

Discussion and Constructive Suggestions on Quality of Introducing FDI in Jilin Province, China

Na Sun

Office B206-3, School of International Studies, College of Humanities & Sciences of Northeast Normal University, Changchun, Jilin Province, 130117, China

1181652291@qq.com

*corresponding author

Keywords: Jilin Province, China; Quality of Introducing FDI; Statistical Analysis; Constructive Suggestions

Abstract: Driven by One Belt and One Road Policy, FDI introduced has greatly boosted the local economic development of Jilin province, but it is worth noticing that simply relying on the quantity increase in foreign capital does not play an obvious role in accelerating the further economic growth of Jilin province. Therefore, research on quality of introducing FDI in Jilin province is of reference and practical significance to improve the quality of FDI, promote FDI to become the prominent drive for local economic development and enhance China's strategic position in northeast Asia. This paper examines the quality of FDI introduced in Jilin province from the angles of scale, structure and technical level by using some mathematical statistical techniques and relevant data from 2004 to 2017 of Jilin Statistical Yearbooks and China Statistical Yearbooks of Industrial Economy. And the finding is although the quality of FDI introduced has been constantly improving in recent years, the overall level is relatively low. Based on that, some constructive suggestions are put forward.

Introduction

Jilin province is located in northeast China. Although there is solid industrial foundation, it's far less developed than coastal areas of China. Undoubtedly, FDI introduced has greatly boosted the local economic development of Jilin province, but it is worth noticing that simply relying on the quantity increase in foreign capital does not play an obvious role in accelerating the further economic growth of Jilin province.

Research on FDI quality has become a popular issue for domestic and foreign scholars for the moment, such as Kumar [1] and Buckley [2]. However, in the selection of research objects, previous research in China was mainly conducted at the national, regional, provincial and urban levels (mostly focusing on Beijing, Shanghai and some central and eastern provinces of China). Similar study on Jilin province was nearly a blank.

Therefore, the research on the quality of FDI introduced in Jilin province has certain reference and practical significance to improve the quality of FDI, promote FDI to become the prominent drive for local economic development and enhance China's strategic position in northeast Asia.

Statistical Analysis on Quality of Introducing FDI

The quality of FDI is a concept relative to the quantity of FDI, including quality of FDI introduced and quality of FDI utilized. The quality of FDI introduced determines the quality of FDI utilized and provides the basic condition to improve the quality of FDI utilized. Based on the dimensions of scale, structure and technical level of FDI introduced, this paper conducts analysis on the quality of FDI introduced in Jilin province by using some mathematical statistical techniques and relevant data from 2004 to 2017 of Jilin Statistical Yearbooks and China Statistical Yearbooks of Industrial Economy.

Overall Scale of Introducing FDI. According to statistical analysis, the growth rate of the actual

utilization of FDI in Jilin province has shown an overall downward trend over time and constantly hit new historical lows. Although the actual amount of foreign capital utilized grows slowly, its scale still remains a high level. In contrast, the growth rate of FDI contract amount is characterized by obvious volatility and large amplitude. The overall trend is on the decline as well, with even negative growth in more than half of the years, in spite of which, FDI contract amount basically stays above US\$1 billion.

Average Scale of FDI Projects. From Fig. 1, average scale of FDI projects in Jilin province increases year by year. And the average size of the projects from 2008 to 2014 is significantly higher than that of the years before 2008, and the average size of the projects from 2015 to 2016 is significantly higher than that of the years from 2009 to 2015.

