

MNC in China: Chinese Policy Adjustment for Foreign Invested Enterprises

Dong Lili

donglili@bfsu.edu.cn

International Business School
Beijing Foreign Studies University

Content

- ❖ Inward FDI in China
 - ❖ policy regime , fact and data
 - ❖ How IFDI influence China, and others?
- ❖ Outward FDI from China
 - ❖ Fact and data; policy
- ❖ Major concerns for Foreign companies investing in China
 - ❖ Past, present, and the future

Laws & Regulations on FIEs

- ❖ The special laws for FIEs
 - ❖ The Law of the PRC on Sino-Foreign Equity Joint Ventures
 - ❖ --- on Sino-foreign Cooperative JV
 - ❖ --- on wholly-owned foreign enterprises
- ❖ The Company Law, for all the companies.
 - ❖ The Law applies to limited liability companies with foreign investment.
- ❖ the special law should be adopted before the common law
- ❖ How to start, register, operate, or end business in China

Other related regulations

- ❖ Guiding the Direction of Foreign Investment Provisions
 - ❖ Set down basic principles in deciding the specific policies to different industries
- ❖ Catalogue of Industries for Guiding Foreign Investment (2011 Amendment)

Guiding the Direction of Foreign Investment Provisions

- ❖ By state council, Apr. 1 2002
- ❖ Foreign invested projects
 - ❖ Encouraged industries, Restricted, Prohibited, and allowed
- ❖ Encouraged industries
 - ❖ Exempt from equipment import tariff, and VAT,
 - ❖ VAT refund for equipment purchased from domestic supplier
- ❖ For Allowed and Restricted industries, if the project meets certain criteria (e.g. export certain percent of the output) can enjoy favorable policies.

Catalogue of Industries for Guiding Foreign Investment

- ❖ Firstly issued in 1995, Amended more frequently than the “Guiding”, latest 2011 Amendment, in effect on Jan. 30,2012
- ❖ Issued by Ministry of Commerce and The national development and Reform Commission, according to “Guiding the Direction ---”
- ❖ Encouraged, Restricted, Prohibited industries / allowed (not listed in the catalogue)
- ❖ Catalogue of priority industries for foreign investment in central and Western Regions

Catalogue of Industries for Guiding Foreign Investment

- ❖ Altogether 473 listings,
 - ❖ 354 encouraged, some deleted, some newly added, generally ↑
 - ❖ 80 restricted, ↓
 - ❖ 39 prohibited, ↓
- ❖ Encouraged and restricted industries with limit on foreign share, ↓
- ❖ **Generally speaking, more industries to be open to foreign investors.**

Purpose of the Catalogue Amendment

- ❖ Promote foreign investment, and improve the quality of foreign investment
 - ❖ What are regarded as “better” investment?
- ❖ To help Upgrading the **manufacture**
 - ❖ Encourage foreign investment in advanced manufacture,
 - ❖ new technology, new material, new equipment
- ❖ To nurture the strategic **new industries**
 - ❖ Energy and resource saving, environment friendly, new information technology, biotechnology, advanced equipment, new energy, new material, clean-energy vehicles
 - ❖ Help enhance new international competitiveness

Purpose of the Catalogue Amendment

- ❖ To promote the development of **service** sector
 - ❖ Open more service sectors to foreign investment
 - ❖ Help upgrading the economic structure
- ❖ To promote **coordinated regional** development
 - ❖ **Central and western region, north-eastern regions,**
 - ❖ Some industries are deleted from the “encouraged list”, but included in the special “catalogue for Central and western region”

Catalogue of priority industries for foreign investment in central and Western Regions

- ❖ Recently amended 2013, promulgated and in effect on May 09, 2013
- ❖ 500 listed industries, up from 411 in 2008 amendment, all enjoying favorable policies to “Encouraged industries”
- ❖ 22 provinces and regions
- ❖ 山西，内蒙古，辽宁，吉林，黑龙江，安徽，江西，河南，湖北，湖南，广西，重庆，四川，贵州，云南，西藏，陕西，甘肃，宁夏，青海，新疆，海南（included in 2013 amendment)
- ❖ Utilize the resource, labor advantages; promote the industrial upgrading; orderly industry transfer ; promote sustainable development

