

Foreign Direct Investment in China's Provinces: Lessons for the State of Gujarat

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Abstract

All over the world, FDI is seen as an important source of non-debt inflows, and is increasingly being sought as a vehicle for technology flows, and as a means of building inter-firm linkages in a world in which MNCs are primarily operating on the basis of a network of global interconnections. In the current global scenario, it is possible for India to achieve very dynamic growth based upon labor-intensive manufacturing, which combines the vast supply of Indian labor, including skilled managerial and engineering labor, with foreign capital, technology, and markets. In this paper, we plan to study the FDI experiences of the Chinese provinces, especially the coastal ones. The lessons from these regions have been analyzed in the context of Gujarat, thereby helping develop some recommendations. We have also undertaken a case study of the Chinese province of Guangdong, which has attracted large sums of FDI in China.

Gujarat is not rated as one of the most attractive destinations for FDI in India, perhaps ranked around 5th or 6th in the country. It is interesting to note that while Gujarat is perhaps next only to Maharashtra as far as attracting domestic private investment is concerned, it does not do as well when it comes to foreign direct investment. Gujarat is one of the front runner states of India as far as some of the manufacturing sectors, such as engineering goods, chemical and petrochemical products, drugs and pharmaceuticals, and fertilizers, among others are concerned. However, it is essential that the state focuses much more than in the past on labor-intensive manufacturing production for exports. The potential for attracting much higher volumes of FDI, especially in Gujarat's SEZs is enormous. This will not only bring in greater FDI flows, but will also raise exports from Gujarat and create large-scale employment opportunities.

We conclude with a number of lessons for Gujarat for attracting higher levels of FDI. These are in the areas of legislative and policy reform, government processes and machinery, infrastructure, special economic zones, networking with Gujarati non-resident Indians, and finally, the idea of setting up an FDI council comprising of state civil servants and representatives of large and medium scale foreign invested companies.

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Foreign Direct Investment in China's Provinces Lessons for the State of Gujarat

Nirupam Bajpai¹

India accounts for a meager 2.4 percent of the world surface area, yet it sustains a whopping 16.7 percent of the world population, with 1.1 billion people residing in 28 states and 7 union territories. In terms of population size, Gujarat ranks 10th among the states of India, with a population of around 51 million, of which roughly 39 percent reside in urban areas. With a mere 6 percent of the geographical area and 5 percent of the national population, the state contributes to 21 percent of the country's exports and 6.4 percent of the national GDP at constant prices.

The variation across Indian states and union territories is enormous in regard to physical geography, culture, and economic conditions. Some states have achieved rapid economic growth in recent years, such as Gujarat, Maharashtra and Tamil Nadu, while others, such as Bihar, Uttar Pradesh and Orissa have languished. The goal of this paper is to study the experiences of China's coastal provinces in regard to foreign direct investment (FDI) and its impact on the economic performance of the Chinese provinces with a view to draw relevant lessons for the state of Gujarat. The paper may most profitably be read as a companion to the paper by Bajpai (2004), on regional economic policies, geography, and growth episodes in China's coastal provinces.

All over the world, FDI is seen as an important source of non-debt inflows, and is increasingly being sought as a vehicle for technology flows, and as a means of building inter-firm linkages in a world in which MNCs are primarily operating on the basis of a network of global interconnections. In the current global scenario, it is possible for India to achieve very dynamic growth based upon labor-intensive manufacturing, which combines the vast supply of Indian labor, including skilled managerial and engineering labor, with foreign capital, technology, and markets (Bajpai and Sachs, 1997).

On this basis, the East Asian economies have achieved growth rates consistently above 6 percent per year, and China has managed growth in excess of 10 percent per year in the 1990s. Malaysia, to cite another example, has shifted from being a raw-material exporter in the 1970s (with commodities accounting for 80 percent of exports) to a manufacturing exporter (with manufactures, mainly electronics, accounting for 70 percent of exports), with GDP growth of 8 percent per year. MNCs offer the capital, international market access, and technology that India lacks, and are therefore vital to remolding India as a strong and rapidly growing economy.

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Usually, there are a number of firm-specific and country-specific factors that affect location decisions of individual FDI projects. At a very basic level, size of the host country in terms of aggregate and per-capita gross domestic product (GDP) and proximity of the host country to investing countries are the two key determinants of inward FDI (Shatz and Venables, 1999). The United States is a major investor in Mexico and Canada; and European Union members are major investors in other advanced European countries and Central Europe; Hong Kong, Taiwan and Macao are major investors in mainland China, especially in the nearby Guangdong province; and Japan is a major investor in Asia.

Beyond these two essentially exogenous forces, a number of other factors play an important role in attracting FDI, many of which are under the control of the government. Policies can influence three broad areas relevant to investors: 1) administrative rules and regulations for establishing investments, safeguarding the security of investments, and repatriating capital and profits; 2) the process and mechanisms for applying the rules; 3) infrastructure, particularly electricity service, communications, and internal and external transport; 4) labor costs and tax rates. The main goals should be to make investment procedures transparent, business practices efficient, and to have rewarding expected profits.

According to the results of a World Economic Forum global executive survey, there are six important factors that determine FDI location. *Market size* is seen as the most important factor that a firm has in mind while making a decision on investment location. In addition, the *expected growth in market size* is another significant factor. Empirical analysis confirms the significance attached by the investors on both the current market size and the expected growth in market size. There exists a strong positive correlation between FDI inflows and the market growth index. Another important factor in the determination of FDI flows is *competitiveness*.

Findings of the survey suggest that countries that are more competitive have better prospects of attracting FDI,² especially by an exporting firm. Empirical results bear testimony to this relationship, which is statistically significant. Yet another factor determining FDI is the *ability to repatriate capital and remit profits*. With regard to this factor too, there is strong statistical evidence to suggest that investors view inability to repatriate capital and remit profit as one of their main concerns. The more open an economy to the rest of the world, the more likely it is to offer freedom in capital movement across national borders. A high degree of openness would imply lesser restrictions on remittance of capital income that may be in the form of interests, dividends, profits, or capital gains. The remaining two factors cited by executives as determinants of FDI are *productivity and work habits of workers* and *quality of infrastructure*.

² Competitiveness is defined as a country's ability to achieve sustained high rate of growth in per capita real income, as measured by per capita GDP in constant prices. It is judged by the overall competitiveness index (CI). Eight factors make up the CI. These are openness, government, finance, technology, infrastructure, management, labor, and institutions.

FDI is usually sub-divided into three-types. These are: export-oriented FDI, domestic market-oriented FDI, and infrastructure FDI. All three bring benefits. All three have overlapping determinants, but each has its own special set of attractors. All three types of FDI also bring the potential for linkages to the domestic economy and increased domestic economic activity through purchase of local inputs and the production of inputs for use by local producers.