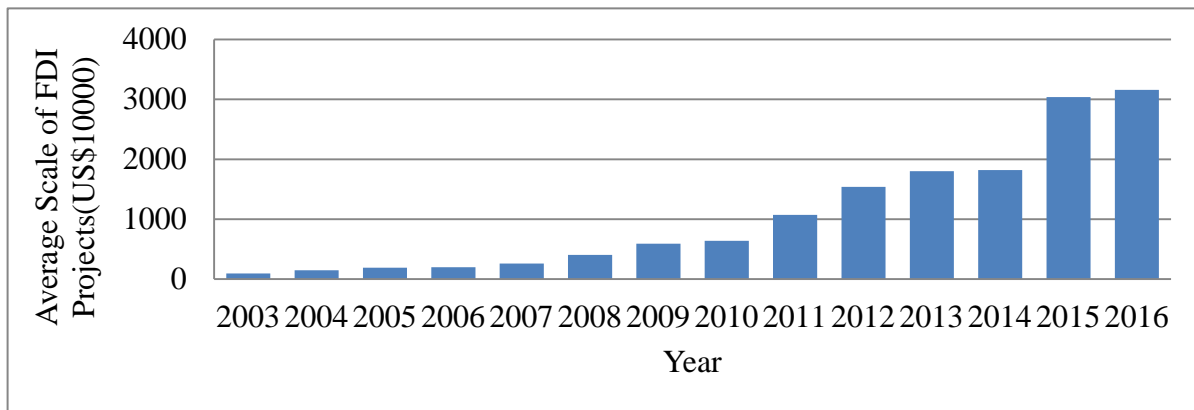


Figure 1. Average scale of FDI projects in Jilin province from 2003-2016 [US\$10,000]

Actual Average Size of Foreign-Funded Enterprises. From 2004 to 2007, the actual average size of foreign-funded enterprises in Jilin province has been expanding rapidly, especially reaching the highest level of US\$15.96 million in 2007. But since the outbreak of the financial crisis in 2008, the actual average size of foreign-funded enterprises has shrunk sharply, even to half of what it was in 2008. Since 2009, the scale of foreign-funded enterprises has increased incrementally, but it can't return to the top level of 2007.

Source Structure. Jilin province has been mostly financed by some countries and regions in Asia, Europe, North America and other continents. Richer regions in Asia hold the first place, followed by countries from Europe and North America. In Asia, foreign investment is mainly from Hong Kong, South Korea, Japan, Taiwan, Singapore and a few other countries and regions. In the European and American area, foreign capital is largely from Germany, the British Virgin Islands, the Netherlands, the United States and other countries and regions. And the aggregated FDI from Hong Kong, Taiwan, South Korea, Japan, British Virgin Islands and the United States account for more than 90% of the total.

Industrial Distribution of Introducing FDI. "Industrial distribution of FDI dramatically affects the optimization of industrial structure and economic development of host countries. This is because foreign-funded enterprises in different industries would bring different knowledge, conduct different R&D activities, develop different new technology and further create different spillover effect on and make different contribution to the host country's industries and economy." [3] With the development of economy and the upgrading in industrial structure, the services have become the leading industry and been the major driving force of the economic growth. As a result, theoretically, the more foreign capital service industries absorb, the better foreign capital is utilized, and the higher the quality of importing FDI is. In brief, "three, two and one" is the ideal pattern of industrial distribution of FDI.

Based on the statistical analysis, in the first half of 2017, the actual utilization of foreign investment in the secondary industry of Jilin province was US\$2.749 billion, accounting for 52.8% of the total. The actual utilization of foreign capital in the primary industry was US\$121 million, accounting for 2.3% of the total. The actual utilization of foreign capital in the tertiary industry reached US\$2.332 billion, accounting for 44.8% of the total. Obviously the secondary industry held

the largest proportion. However, in comparison with 2014, the rate had dropped dramatically from 79.5 percent to 52.8 percent. In the meantime, the utilization rate of foreign capital in the tertiary industry had substantially increased from 17.3 percent to nearly half. And the utilization of foreign capital in the primary industry changed very little over time. The research indicates that foreign investment in Jilin province is gradually shifting from the second industry to the tertiary industry. At present, the distribution of foreign capital presents a pattern of "three, two and one".

In the secondary industry, foreign investment concentrates mainly on manufacturing, accounting for over 80% on average. In the manufacturing industry, traditional manufacturing is the core area of absorbing FDI, while advanced manufacturing comes next. Basic manufacturing occupies the smallest proportion and is mostly financed by enterprises from Hong Kong, Macao and Taiwan. Since 2015, the following changes have taken place in foreign investment.

a. Foreign investment in traditional manufacturing has been curtailed, while foreign investment in advanced manufacturing has been increased.

b. The scale of high-technology investment in Jilin province has been decreased by foreign-funded enterprises in other countries except Hong Kong, Macao and Taiwan.

c. Industry of abandoned resources has got the initial investment from foreign-funded enterprises in other countries except Hong Kong, Macao and Taiwan in Jilin province.