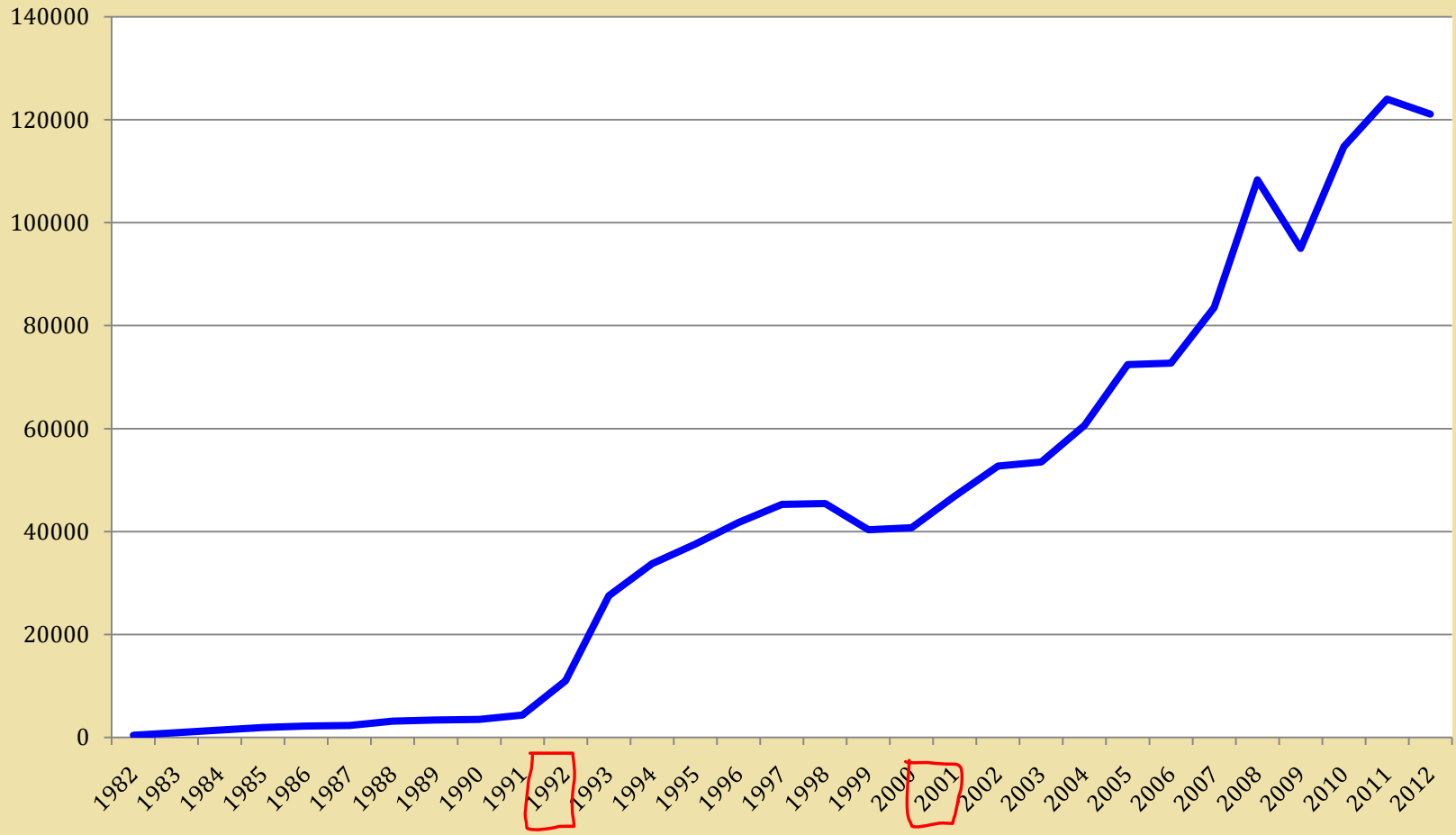
In summary

- ❖ What are regarded as “good” investment, so as to be encouraged, and enjoy favorable policies?
- ❖ What are regarded as “bad” investment? Therefore not encouraged, or restricted, even prohibited.
 - ❖ Advanced vs. Out-dated technology
 - ❖ Resource-saving vs. High resource-costing
 - ❖ environment friendly vs. environment-polluting
 - ❖ central and western regions vs. Coastal regions

Inward FDI in China

❖ fact and data

CHINA FDI INFLOW GROWTH TENDENCY



Data source: UNCTADstat, in US Dollars at current prices and current exchange rates in millions