Export-oriented FDI links the local economy to the international economy. Openness to both imports and exports has been shown to be a powerful force for growth (Sachs and Warner, 1995), and growth has so far been the only credible means of alleviating absolute poverty. Nearly every episode of rapid growth by a developing country after World War II has involved the expansion of manufactured exports. In many cases, this has come through the mediation of MNCs.

Domestic market-oriented FDI brings new products and services to market. These may be new on many dimensions—either goods or services that were previously unavailable, or goods and services that were previously available but at a different level of quality. In some cases, domestic market-oriented FDI can supply intermediate inputs that otherwise would be unavailable or much more expensive, helping expand not only the efficiency and profit opportunities of local industry, but also the range of local industries that may exist. Domestic market-oriented FDI also exposes other domestic firms to increased competition, forcing them to act efficiently and to improve their products and service to retain and attract new customers.

Even a large domestic market such as India's or Brazil's is not large enough to spur strong internal competition in the absence of vigorous competition from abroad. Protected home markets turned monopolistic or oligopolistic, because the minimum efficient scale of production often represented a large proportion of the home market. Domestic enterprises, unchallenged by foreign competition, turn lazy and rely on state largess rather than their own efforts to survive.

However, competition can not only help incumbent firms, but hurt them as well, leading affected owners and workers to lobby the government for special protection. Managing the demands of narrow interest groups hurt by policy changes is one of the toughest tasks facing reformist governments worldwide, even if the vast majority of the population—unorganized and often unaware of the stakes—will benefit from the projected changes. Therefore, an FDI attraction strategy must involve identifying the groups that will most benefit, making sure they understand those benefits, and encouraging their political activity as a counterweight to those who might be hurt.

Infrastructure FDI is at once the riskiest for the investor and probably the most promising and sensitive for the country receiving the FDI. The benefits are clear. Without reliable power, telephone, and transport networks—and now information technology networks—a country cannot hope to increase its industrial production and economic growth. This is especially true with increased globalization. The sensitivity is also clear. Countries are reluctant to have foreign involvement in an important part of their economy. For India, it

is important to move forward aggressively with private provision of infrastructure along with public investment to the extent feasible. Without foreign involvement, it is highly unlikely that India can build the infrastructure it needs and still take care of other important objectives, such as primary health care and education.

A study of FDI in China since it began following open door policies provides rich lessons for other developing countries aiming to draw more foreign direct investment. China, since economic reforms were put in place beginning in 1979, has emerged as a strong contender for global FDI, absorbing more than \$300 billion in cumulative FDI. In 2002, though global FDI flows contracted by 27%, those for China grew by 12.5%, taking the country's annual foreign investment to \$52.7 billion (see Table 1). Not only was 2002 the first year when annual flows crossed the threshold of \$50 billion, but also the first time that China received more investments than the US³. However, we would like to point out here that there are serious problems associated with the definition of FDI as used by the Chinese authorities (see Table 2). This results in a large overestimation of China's annual FDI flows, especially when compared to countries like India, which use a more restrictive definition of FDI. For a deeper analysis of this issue, see Bajpai and Dasgupta (2004a and 2004b).

In this paper, we plan to study the FDI experiences of the Chinese provinces, especially the coastal ones. The lessons from these regions have been analyzed in the context of Gujarat, thereby helping develop some recommendations. We have also undertaken a case study of the Chinese province of Guangdong, which has attracted large sums of FDI in China as can be seen from Table 1.

Effectiveness of Policies

Local governments have at their disposal various policy tools through which they can have an impact on the process of FDI and development. Some tools, such as tax subsidies, are short-term in nature and only serve to offset the cost of doing business in the region. Others, such as setting up vocational schools, unfold over a longer period and increase the intrinsic attractiveness of the region.

These tools vary in their effect and effectiveness in fostering FDI. In this section we present a brief discussion on various policy tools.

- **FDI Promotion:** Countries establish investment promotion councils that could either target specific companies through phone calls or visits, or disseminate a broader message about the host country's potential. Such investment councils usually act as a one-stop window for foreign companies, even hand-holding the companies as they go about investing in local production facilities. Wells and Wint show that developing countries with investment promotion councils attracted 30% more FDI than countries without them.
- **Fiscal and Financial Incentives:** Such incentives could be offered in many forms, such as tax subsidies and grants. The use of such incentives is widespread, and their effectiveness has been established. Several studies find that taxation exerts an influence on FDI.

³ Source: EIU Country Report, China, 2003

- **Trade Facilitation:** To facilitate trade, countries can adopt various measures such as lower tariffs, efficient infrastructure, smoother customs and business processes, and Export Processing Zones (EPZs) and Special Economic Zones (SEZs). Such measures have a positive impact on the FDI inflows for a region.
- **Domestic Education and Human Capital Management:** Production facilities set up by resource-seeking FDI demand a local workforce, skilled and non-skilled. Countries that are better placed to serve that demand would be better destinations for such foreign investments. Efforts on part of the local government to boost local education and skill levels increase the supply of human capital, which in turn attracts more FDI.

China first opened up itself to foreign investments in the late 1970s when it began the process of economic reforms. Since then, supported by a series of economic reform measures, low wages and availability of large-scale manpower, improvements in the quality of infrastructure, and competitiveness among the coastal provinces to attract large FDI flows, China's FDI inflows have grown rapidly, and are expected to reach \$58 billion in 2003. In 2002, as mentioned previously, China's FDI inflows stood at \$52.7 billion. However, it is interesting to note that it was only in 1993, more than a decade after reforms were first instituted, that the amount of FDI increased significantly.

Foreign funded enterprises (FfEs) were mainly concentrated in labor-intensive industries, accounting for 50.4 percent of their total investments. As a result, capital-intensive industries and technology intensive industries received relatively small amounts of the total manufacturing FDI, accounting for 22.7 percent and 26.8 percent respectively⁴. FfEs are most prevalent in four industries— clothing and other fiber products, leather and fur products, electronics and telecommunication equipment, and sports goods – the fastest growing and increasingly export-oriented industries.

The Coastal States

The FDI flows into China have suffered from gross imbalance ever since they began, with the coastal regions attracting no less than 80% of FDI that has flown into China since the mid-1980s (Figure 2). This has polarized the Chinese economy into two economic zones, i.e., the rich coastal and north-eastern zones, and the poor western and central regions. It was only in 2000 that the Chinese government launched an effort, titled “Great Western Development Effort,” to direct more FDI towards the western and central regions.

⁴ Labor-intensive sectors include: Food processing, Food manufacturing, Textiles, Clothing & other fiber products, Leather & Fur products, Timber processing, Furniture, Paper & Paper products, Printing, Cultural, Education & Sports goods, Rubber products, Plastic products, Non-metal mineral products, Metal products, and Others. Capital-intensive sectors include: Beverage manufacturing, Tobacco processing, Petroleum refining & Coking, Chemical materials & products, Chemical fibers, Ferrous metal smelting & pressing, Nonferrous metal smelting & pressing, and Transport equipment. Technology intensive sectors include: Medical & Pharmaceutical products, General machinery, Special machinery, Electrical machinery & equipment, Electronics & Telecommunication equipment, and Instruments & Meters.

