprises to enter some sectors. Guangdong is quite active in this direction and is sure to take more steps towards this goal earlier than most other provinces.

3.5.3 Encourage more multinational corporations to invest in Guangdong

Even though Guangdong is well ahead of other provinces in hosting more foreign capital, the average value of FDI projects in Guangdong had been below the national average for a long period until 1993. That reflected the fact that most FFEs in Guangdong were from relatively smaller investors of Hong Kong, which usually means less advanced technology and management skill involved with the invested projects. The situation has changed since 1994 when more big investors showed their interest in Guangdong. More investment from multinational corporations with advanced technology and management would raise the quality of FFEs in favour of restructuring the local economy to high technology and high efficiency bases.

The average value of FDI projects increased quite a bit in 1995 and 1996. It can be viewed as a signal that FFEs in Guangdong are probably in the transition from traditionally more labour-intensive projects to more capital/technology intensive investment projects.

In order to attract more multinational corporations to Guangdong, the provincial government has put into effect some policies in favour of big investors, particularly if they invest into infrastructure projects and high-tech industries. The facts that the average value of FDI projects increased quite a bit in 1995 and 1996 reflect some active results of this effort. It can be viewed as a signal that FFEs in Guangdong are probably in the transition from traditionally more labour-intensive projects to more capital/technology intensive investment projects.

4. CONCLUSION

FDI has had a very significant and positive impact on the Chinese economy as a whole since its economic reform in 1979. But the uneven regional distribution of FDI has, as a major factor, led to the varied economic development of different provinces and the widening gap of personal income between regions, which has latent danger of social unease and draws attention of the central government to speed up the hinterland economic development.

As the biggest inflow FDI host province, Guangdong has made most impressive economic progress in last 17 years. Facing more difficulties than before, Guangdong may be unable to keep FDI inflow and economic growth as fast as in the past, but it still holds obviously advanced position over other provinces in hosting FDI and developing outward-oriented economy. Being aware of the

challenge it faces, the Guangdong government has put some new policies into effect to attract FDI. With the established advantageous position, such as better infrastructure, higher quality labour force and relatively developed market mechanism and economic ties with foreign resources, and the trend that more multinational corporations are entering the province, Guangdong has the potential in developing more high-tech, capital/technology intensive FFEs. Meanwhile, with the cheap labour and land in some relatively backward areas of the province, it also has the potential in shifting labour-intensive FDI projects to these areas from the Pearl River Delta and maintaining some further development in this field. Therefore it is very unlikely that Guangdong will soon lose its leading economic position in China. Its integration with Hong Kong will contribute to its future prosperity, too. If most of the new policies were carried on as expected, Guangdong could keep its top position in China for at least another decade. We should see to it that Guangdong will benefit a lot if it develops more complementary cooperation projects with the central and western provinces, meanwhile contribute to the economic development in those areas.

It is very unlikely that Guangdong will soon lose its leading economic position in China.

¹ According to the estimation of the World Bank, China needs US\$744 billion from 1995 to 2005 for infrastructure investment alone, doubling its current national savings.

² In addition to Beijing, Tianjin, and Shanghai, Chongqing was newly set up in April 1997.

³ *Guangdong Da Jingmao*, October 1996.

⁴ Statistical Yearbook of Guangdong, 1996.

⁵ Statistical Yearbook of Guangdong, 1995, pp 114-115.

⁶ Statistical Yearbook of Guangdong, 1987-1996.

⁷ Estimated by the State Statistical Bureau of China, at the annual GDP growth of 8-9 per cent, the national accumulative sum of FDI in 1996-2000 period will be US\$230-270 billion. See *People's Daily* (Overseas edition), 24 March 1997.

⁸ Calculated from Statistical Yearbooks of Guangdong (1982-1996).

⁹ Since 1993, it has been very difficult, if not impossible, for people without Master/Doctor degrees or higher academic/technician qualification to get permanent residency in Guangzhou, Shenzhen and Zhuhai.

¹⁰ "Hong Kong's return and Hong Kong capital in the mainland", *Zhongguo Waizi* (Foreign Capital in China), January 1997.

¹¹ In 1996, the export dependency rate (export to GDP ratio) of Guangdong was 82 percent, the highest among all China's provinces.

¹² By March 1997, 87 Chinese companies had issued 8.99 billion B-shares, a special category of shares for foreign investors, and totally raised capital of about US\$ 3 billion. In addition, 29 Chinese companies sell their stocks on other stock exchanges outside mainland China (out of them, twenty-two in Hong Kong, two in New York, four in both Hong Kong and New York and one in both Hong Kong and London), which raised capital of US\$ 5.9 billion. See Lan Yisheng: 'Stock market in China: problems and prospects for domestic investment and foreign investment',

CERC of Adelaide University working papers, 1997 (to be published).

¹³ Ibid.

¹⁴ "The new preferential treatments to attract foreign investment", *Guangdong Da Jing-mao*, August, 1996, pp. 76.

¹⁵ Ibid.

¹⁶ There are totally 50 counties in the East, West and North mountain areas and islands where FDI have this incentive.

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