Useful Data and Facts

- ❖ 中国外资统计2013年.pdf
- ❖ Tax revenue P2/p41
- ❖ FDI as a Percentage of Total Investment in Fixed Assets p3/p42
- ❖ Industrial output p4/p43
- ❖ FDI stock p5/p44
- ❖ FDI by form p6 p7/p45 p46
- ❖ Investment by countries p8-p13/p47-53
- ❖ Sectoral Distribution p19-p22/p58-61
- ❖ FDI Utilized by East, Central and West Parts of China p24/p63
- ❖ Trade by FIEs p25/p64

Key point

- ❖ Although the absolute value keeps rising, the share or importance of IFDI for Chinese economy has been going downward.
- ❖ Focus on manufacture
- ❖ Imbalance in regional distribution

What does IFDI bring to China?

- ❖ Financial inflow
- ❖ Technology ? ?
- ❖ Management skills
- ❖ New business practices
- ❖ Export
- ❖ Job opportunity
- ❖ Lots of studies on related topic---

What does IFDI bring to Investors?

- ❖ Huge profit
- ❖ Success in China can help investors survive or succeed in world market
- ❖ Market power in local market or even in world market

Even more for China

- ❖ Environmental deterioration
- ❖ Income inequality
 - ❖ Skilled labor vs. unskilled labor
 - ❖ Coastal region vs. vast hinterland
- ❖ Huge surplus ??
 - ❖ slashed hard by partners