Figure 1 FDI in China: 1984-2002

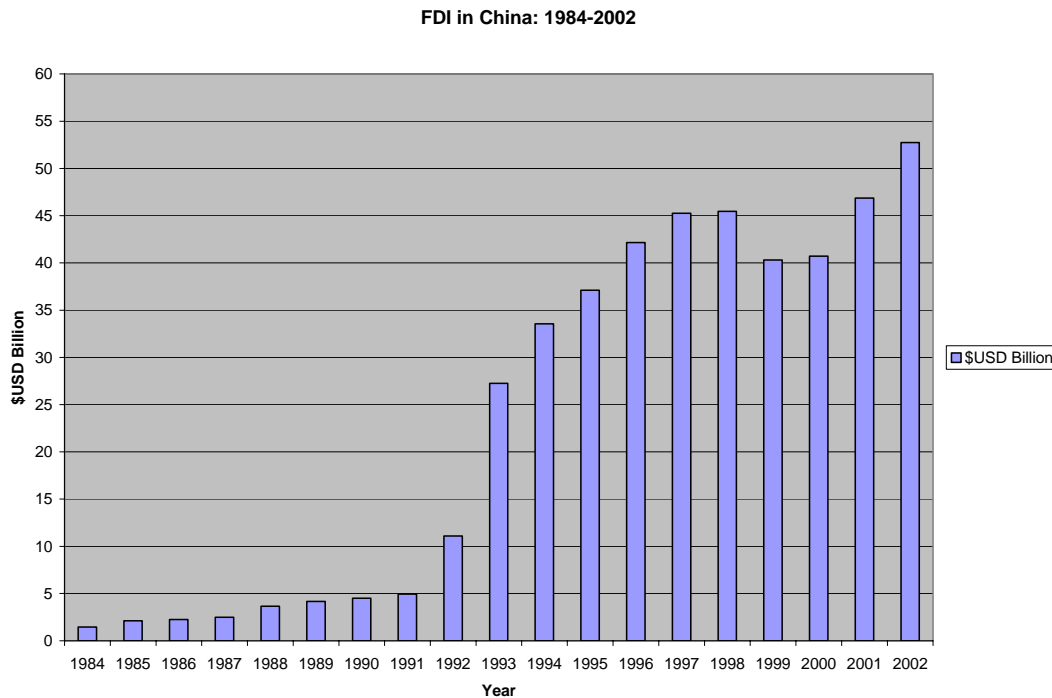
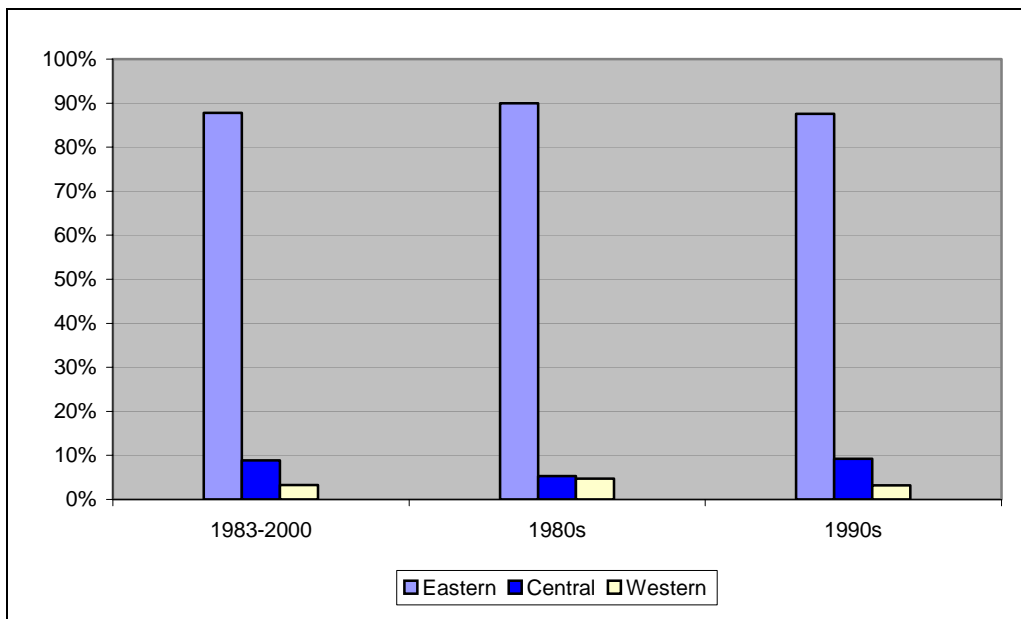


Figure 2 Regional FDI, as Percentage of Total FDI



Guangdong – A case study

The coastal province of Guangdong, situated in southern China, leads the country in attracting foreign direct investment and spurring economic growth. Guangdong attracts almost as much as half the FDI that flows into the eastern region, propelling its growth rate to a stupendous 14.2 percent, much higher than the 8 percent for the national

economy. Guangdong, a 177,600 km² province, makes up about two percent of China's total land area. Its population of 76.5 million accounts for less than one percent of China's population, while its GDP of \$14.22 billion (2002) accounts for 5 percent of the national total (Guangdong Statistical Yearbook 2003, China Statistical Yearbook 2003).

Historically, the Chinese government, hoping to use the coastal states as a buffer zone in case of foreign invasion, had concentrated its investments in the central region. In the absence of significant state investments in Guangdong, the Chinese government had little incentive to continue to restrict the economic development of this province, and gave it a head start in the process of instituting reforms to attract FDI flows. Indeed, Guangdong was chosen as the forerunner of the new policy and the provincial government had considerable autonomy. Three of the four EPZs established in 1979/1980 were established in Guangdong province.

Guangdong has a long coastline, which provides it with easy access to the world markets. This was a strong incentive for foreign companies to setup their production facilities in Guangdong, as opposed to states in the interior. In 2002, Guangdong utilized \$11.33 billion in FDI, representing 21.5 percent of national utilization of FDI (Table 1). Since 1998, levels of FDI in Guangdong have ranged from a high of \$12.02 billion in 1998 to a low of \$11.28 billion in 2000. While FDI levels have changed slightly over these years, there has been a marked increase in GDP, from \$9.57 billion in 1998 to \$14.22 billion in 2002. At the same time, FDI as a percent of GDP has dropped from being 125.7 percent in 1998⁵ to 79.1 percent in 2002 (Table 3 and Statistical Yearbook of Guangdong 1980, 1985, 1990, 1995).