In the tertiary industry, foreign-funded enterprises mainly focus on such traditional service sectors as wholesale and retail industry, accommodation and catering industry, transportation industry etc., accounting for 56% of the total. While foreign investment in the modern services, such as information transmission, software and information technology services, scientific research and technology service industry, occupies a relatively small part. Since 2016, foreign investment in traditional services has been on the rise, while foreign investment in modern services has been on the decline.

Regional Distribution. In 2016, Changchun accounted for nearly half of the total amount of FDI, followed by Jilin and Yanbian. These three regions together accounted for more than 74% of the total. If Baishan and Songyuan were added, the five regions as a whole accounted for more than 86% of the total. In contrast to the year of 2015, at present, most areas of Jilin province show an increase in absorbing FDI, among which Yanbian has the highest growth rate.

Fu Yuanhai [4] argued that concentration of FDI in regional distribution and quality of FDI were not entirely inversed, especially when regional economic development of the host country was not balanced. Because excessive concentration of foreign investment on relatively developed economic areas would further aggravate the disparity of regional economic development in host countries and seriously lowered the overall economic levels. And that is in line with status quo of Jilin province. The economy of Jilin province mainly concentrates on Changchun and Jilin, accounting for 58% of the total GDP. It's due to the fact that the two areas have much better industrial facilities and transportation infrastructure than the others. More FDI flowing into the two areas further widens the gap with the others, which is unfavorable to the regional economic development and social harmony of Jilin province.

Business Pattern. The operational modes of FDI in Jilin province mainly include sino-foreign joint ventures, sino-foreign cooperative ventures, wholly foreign-owned enterprises, foreign-invested joint stock limited companies and others. Joint venture and sole proprietorship are the major modes. From 2010 to 2017, more than half of foreign-funded enterprises in Jilin province were joint ventures and about 40% were sole proprietorships. Since 2014, the number of wholly foreign-owned enterprises from Hong Kong, Macao and Taiwan has increased significantly from 31.51% to around 40%, while the number of joint ventures has decreased significantly from 53.42% to around 43%.

Theoretically, the spillover effect of joint venture on the host country is better than that of sole proprietorship. Since the production and operation, key core production technology and management technology of a sole proprietorship enterprise are all controlled exclusively by a foreign-funded enterprise, there are relatively few spillover channels for local enterprises in the host country and hence the spillover effect is limited. In a joint venture, local enterprises in the host

country can share the resources and information of foreign-funded enterprises and participate in various stages of production and operation. All these are conducive to learning advanced production technology and management experience from foreign-funded enterprises, therefore the technology spillover effect is larger.

Management Competence. The paper selects two ratios as measurement indicators, that is, the ratio of the assets contribution rate of above-scale foreign industrial enterprises to the assets contribution rate of above-scale provincial industrial enterprises and the ratio of the management expenses to the gross output value of foreign industrial enterprises. Empirical research illustrates that before 2012, the management level of foreign-funded enterprises was generally higher than the average level of domestic enterprises in Jilin province, but after 2012, the management level of provincial enterprises has been improved sharply, even surpassed foreign-funded enterprises in some years.

Scientific Research Capabilities. This article has systematically and statistically analyzed and assessed the level of scientific research of FDI enterprises and provincial enterprises of Jilin on the basis of the following dimensions: number of science and technology projects, number of participants in science and technology projects, annual internal expenses of projects, number of research institutions run by industrial enterprises, staff number of research institutions, number of patent applications, number of invention patents owned, number of new product development projects, and expenditures of new product development. Results show that both foreign-funded enterprises and provincial enterprises have increased their investment in scientific research in recent years, and the levels of scientific research are rising constantly. However, it should be noted that in some years, the scientific research level of provincial enterprises on average has overtaken that of foreign-funded enterprises and the gap with foreign-funded enterprises is also narrowing [5].