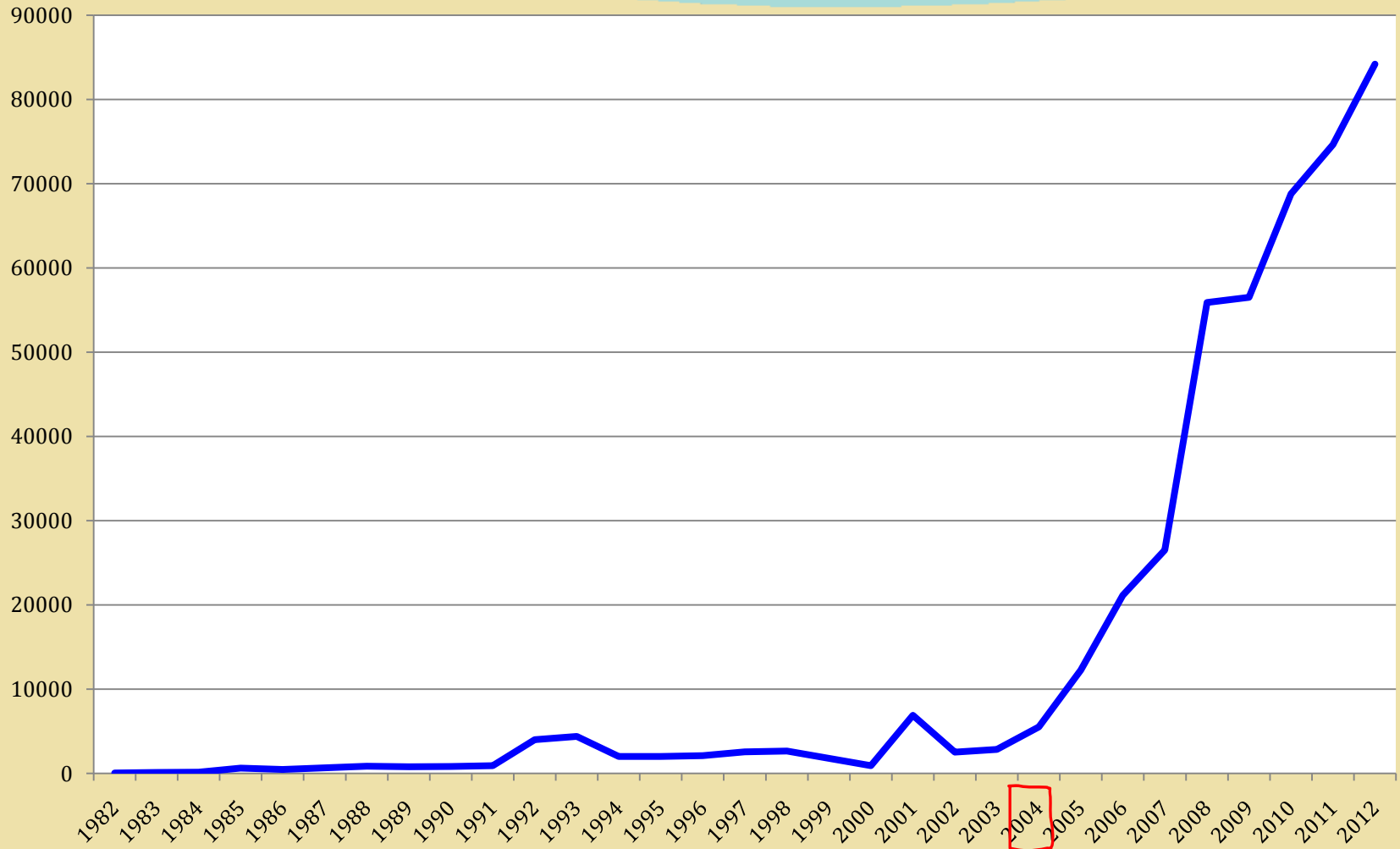
Key points about IFDI

- ❖ China benefits a lot from the IFDI.
- ❖ So do the investors and the home country.
- ❖ There are some problems, which have long been existing, but used to be ignored because some other issues take priority in the agenda. Now, those issues get more attention than before.
- ❖ **Some policies** are drafted to address these problems.

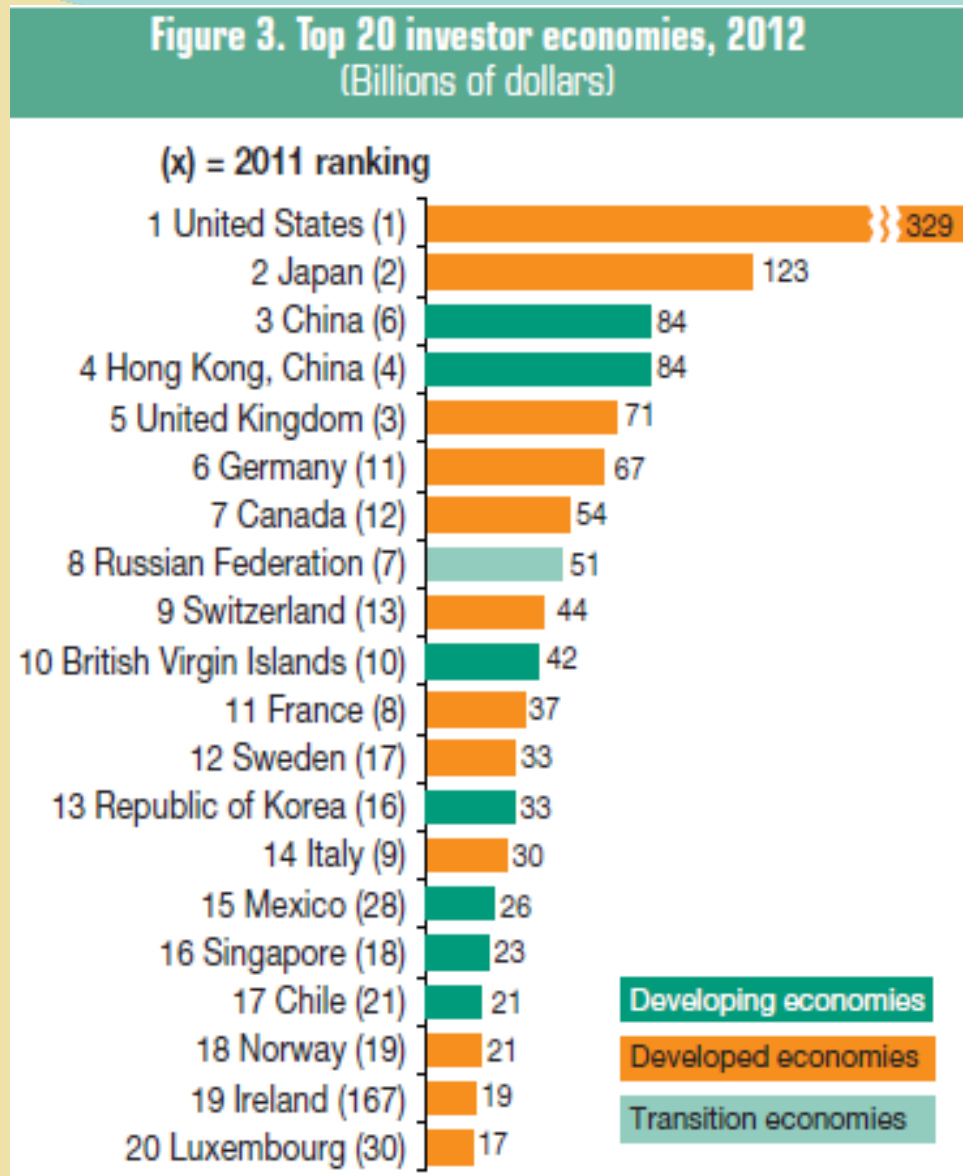
OFDI

- ❖ Data and fact
- ❖ Policy regime

China's Outward FDI



Who are the largest investing countries?