The huge initial investments in Guangdong made by Foreign Funded Enterprises began to pay high rates of return.⁶ In terms of gross industrial output value, FFE contributions to the provincial total have been steadily increasing. In 1980, FFEs accounted for a mere 1.9 percent of the total, but in 1999 they accounted for 48.4 percent, and in 2002 they made up a massive 61.3 percent (see Table on Guangdong's economic structure). In 2002, gross industrial output value of FFEs was almost equally divided between light and heavy industry, with manufacturing making up 79 percent of heavy industry's output (Guangdong Statistical Yearbook 2003).⁷ The largest output values in

⁵ FDI figures include investment flows for the year and some parts of FDI stocks where sale of firms, for example, leads to double counting from FDI of previous years and value of FFE imported equipment.

⁶ Foreign funded enterprises refer to all joint ventures, cooperative operation, exclusively-operated enterprises and share-holding companies funded by foreigners in the registered type of enterprise ownership. Unless otherwise noted in the text, it includes enterprises funded by Hong Kong, Macau and Taiwan.

⁷ Light industry refers to industry, which produces consumer goods and hand tools. It consists of two categories, depending on the materials used: (1) Industries using farm products as raw materials. These are branches of light industry which directly or indirectly use farm products as basic raw materials, including the manufacture of food and beverages, tobacco processing, textile clothing, fur and leather manufacturing, paper making, printing, etc. (2) Industries using non-farm products as raw materials. These are branches of light industry which use manufactured goods as raw materials, including the manufacture of cultural, educational articles and sports goods, chemicals, synthetic fiber, chemical products for daily use, glass products for daily use, metal products machinery, etc.

2002 were in electronic and telecommunications equipment (32.5 percent), electric equipment and machinery (7.2 percent), textile industry (4.7 percent), raw chemical materials and chemical products (4.6 percent), metal products (4.5 percent) and plastic products (4.4 percent) (Guangdong Statistical Yearbook 2003).

Evolving Economic Structure of Guangdong, 1980-1999

	Guangdong		
	1980	1990	1999
Share in GDP	5.6%	10.2%	9.7%
Structural Composition GDP			
Primary Sector	33.2%	24.7%	12.1%
Secondary Sector	41.1%	39.5%	50.4%
Tertiary Sector	25.7%	35.8%	37.5%
Structure of Industrial Output Value			
Light Industry	63.0%	71.3%	66.0%
Heavy Industry	37.0%	28.7%	34.0%
Contribution to Industry Output Value			
State Owned Industry	63.1%	39.3%	7.6%
Collective Owned Enterprises	27.6%	36.3%	22.2%
Foreign Funded	1.9%	6.9%	48.4%
Others	7.3%	17.5%	21.8%
Composition of FDI			
FFE	12.6%	25.4%	34.9%
HMT	87.4%	74.6%	65.1%
Ratio of Exports to GDP	15.2%	34.3%	76.0%
Composition of Exports			
Primary Goods	n.a.	9.8%	3.9%
Manufactured Goods	n.a.	90.2%	96.1%

FFE: Foreign funded enterprises excluding those with capital from Hong Kong, Macao and Chinese Taipei

HMT: Enterprises with capital from Hong Kong, Macao and Chinese Taipei

Heavy industry refers to the industry, which produces capital goods and provides various sectors of the national economy with necessary material and technical basis. (1) Mining, quarrying and logging industry refers to the industry that extracts natural resources, including extraction of petroleum, coal, metal and nonmetal ores and logging. (2) Raw materials industry refers to the industry that provides various sectors of the national economy with raw materials, fuels and power. It includes smelting and processing of metals, coking and coke chemistry, chemical materials and building materials such as cement, plywood, and power, petroleum refining and coal dressing. (3) Manufacturing industry refers to the industry that processes raw materials. It includes machine-building industry, which equips sectors of the national economy, industry of metal structure and cement products, industries producing means of agricultural production, such as chemical fertilizers and pesticides.

Top Six Gross Industrial Outputs of FFEs in Guangdong, 2002

	Electronic and telecommunications equipment	Electric equipment and machinery	Textile industry	Raw chemical materials and chemical products	Metal products	Plastic products
Percent of gross industrial output	32.5	7.2	4.7	4.6	4.5	4.4

Source: Guangdong Statistical Yearbook 2003

Since 1980, the share of FFE industrial output value in relation to State-owned Industries and Collective-owned Enterprises in Guangdong has been increasing. In 1980, FFEs comprised 1.9 percent of the total provincial industry output value, while State-owned Industry comprised 63.1 percent and Collective-owned Enterprises made up 27.6 percent.⁸ In 1990, 1999 and 2002 FFEs made up 6.9 percent, 48.4 percent and 61.4 percent, respectively, of the total provincial industry output value; State-owned Industry made up 39.3 percent, 7.6 percent and 6.8 percent, respectively; Collective-owned Enterprises made up 36.3 percent, 22.2 percent and 26.7 percent, respectively (Guangdong Statistical Yearbook 2003).

While the share of FFE industrial outputs in Guangdong has been rising sharply, the proportion of the urban workforce employed by FFEs has grown slightly. In 1994, 2.7 percent of workers were employed by FFEs; in 1999, 3.7 percent; and in 2002, 4.56 percent of workers were employed by FFEs (Table 4). By contrast, in 2002, State-owned industries employed over seven times more workers than FFEs and paid a slightly higher wage to their workers. Meanwhile, FFE industrial outputs were nine times greater than State-owned Industrial outputs, thereby implying excessive overstaffing in State-owned industries and high levels of inefficiency in the state sector.

Foreign Funded Enterprise exports have increased rapidly. In 1995, exports made up 45.5 percent of total provincial exports and by 2002 that number rose to 58.8 percent. Refer to Table 5 for FFE province-wise breakdown of exports. Overall, the composition of exports by all forms of ownership has seen a decrease in primary goods from 9.8 percent in 1990 to 3.9 percent in 1999, and an increase from 90.2 percent to 96.1 percent in manufactured goods over the same years (see the Table on Guangdong's evolving economic structure).

⁸ State-owned and state-holding enterprises refer to state-owned enterprises and the enterprises in which the state holds a majority share.

Collective-owned enterprises refer to industrial enterprises where the means of production are owned collectively, which have registered in accordance with the Regulation of the People's Republic of China on the Management of Registration of Corporate Enterprises, including urban and rural enterprises invested by collectives and some enterprises which were formerly owned privately but have been registered in industrial and commercial administration agency as collective through raising funds from the public.

Guangdong Outputs, Exports, Workforce and Wages, 2002

	Share of Output (%)	Share of Exports (%)	Share of urban workforce (%)	Average wage (yuan)
State-owned industry	6.8	46	32.3	18366
Collective-owned enterprises	26.7	2.6	7	8403
FFEs	61.4	50.7	4.6	17321

Source: Guangdong Statistical Yearbook 2003

The structural composition of GDP has been changing in Guangdong since 1980, with a marked decrease in primary industry's share of GDP and a rise in the share of secondary and tertiary shares.⁹ In 1980, primary industry comprised 33.2 percent of provincial GDP, secondary industry 41.4 percent and tertiary industry 25.7 percent. In 1990 and 2002, primary industry made up 24.7 percent and 8.8 percent of Guangdong's GDP, respectively; secondary industry made up 24.7 percent and 50.4 percent, respectively; and tertiary industry made up 35.8 percent and 40.8 percent, respectively (Guangdong Statistical Yearbook 2003).