Quality Assessment of Introducing FDI

The above statistical analysis illustrates that the quality of introducing FDI in Jilin province has been constantly improving in recent years, but the overall level is relatively low.

First. Despite the rise of the absolute amount of FDI imported by Jilin province in terms of both the overall scale and the average scale, the overall level of quality is low. The reasons are as follows.

- a. The actual average size of foreign enterprises is small, which deeply limits the technical spillover effect on Jilin province
- b. Although the absolute amount of foreign investment has an expansion trend, the growth rate is unstable and on a downward trend.
- c. The overall average size of local enterprises foreign investment has directed to in Jilin province is not large, which restricts the role of foreign capital.

Second. Source distribution of FDI in Jilin province is too concentrated. Major sources of foreign capital in Jilin province are Hong Kong, Macao, Taiwan and other Asian countries, which indicate the quality of FDI imported is not high on the whole. It's because technical management level and capital intensity from these countries are generally lower than those from European and American economies. Consequently, it's not conducive to technology spillover effect on domestic enterprises in Jilin province.

Third. In spite of the fact that recently the scientific research, management know-how and technical expertise of various types of foreign-funded enterprises in Jilin province have generally increased, which greatly improve the quality of inward FDI, however, they show a declining trend in all kinds of relevant statistical indicators, even lower than local enterprises of Jilin province in some years.

Fourth. Regional distribution of FDI in Jilin province is extremely unbalanced which is resulted from the high concentration of FDI in Changchun and Jilin. Therefore, the unbalanced regional distribution of foreign capital will greatly reduce the overall quality of foreign capital utilization.

Fifth. For the time being, Jilin province is characterized by more joint ventures than wholly-owned foreign enterprises. It is conducive to the overflow of technology, knowledge and

experience into local companies. However, over the years, sole-proprietorship enterprises have shown an increasing trend, which is not favorable to the maintenance of and further improvement in the quality of foreign investment.

Sixth. FDI in Jilin province has positively promoted the optimization, adjustment and upgrading in industry structure due to the facts that

- a. "321" ideal distribution pattern in the three big industries,
- b. increasing investment in the modern manufacturing sectors by Hong Kong and Taiwan-funded enterprises,
- c. investment in green sectors from the scratch by foreign enterprises,
- d. increasing attention to environmental protection.

However, the overall quality of incoming FDI of Jilin province is on the small side, if it's examined and evaluated from the perspective of internal distribution of the secondary and tertiary industries, which is unfavorable to the upgrading and optimization of industrial structure. The reasons are as follows.

a. Traditional manufacturing sectors take up a larger proportion in foreign utilization, whereas advanced manufacturing and basic manufacturing sectors occupy relatively small parts. On account of the fact that the boost from FDI on the industrial structure upgrading of the host country is mainly realized by influencing the development of advanced manufacturing and high-tech industries. Hence, insufficient investment in the fields is not conducive to the internal structural adjustment of the secondary industry of Jilin province. Additionally, in consideration of too little investment in the basic manufacturing sectors, which is mostly provided by Hong Kong, Macao and Taiwan enterprises, internal structure optimization of advanced manufacturing industries has to be further constrained.

b. Even though the investment in high-tech industries is dominated by enterprises from Europe, the United States and other countries, they have shown a tendency to cut investment in the fields over the past few years. It will inevitably have negative influence on the upgrading of the industrial structure of Jilin province.

c. In view of the tertiary industry, more foreign capital is in the traditional services, whereas less is in the modern service sectors. What's more important, in the past few years, the foreign investment in the traditional services is on the rise, while the investment in the modern services is on the decline. Consequently, it's adverse to the internal structure optimization of the tertiary industry.

Constructive Suggestions on Improving the Quality of Introducing FDI

Changing the Mindsets of Introducing FDI from Focusing on Quantity to Quality. Jilin province must completely change the past idea of concerning only the amount of FDI introduced, clarify the great importance of FDI quality to the economic development and industrial optimization of Jilin province, strengthen the consciousness of FDI quality, and transform the mode of introducing FDI from quantity-orientation to quality-orientation.