Key Points about OFDI

- ❖ You may not know any Chinese firms yet, but it's for sure that some of them will become world famous in the next decade.
- ❖ No doubt that some of them will suffer failure.
- ❖ Chinese government designs the policy regime to encourage local companies to “go global”.

OFDI policy regime

- ❖ Ministry of commerce
- ❖ Ministry of industry and information technology
- ❖ Ministry of land and resources
- ❖ Ministry of agriculture
- ❖ People's bank of China
- ❖ State-owned assets supervision and administration commission
- ❖ State administration of taxation
- ❖ State administration of foreign exchange

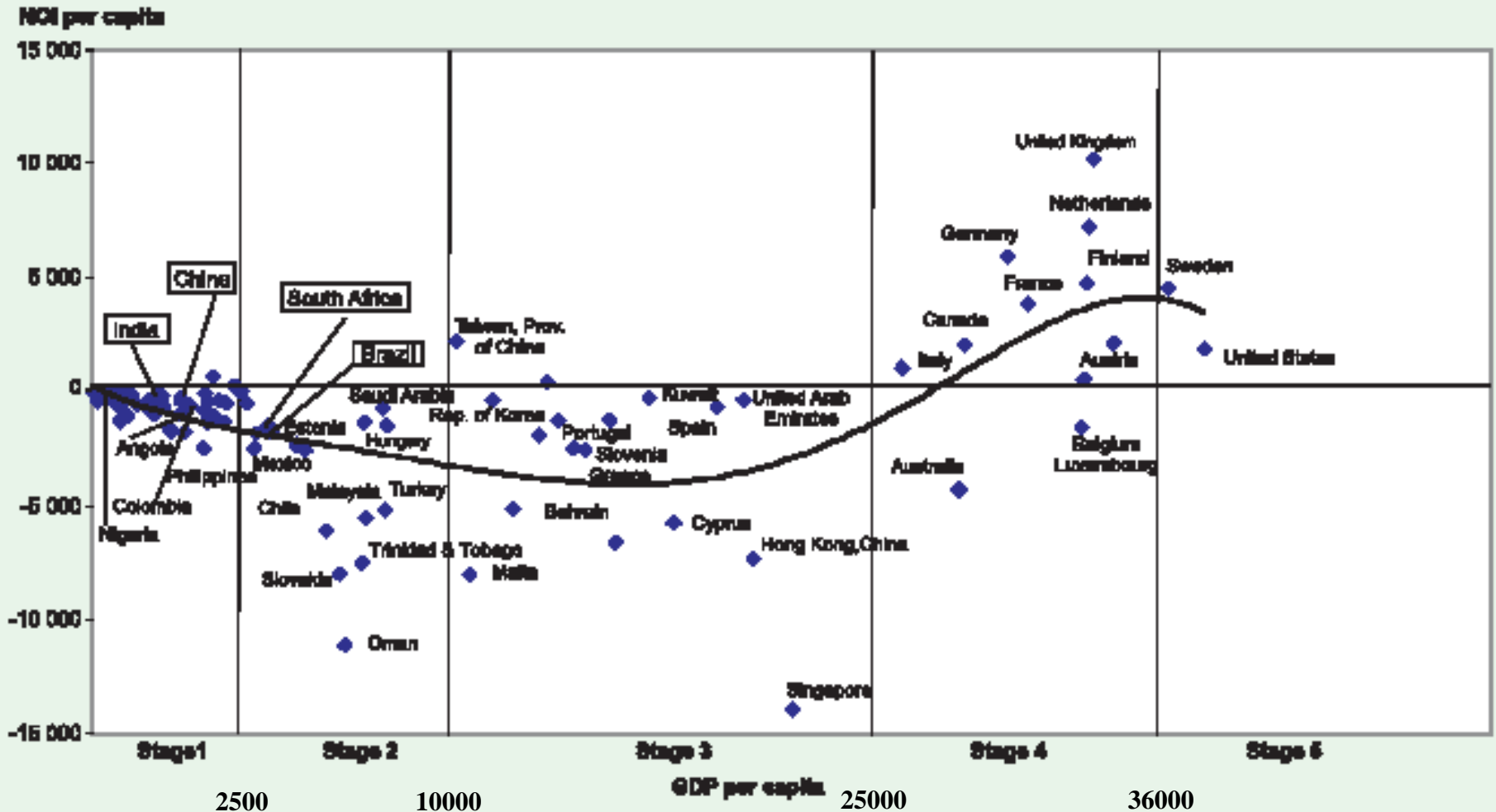
❖ Q:

❖ How will this influence the policy choice on *IFDI*?