Hong Kong, Macau and Taiwan's Investments in Guangdong

Guangdong has strong ties to the overseas Chinese population. Roughly 19 million overseas Chinese who have roots in Guangdong province have invested in Guangdong. Hong Kong is a prime example of how such ties have boosted FDI flows. In the early 1990s, 80 percent of Hong Kong's population was said to have been born in Guangdong, or could trace its family roots to a neighboring province. This close relationship manifests itself in that Hong Kong is one of the biggest foreign investors in China.

Investment from Hong Kong, Macau and Taiwan (HMT) continues to play a key role in FDI in Guangdong. Over time, the proportion of FDI from HMT has decreased, as the province attracted more investment from other countries, but HMT still makes up more than half of FDI in Guangdong. In 1980, 87.4 percent of FDI came from HMT; in 1990, 74.6 percent; in 1999, 65.1 percent; and in 2002, 56.7 percent of FDI in Guangdong was from HMT, while the remaining FDI came from other FFEs from around the world (Guangdong Statistical Yearbook for 2002 data).¹⁰

Just as China was opening up in the late 1970s, the labor intensive manufacturing industry in Hong Kong was running out of space for expansion. At the time, Guangdong provided the perfect answer to Hong Kong's industry and much of manufacturing

⁹ Primary industry refers to agriculture, forestry, animal husbandry and fishery. Secondary industry refers to mining and quarrying, manufacturing, production and supply of electricity, water and gas and construction. Tertiary industry refers to all other economic activities not included in primary or secondary industry.

¹⁰ Aside from HMT, there is no other region that dominates FDI into Guangdong. The top three investors in 2002, other than HMT, were the Virgin Islands at 17.5 percent of FDI, the United States at 5.4 percent and the United Kingdom at 4.2 percent.

relocated to Guangdong. This symbiotic relationship has continued through decades, as Guangdong has grown into the manufacturing base that supports industries in Hong Kong. Guangdong had an abundant supply of labor to begin with. Over the years, as the growing industrial base absorbed the local workforce, labor from the hinterland stepped in to fill the higher demand.

Composition of FDI in Guangdong

	1980	1990	1999	2002
FFE	12.6 %	25.4%	34.9%	43.3%
HMT	87.4%	74.6%	76%	56.7%

Source: Guangdong Statistical Yearbook, various issues .

FFEs made up 61 percent of industrial output value in 2002. This number can be further disaggregated to reflect that over one-third, or 39 percent of the total FFE industrial output came from enterprises funded by entrepreneurs from Hong Kong, Macao and Taiwan (Guangdong Statistical Yearbook 2003). For further details on share of value added of industry of FFEs by province, refer to Table 6.

Special Economic Zones in Guangdong Province

a) A testing ground for policy

In 1979, China’s “open door” policy gave way to a few open windows—the creation of SEZs. After three decades of pursuing a development strategy focused on heavy industrial build up and self-sufficiency under a central planning system proved unsuccessful, Chinese policy makers decided to experiment with market forces by establishing three SEZs in Guangdong Province in 1979. A fourth zone was established in 1980 in Fujian Province and Hainan Province in its entirety became an SEZ in 1988. (Refer to Appendix I). As a precautionary measure, these SEZs were established in backward areas with weak industrial bases and infrastructure. This way, if the policies within the zones failed, there would not be a large negative impact on the greater economy.

The idea of SEZs was not new in 1979. Specialized export-processing zones and free trade zones date back to the 1960s.¹¹ Many countries, particularly Asian ones, began experimenting with growth strategies which focused on export-led growth. The four Chinese SEZs, established in Shenzhen, Zhuhai and Shantou in Guangdong Province, and Xiamen in Fujian Province were different in that they were broader in scope and in terms of enterprises that could be set up within them.

These four Chinese SEZs were to serve as a testing ground for new economic policies. It was clear that policy needed to shift towards a market-driven economy, but imposing radical changes across the entire centrally-planned economy could be risky. By using the SEZs as a laboratory, policies could be tested on a smaller scale. Successful

¹¹ According to UNCTAD (1982), the first EPZ and FTZ in the world were established in Mayaguez, Puerto Rico (1962) and Kandla, India (1965).

policies could perhaps later be integrated into national policy, while failures could be noted and learned from.

Ge (1999) cites some experiments that were to be conducted in the SEZs beginning in the 1980s. They included

...attracting and utilizing foreign capital, acquiring advanced foreign production and managerial technologies, developing a comprehensive economic structure and promoting foreign trade in accordance with the comparative advantages of the region, and gaining experience in economic system reforms according to the international norm, namely the practice of market economies.

Policy guidelines were put in place with the establishment of the SEZs. It was explicitly required that the zones maintain a trade surplus and the quantity of exports from the zones would serve as one of the measures of the zone's level of openness. Foreign investment was to be the main source for physical capital and technologies, and the zones' ability to attract this investment would serve as another measure of its openness and of its operation. It also encouraged that domestic firms operate alongside foreign firms to promote technology transfer and to form economic ties that could encourage growth.

Since foreign investment was to play such a big role in the SEZs, various policies to attract FDI were put in place. Incentives for FDI included: duty-free privileges; concessionary tax rates, breaks, and exemptions; preferential fees for land or facility use; favorable arrangements with project duration, size, sector invested, location and the type of ownership; flexible treatments regarding business management, employment, and wage schemes; and so on. These policies, in conjunction with improved infrastructure, facilities, legal structure and administrative framework have created an investor-friendly environment that has led to the influx of billions of dollars of FDI from around the world. Industry, especially light industry, has attracted a large portion of FDI in the SEZs, in part because incentives were more generous for these projects.

Another integral policy element that has attracted high levels of FDI is flexible arrangements with investors, practiced in processing and assembly trade, and compensation trade, among others. Some valuable inputs that the Chinese can offer to foreign firms include labor, land, facilities and raw materials. In negotiating contracts with foreign firms, the Chinese can look forward to acquisition of new technologies and equipment and to gaining a better-trained workforce, especially in management skills. Also, these arrangements allow for minimum foreign exchange requirements in the long term, while generating foreign exchange and employment in the short term. At the same time, foreign investors are encouraged by the flexible arrangements, as they can help them to manage risks and uncertainties ranging from the convertibility of local currency to the protection of patents and trade secrets. More recent policies have been experimenting with allowing foreign investors to partake in some infrastructure development and transportation and telecommunications projects, but policies and

regulations in this field are unsettled and need further development and clarity in order to attract more FDI.

b) Shenzhen Special Economic Zone

When the Shenzhen Special Economic Zone was established in Guangdong in 1979, it was little more than a small, agricultural town across the bay from Hong Kong. Prior to the expansion of the other SEZs, it was geographically largest in size at 327.7 km.² It had little infrastructure, negligible capacity for electric power generation and its workforce had little to offer in terms of skilled and semi-skilled labor. Its weak industrial base accounted for less than 20 percent of the provincial GDP and employed about one-fourth of the province's labor force. The little manufacturing that took place was concentrated into a few products. About 80 percent of households were engaged in agricultural and fishing activities.