Diversifying the Sources of Introducing FDI. Foreign-funded enterprises in Jilin province are relatively small. It's due to the fact that a larger percentage of foreign capital is provided by enterprises from Hong Kong, Macao, Taiwan and other Asian countries, while foreign investment from such developed countries as Europe and the United States is very limited. Therefore, Jilin province should give priority to attracting more European and American capital, especially from the larger and stronger multinationals. Then it will not only diversify the sources of FDI introduced, but also greatly scale up the introduced FDI projects, help to further improve the technical management level and the spillover effect of foreign enterprises. Incentives should also be offered to stimulate foreign enterprises that have already invested to expand their operations.

Provide Guidance to Optimize Industry Distribution of Introducing FDI. Jilin province should continuously take countermeasures to improve the escalation of the structure of industry by leading FDI and adjustment of industrial structure to full integration. For example, more foreign capital is encouraged to flow into tertiary industries, especially advanced service industries. And in

the manufacturing sectors, emphasis should be given on basic and advanced manufacturing.

Continue to Promote the Modes of Sino-Foreign Joint Venture. To further improve the technical spillover effect of foreign-funded enterprises on the local economy, Jilin province should continuously guide and encourage FDI to operate and cooperate in the forms of equity participation, merger, restructuring, and strategic alliance with local companies, reinforce the ties between upstream and downstream enterprises, accelerate technological advances and joint innovation.

Rationalize the Regional Distribution of Introducing FDI. To narrow the gap with Changchun and Jilin, Jilin province should take valid actions to lead foreign capital to invest in other areas. For instance, other regions should be given preferential support and treatment in tax policy, scope of foreign business, industry administrative examination and approval, strengthen the construction of infrastructure, perfect the local investment environment and guide FDI to flow into local specialized industries.

Prioritize the Introduction of FDI with High Technical Management Level. Jilin province should erect walls of technology and clearly stipulate that projects of low technology and low incompatibility with the policies of local economic development, trade and industry are forbidden to introduce. High priority should be given to the projects with state-of-the-art technology, environmental protection related, close connection with IT and advanced management technology, etc. Only in this way can Jilin province substantially promote the technological progress and improve the spillover effect of technology.

Conclusion

This paper systematically examines the quality of introducing FDI in Jilin province of China from 2004 to 2016, and the findings show that the overall level is relatively low. The root causes are the follows: low scale of FDI introduced, too concentrated source distribution of FDI, not-high-level technical management, unbalanced regional distribution of FDI, growing tendency of sole proprietorship, problematic industrial distribution etc. In view of the situation, Jilin province should modify its present FDI policies towards such aspects as making a shift of concept to quality, diversifying sources of foreign capital, preferentially absorbing FDI of high technical management level, especially from European and American countries and regions, and rationalizing both industry and regional distribution of FDI. Only in this way, the quality of FDI introduced can be substantially improved.

Due to the unavailability of some important statistical data, the current research is not comprehensive and in-depth. Consequently, follow-up studies have been planned to carry out in two aspects: evaluation of the quality of FDI utilization in Jilin province and empirical research on the relationship between the quality of FDI introduction and the quality of FDI utilization in Jilin province.

References

- [1] N. Kumar: *Globalization and the Quality of Foreign Direct Investment*(Oxford University Press, India 2002).
- [2] P.J. Buckley, J. Clegg and C. Wang: *The Multinational Business Review*, Vol. 12 (2004) No. 3, p.37.
- [3] C.Q. Xu and C.F. Wang: *China Management Science*, Vol. 15 (2007) No.3, p.130. (In Chinese)
- [4] Y.H. Fu: *Statistical Research*, Vol. 25 (2008) No.10, p.13. (In Chinese)
- [5] Chen Gong. Research on the Coupling of Industrial Structure and Environment between China and the “Belt and Road” Countries- Take the 10 ASEAN countries as an example. *International Journal of Frontiers in Sociology* (2019), Vol. 1, Issue 1: 89-98.