❖ Let's put FDI inflow and outflow in the same picture now

❖ IDP investment development path

Relationship between net outward investment and GDP per capita, WIR2006 p144



Discussion

- ❖ Which stage is China at?
- ❖ National GDP per capita, USD 6,094 (2012)
- ❖ Is China at the 2nd stage?
- ❖ Beijing, USD 13,797(2012), 15,052 (2013)
- ❖ Is China at the 3rd stage?
- ❖ http://www.economist.com/content/chinese_equivalents

- ❖ 第1名 天津101689元
- 第2名 北京94238元
- 第3名 上海90749元
- 第4名 江苏74699元
- 第5名 浙江68593元
- 第6名 内蒙古67604元
- 第7名 辽宁61745元
- 第8名 广东58678元
- 第9名 福建58057元
- 第10名 山东56464元
- 第11名 吉林47198元
- 第12名 重庆42977元
- 第13名 陕西42752元
- 第14名 湖北42686元
- 第15名 宁夏40174元
- 第16名 河北38835元

- ❖ 第17名 黑龙江38602元
- 第18名 新疆38114元
- 第19名 湖南36906元
- 第20名 青海36657元
- 第21名 海南35491元
- 第22名 山西34901元
- 第23名 河南34187元
- 第24名 四川32516元
- 第25名 江西31836元
- 第26名 安徽31795元
- 第27名 广西30709元
- 第28名 西藏26071元
- 第29名 云南25158元
- 第30名 甘肃24318元
- 第31名 贵州22982元