As mentioned earlier, the situation in the other SEZs of Guangdong was the same, if not worse. Undeveloped, rural areas such as Shenzhen were chosen intentionally by the government as testing zones for open-market policy as a precautionary measure. Should policies in these regions backfire, devastating effects would not be felt across the whole economy (Ge 1999). Clearly, given the weak starting point of the designated SEZs like Shenzhen, massive infusions of capital were needed to build capacity in the zone prior to having industries set up shop there.¹²

Foreign investment and self-raised funds by the Shenzhen SEZ provided the largest sources of capital throughout the construction and operational phases. In 1980, foreign investment comprised 43.88 percent of total investment into Shenzhen SEZ, while self-raised funds made up 26.07 percent and state appropriations 23.88 percent. The proportion of state-appropriated funding decreased between 1980 and 1993, as did the share of funds from foreign investment. Meanwhile, the share of self-raised funds increased. In 1987 and 1993, respectively, the source of investment funds was: 16.73 and 12.94 percent from foreign investment; 55.1 and 51.16 percent from self-raised funds; and 1.33 and zero percent from state appropriated funds (Ge, 1999).

Today, the Shenzhen SEZ is 1949 km² and boasts the highest GDP among the Guangdong SEZs.¹³ In 2002, its GDP was \$2.8 billion. Primary, secondary and tertiary industries comprised .85 percent, 54.71 percent and 44.5 percent, respectively, of GDP (Main Economic Indicators of Shenzhen Table).

Shenzhen's exports in 2002 were \$4.65 billion, or 1.4 percent of total national exports (\$325.6 billion). Contracted foreign capital was \$5.19 billion and foreign capital actually utilized was 4.9 billion USD (Main Economic Indicators of Shenzhen Table, Guangdong Statistical Yearbook 2003).

¹² The construction phase in Shenzhen SEZ continued until 1985.

¹³ In Guangdong, only the city of Guangzhou, which is three times the area of Shenzhen, has a higher GDP than Shenzhen.

The average wage in Shenzhen in 2002 was 28,218 Chinese Yuan, which was almost 1.5 times greater than the Guangdong Province-wide average wage for that year and 2.3 times greater than China's national wage (Main Economic Indicators of Shenzhen Table, China Statistical Yearbook 2003, Guangdong Statistical Yearbook 2003).

Main Indicators of Shenzhen (2002)

Item	Shenzhen
Land Area (sq. km)	1949
Area of Regularly Cultivated Land (ha.)	3549
Total Year-end Population with Residence Registration (1000 persons)	139.45
Non-agricultural Population (1000 persons)	112.04
Number of Employed Persons at the Year-end (1000 persons)	359.28
Gross Domestic Product (100 million Yuan)	2256.82
Primary Industry	19.06
Secondary Industry	1234.69
Industry	1076.55
Tertiary Industry	1003.08
Per Capita Gross Domestic Product (Yuan)	46388
Index of Gross Domestic Product (preceding year = 100)	115
Primary Industry	106.9
Secondary Industry	117.6
Industry	119.6
Tertiary Industry	111.9
Index of Per Capita Gross Domestic Product (preceding year = 100)	106.5
Total Income of Township Enterprises (100 million Yuan)	307.9
Total Length of Highways in Operation (km)	1385
Total Business Volume of Postal and Telecommunication Services (at 2000 constant prices) (100 million Yuan)	181.88
Number of Telephone Sets Owned by Residents (1000 units)	286.75
Rural Areas	95.3
Total Amount of Investment in Fixed Assets (100 million Yuan)	747.15
Investment in Capital Construction	286.11
Investment in Innovation	38.51
Invested by State-owned Units	202.86
Invested by Collective-owned Units	57.63
Total Amount of Retail Sales of Consumer Goods (100 million Yuan)	689.59
Transaction Value of Free Markets in Urban and Rural Areas (100 million Yuan)	272.81
Total Amount of Exports (USD 100 million)	465.42
Total Amount of Imports (USD 100 million)	406.74
Utilization of Foreign Capital through Newly Signed Contracts	
Contracted Foreign Capital (USD 100 million)	51.86
Foreign Capital Actually Utilized (USD 100 million)	49.02
Local Government Budgetary Revenue (100 million Yuan)	265.93

Local Government Budgetary Expenditure (100 million Yuan)	307.78
Savings Deposits by Urban and Rural Residents at the Year-end (100 million Yuan)	1756.49
Per Capita Annual Disposable Income of Urban Residents (Yuan)	21914
Per Capita Annual Net Income of Rural Residents (Yuan)	10610
Average Wage of Staff and Workers (Yuan)	28218

Note: Primary industry refers to agriculture, forestry, animal husbandry and fishery.
Secondary industry refers to mining and quarrying, manufacturing, production and supply of electricity, water and gas and construction.
Industry refers to the material production sector which is engaged in extraction of natural resources and processing and reprocessing of minerals and agricultural products.
Tertiary industry refers to all other economic activities not included in primary or secondary industry.
Source: Guangdong Statistical Yearbook 2003

Shanghai, Jiangsu, and Zhejiang:

The Yangzi River Delta, with Shanghai at its core, is another prominent destination for FDI, second only to Guangdong province. However, it has taken an entirely different route, creating a provincial economy with a different structure. In the 1970s, Shanghai already occupied a central role in the Chinese economy – it was the largest contributor to national income, revenue and GDP. The Chinese government had invested heavily in the province, with State-owned Enterprises accounting for 91.1% of the region’s industrial output. The region’s significance to the national economy was a strong incentive for the Chinese government to maintain a strong control over the economic model, even while other regions were being opened up to foreign cooperation, meaning that Shanghai had a late start in the FDI game.

It was only in the late 1980s that Shanghai witnessed the first recognizable flows of FDI. Even then, they were intended for the tourism sector. Only in the early 1990s did FDI for manufacturing and services pick up substantially. Shanghai’s increasing political clout with the Chinese government was partly responsible for this upward trend. Shanghai was China’s leading financial center even before the reforms were put in place. By being one of the first states to open up the service sector to foreign participation, Shanghai served as the first stop in China for several global financial services firms, further cementing its leadership position as a financial hub. Shanghai is gradually emerging from being a financial hub for FFEs in the neighboring provinces, particularly Jiangsu and Zhejiang, to serving as a hub for FFEs in the entire Chinese economy, a role that will pit it against Hong Kong.