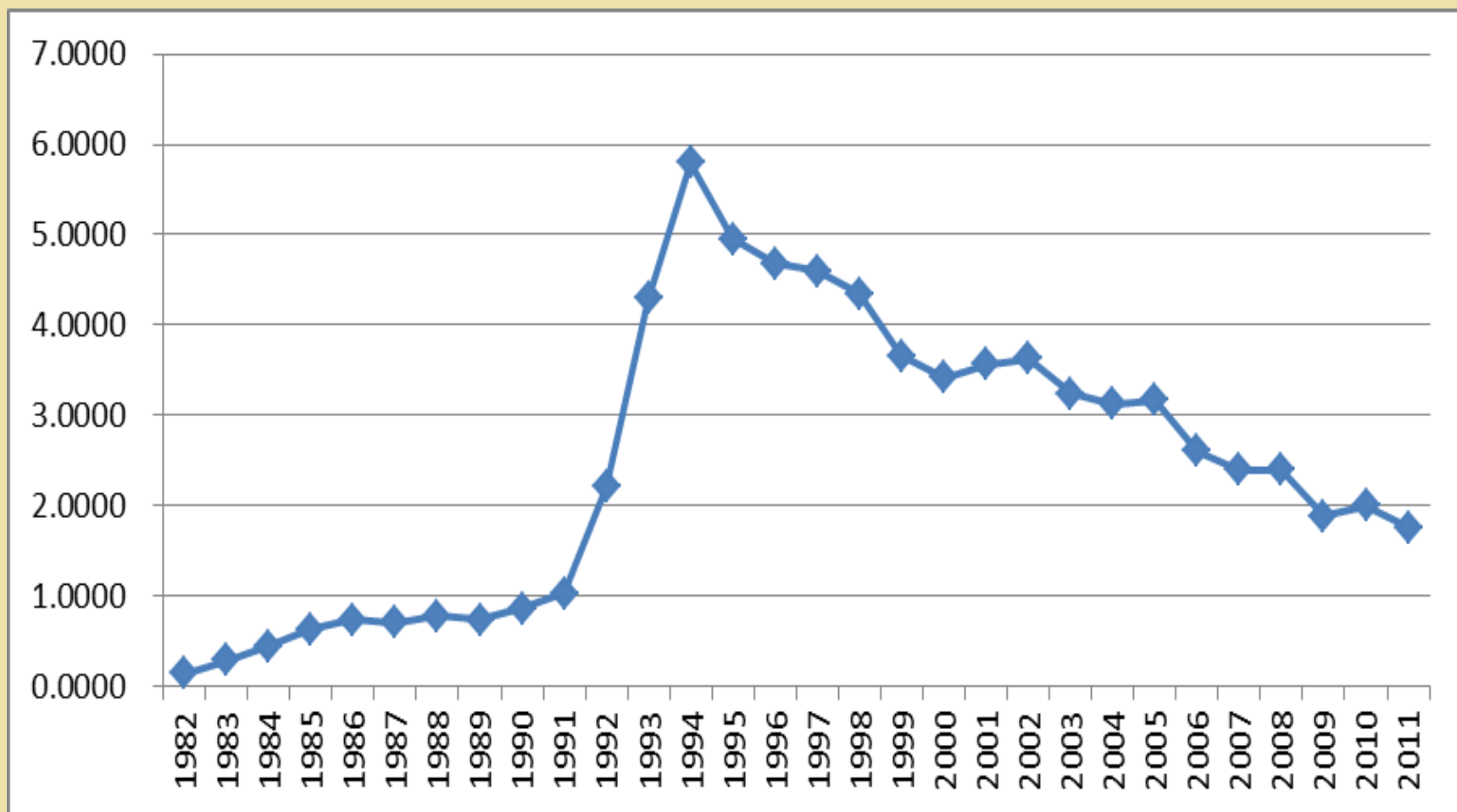
Key point

- ❖ To understand Chinese economy and policy adjustment, you must keep one thing in mind:
- ❖ the regional difference

Back to the question

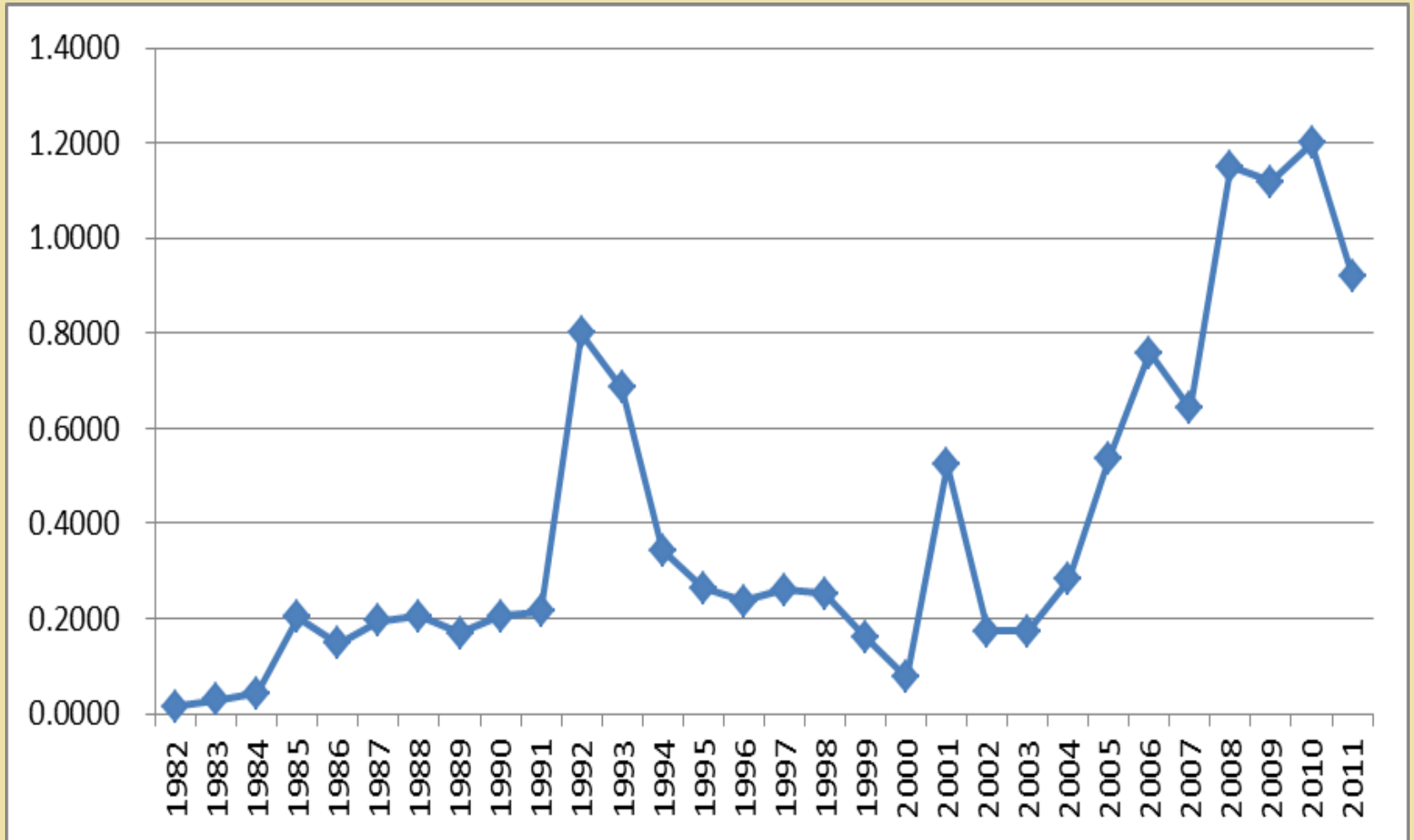
- ❖ Which stage is China in?
- ❖ Answer:
- ❖ Some regions at the 3rd stage
- ❖ Some regions at the 2nd stage
- ❖ Some other regions at the 1st stage
- ❖ So, it's very natural to differentiate policies across different regions.