Today, tertiary-sector FFEs occupy an important position in Shanghai’s economy; a result of the provincial city’s pioneering efforts to open up its service sector to foreign investments. The city’s manufacturing sector is split into export-oriented small scale industries, and large, capital intensive plants that seek local markets. Shanghai’s relatively prosperous economy has bestowed enough purchasing power upon the local population to make it attractive for foreign companies to set up market-seeking local production facilities.

Gradually though, the city’s service sector is edging out labor-intensive manufacturing activity to the periphery, in some cases even causing factories to relocate to the cheaper neighboring provinces of Jiangsu and Zhejiang. Not only have these provinces benefited from spillover of manufacturing activity, but also from easy access to

Shanghai's financial services sector. This combination has spurred tremendous growth in manufacturing FFEs in these provinces, so much so that export-oriented FFEs in Jiangsu, the northern province, now account for a higher proportion of the province's output than FFEs in Guangdong. Sixty two percent of Jiangsu's exports came from FFEs in 2002. In short, FFEs have played a critical role in promoting exports from China's coastal provinces (refer to Table 7).

FDI Regime & Incentives:

Fiscal Incentives

China's general policy on incentives is expected to undergo a major overhaul in the near future. The urgency is in part because of China's accession to the WTO. A uniform tax policy, applicable to state enterprises and foreign enterprises, is likely to replace the current tax incentives for FFEs, which pay 15 percent as opposed to 33 percent and 53 percent for domestic and State-owned Enterprises, respectively. The increasing gap in economic prosperity of SEZs, open cities and other inland regions has triggered this change in tax policy. Options being considered by the government would eliminate preferential treatment for FFEs in economic zones, applying the same tax rate, expected to range between 15 percent and 33 percent, to all enterprises. Policy reform aimed at equalizing the treatment of domestic and foreign capital has substantially reduced the incentive for round-tripping, in particular the ongoing reduction of tax incentives for FDI and, more generally, the gradual movement towards a national treatment-based regulatory regime governing investment.

China's uniform tax policy would signal the end of tax subsidies, though only for new entrants. Contracts signed before uniform tax policy is enacted will continue to be honored. To maintain the competitiveness of SEZs, the government intends to take measures that will open up these zones to even higher levels of foreign participation. Specifically, the government is considering opening up prized sectors that until now were heavily regulated, such as insurance and finance, and enhancing the regulation for FFEs in economic zones.

General Incentives:

The Chinese government offers a host of incentives to FFEs, mainly in the form of tax subsidies. Research is supportive of using tax subsidies to lure foreign companies into a region with inadequate infrastructure, with a planned elimination of subsidies over time as infrastructure falls into place.

- **Capital Expansion:** An increase in capital investments earns FFEs a tax holiday for two years, and a 50 percent reduction in income tax for another three years. Investments in western and interior regions offer higher incentives. These incentives are available only for investments in industries classified as "encouraged," and if the capital base is expanded to at least \$60 million, or \$15 million if the increase is 50 percent or more.

- Access to Loans: FFEs can avail of fixed-asset loans, working-capital loans, and accounts receivable financing from The Bank of China. Local currency loans are offered at the same interest offered to State-owned Enterprises.
- Economic and Technological Development Zones: To encourage investment in research and development, China had established 56 ETDZs as of February 2003. Membership of these zones, restricted to FFEs deemed to be “technologically advanced,” earns certain tax reductions and exemptions. An additional 50 percent tax reduction is granted to “technologically advanced” FFEs that choose to locate outside such zones.
- Reinvestment: All FFEs receive a 40 percent tax refund on profits that are reinvested in the business.

Industry Incentives:

China encourages investments in certain industries, particularly the ones that are seen driving the future growth of the country. Thus, certain incentives are offered to FFEs operating in chosen industries.

- FFEs with a production contract of at least ten years are entitled to a standard two-year tax exemption, followed by a 50 percent reduction for another three years.
- FFEs invested in agriculture, forestry or animal husbandry are entitled for an additional ten-year 15-30 percent tax reduction.
- Various schemes to encourage investments in infrastructure, oil exploration and software.

Special Economic Zones:

During the 1980s, the Chinese government passed several stages, ranging from the establishment of SEZs and open coastal cities and areas, to designating open inland and coastal ETDZs. Since 1980, China has established SEZs in Shenzhen, Zhuhai and Shantou in Guangdong Province, Xiamen in Fujian Province, and designated the entire province of Hainan an SEZ.

In August 1980, the National People's Congress (NPC) passed "Regulations for The Special Economy Zone of Guangdong Province" and officially designated a portion of Shenzhen as the Shenzhen Special Economy Zone (SSEZ)." In 1984, China further opened 14 coastal cities to overseas investment. These were: Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai.

Since 1988, mainland China's opening to the outside world has been extended to its border areas, areas along the Yangzi River and inland areas. First, the State decided to turn Hainan Island into mainland China's biggest SEZ and then to enlarge the other four SEZs. Shortly afterwards, the State Council expanded the open coastal areas, extending

into an open coastal belt the open economic zones of the Yangzi River Delta, Pearl River Delta, Xiamen-Zhangzhou-Quanzhou Triangle in south Fujian, Shandong Peninsula, Liaodong Peninsula (Liaoning Province), Hebei and Guangxi.

In June 1990, the Chinese government opened the Pudong New Area in Shanghai to overseas investment, and additional cities along the Yangzi River valley, with Shanghai's Pudong New Area as its "dragon head." Since 1992, the State Council has opened a number of border cities, and in addition, opened all the capital cities of inland provinces and autonomous regions. In addition, 15 free trade zones, 32 state-level economic and technological development zones, and 53 new-and high-tech industrial development zones have been established in large and medium-sized cities. As these open areas adopt different preferential policies, they play the dual roles of "windows" in developing the foreign-oriented economy, generating foreign exchanges through exporting products and importing advanced technologies, and of "radiators" in accelerating inland economic development.

Primarily geared to exporting processed goods, the five SEZs are foreign-oriented areas which integrate science and industry with trade, and benefit from preferential policies and special managerial systems. In 1999, Shenzhen's new-and high-tech industry became the one with the best prospects, and the output value of new-and high-tech products reached 81.98 billion Yuan, making up 40.5 percent of the city's total industrial output value. In the initial years, in order to create a competitive economic environment, preferential policies were put in place for potential investors in the SEZs (refer to the SEZ preferential policies table below). In 1980, the corporate tax rate for SEZs was set at only 15 percent at a time when tax rates elsewhere went up to as high as 55 percent for domestic firms and 40 percent for foreign firms. Foreign investors received extra tax benefits of two years of exemption from the date when the firm started to generate profits, followed by a 50 percent tax reduction for another three years.