CHINA FDI INFLOW AS % OF GDP



Data source: UNCTADstat, in US Dollars at current prices and current exchange rates in millions

CHINA FDI OUTFLOW AS % OF GDP



Takeaway

- ❖ In the sense of **absolute value**, OFDI is still far below IFDI.
- ❖ However, **OFDI is picking up the fast growth**, while **IFDI growth slows down**.
- ❖ Attracting IFDI used to be the priority, but now, helping the OFDI is getting more attention.
- ❖ **Significant adjustment in various policies** is necessary trend.

Questions

- ❖ China has long been criticized for its inadequate IPR protection, how will this develop?
- ❖ China used to provide special favorable policies to IFDI, how will this develop?
- ❖ China used to be regarded as the ideal location for labor intensive production, how will this develop?
- ❖ China used to be the ideal location for some environment-polluting industries too, how will this develop?

China: still attractive to IFDI?

- ❖ Corporate income tax (2008.1.1)
 - ❖ Regional difference, h/n tech enterprise, environmental protection, R&D expenditure
- ❖ Labor contract law(2008.1.1/2013.7.1)
 - ❖ Rising labor cost/increasing purchasing power
- ❖ **IPR protection**
- ❖ **Environmental protection**
- ❖ **Other factors**
 - ❖ Increasing income
 - ❖ More service industry to be Open
 - ❖ Regional development
 - ❖ Improved infrastructure
 - ❖ More transparent and predictable policy adjustment

IPR Protection

- ❖ Well, obviously IPR protection is not so well enforced in China as in U.S. and other developed countries.
- ❖ But, compared with ten years ago, it has been improved significantly.
- ❖ Why?
 - ❖ “Manufactured in China” – “Created in China”
 - ❖ It’s a necessary process, which has been experienced by many countries.

Environment Protection

- ❖ Luxury Vs. Necessity
- ❖ Relieve starvation first, then clean air.
- ❖ It's on the agenda now, and definitely, it will get more attention in the future.
- ❖ 2008, state council restructuring, **Ministry** of Environmental Protection of the PRC
(used to be Bureau)

❖ **Other factors**

- ❖ Increasing income
- ❖ More service industry to be Open
- ❖ Regional development
- ❖ Improved infrastructure
- ❖ More transparent and predictable policy adjustment

China: still attractive to IFDI?

- ❖ General favorable policies gradually phase out.
- ❖ Certain favorable treatments are offered to some specific projects which are deemed more beneficial to the local welfare.
- ❖ For those projects targeting the cheap labor, tax break, lax environmental protection, China is no longer an ideal location.
 - ❖ But don't forget central and western regions
- ❖ For those with its competitiveness based on high technology, Chinese business environment may be even better than before.
- ❖ And, don't just take China as the “manufacture center”, it is one of the largest market as well.

Thank you!
Any Question?

Contact :

ibs.bfsu.edu.cn (Chinese)

solbridge.bfsu.edu.cn (English)

donglili@bfsu.edu.cn

Tel: +86 10 8881 6563 / 6763