Major Preferential Policies for SEZs in China

General Guide-Lines	Corporate Tax	Individual Income Tax, Property Tax & Land Usage	Import/Export Duties
<p>1. Foreign Capital is the major source for development fund.</p> <p>2. Economic activities depend on market forces, rather than the state plan.</p> <p>3. Local governments have more power in making regulations, approving foreign investment projects.</p> <p>4. Special treatment for enterprises in SEZs: tax holiday or reduced tax rates, accelerated depreciation rates (generally 5-10 years), flexible policies on imports and exports.</p> <p>5. The amounts of fiscal revenues and foreign exchange earnings to be transferred to the central government are fixed, revenue or earnings above the quota belong to the local governments.</p> <p>6. Capital or profits of foreign investors are free to flow in and out of the country.</p>	<p>1. Corporate tax rate is 15% for enterprises located in the SEZs. No additional local tax.</p> <p>2. Profit reinvested in the SEZs are exempt from corporate tax upon application.</p> <p>3. Enterprises with foreign investment enjoy 1 to 3 year corporate tax exemption (counting from the date when firms have positive profits), and 50% reduction of corporate tax for additional 3 years.</p> <p>4. Enterprises that export more than 70% of their products are allowed 10% reduction in corporate tax.</p> <p>5. Business incomes of banks and insurance companies are exempt from industrial and commercial consolidated taxes for 5 years from their establishment. After the 5-year exemption period, the tax rate is 3%.</p>	<p><i>Individual income tax:</i></p> <p>1. 50% of the individual income generated in the SEZs that is subject to Individual Income Tax Law of the People's Republic of China is exempt from the individual income tax.</p> <p>2. Interest income of non-citizenship is exempt from individual income tax until 1995. (It is not known whether it is still in effect.)</p> <p><i>Property tax:</i></p> <p>Foreign investors are exempt from property taxes for three to five years to the real estate property that they newly bought or built.</p> <p><i>Land usage:</i></p> <p>1. Land is leased to foreign investors up to 70 years.</p> <p>2. Land use fees are reduced or exempt for 1-5 years depending on various situations: used for business operation, or for production; if it introduces high technology; and whether or not it is developed land.</p>	<p>1. Import duties are exempt for equipment, parts, raw materials, transportation vehicles, and other production materials purchased by enterprises located in the SEZs for production purposes. (This policy was phased out starting in 1995.)</p> <p>2. Daily necessity goods used for consumption purposes, except cigarettes and wines, are exempt from import duties.</p> <p>3. Exports of goods produced in the SEZs with domestic materials, except for raw oil or oil products or other products that the state has specified, are exempt from industrial and commercial consolidated taxes (and export duties?).</p> <p>4. Exports of goods produced in the SEZs with imported materials are exempt from industrial and commercial consolidated taxes.</p>

Sources: Regulations on SEZs in Guangdong Province in A Comprehensive Book of Laws and Regulations of the People's Republic of China, 1995; China's Special Economic Zones and Technological Development Yearbook.

To promote exports, an additional 10 percent tax reduction had been set up for firms that exported more than 70 percent of their products, and export duties are also exempt for goods produced in the SEZs. Import duties were exempt for equipment, parts, materials used for production purposes, and daily necessities used for consumption purposes. To show the government's determination and commitment to the SEZ policies, land was leased to foreign investors for up to 50 years (later on, it was extended to a maximum of 70 years). Land usage fees were set very low, and were exempt or reduced from one to five years. Property taxes were also exempt for three to five years to

encourage foreign investors. To attract people to work in the SEZs, individual income taxes were reduced by 50 percent of the national level; in addition, the interest income of foreigners was exempted from individual income tax. Labor mobility was also encouraged right from the beginning. Professionals or highly-skilled workers were allowed to move to work in the SEZs, regardless of the rigid household registry system. Workers were allowed to move from company to company, and firm managers had the right to pay employees according to their merit and even fire them, if necessary.

In addition to five SEZs, China has established a variety of economic zones, as mentioned earlier, each targeted at a specific industry. ETDZs, of which there were 56 in number as of February 2003, have been set up to encourage foreign investments in research and development. To target the high-tech industry, China has established National High-Tech Parks. Free Trade Zones, located along the coast, have become a popular location for export-oriented enterprises as they offer facilities such as speedy customs clearance, like duty-free entrance for all goods. All products manufactured in these zones must be exported.

SEZs, however, are not the only method that the Chinese government has employed to attract foreign investment, as cities such as Shanghai, Dalian, Guangzhou, Tianjin and Beijing have been allowed to employ policies similar to the SEZs to attract foreign investors. Hainan Island – previously under the jurisdiction of Guangdong province – was made a separate province in 1988, and in effect functions as a free-trade zone. In 1990, the Pudong development zone –similar to an SEZ – was established in Shanghai. The explosive growth of the SEZs in southern China is a result of wholesale movement of labor-intensive industries from Hong Kong and Taiwan, which were losing their comparative advantage in these industries, to mainland China. China was closer, wages were lower, and language difficulties were nonexistent, compared with the alternative sites in Southeast Asia. Managers could commute daily from Hong Kong to supervise their factories in Shenzhen. The family connections greatly reduced the transaction costs of the investment by providing reliable local supervisors, inside information on the enforcement of regulations, and contacts with the local authorities.

Manufactured goods comprised some 90 percent of total export value in 1999, compared with 50 percent in 1980. Higher value, technology-intensive manufactured goods now form a higher percentage of total exports. For instance, the export of apparel and clothing accessories, which accounted for 15.4 percent of total exports in 1999, is losing ground to machinery and transport equipment, which accounted for 30.2 percent. Export-processing foreign-invested enterprises achieved the most impressive results in export performance, accounting for 45.5 percent of total exports in 1999 compared to only 27.5 percent in 1993. Contributions made by State-owned Enterprises, in contrast, have declined, falling from 67 percent in 1995 to 50.5 percent of exports in 1999.

Labor Policies:

When the FDI flows began in the late 1970s, China still depended on planned labor allocation. Consequently, foreign enterprises had to depend on FESCO, a government controlled agency, for their labor needs. For some time, FESCO enjoyed a monopoly, leading to inefficient labor allocation.

However, over time, FESCO lost its monopoly and a labor market evolved, especially as the higher education system and vocational schools released a supply of skilled laborers into the market. In 1985, State-owned Enterprises were given the right to hire and fire workers. Now, FFEs are free to hire in a competitive labor market, and can even use incentives such as sign-on bonuses and employee stock options.

China passed its national labor law in 1994, which applies to all work units, irrespective of ownership. In conjunction with FFE labor regulations, national labor law oversees all labor issues for FFE in China. Surprisingly, the national law ruled against dismissals of redundant employees on grounds other than imminent bankruptcy and major production changes. Earlier regulations, permitting dismissals resulting from technical and production changes, had granted greater flexibility to the employers. Even the autonomy, granted to FFEs by earlier regulations, to hire was reduced, as FFEs are now required to seek permission from local authorities before hiring from other regions.

Entry & Exit Policies:

With the abolition of industrial licensing in India in 1991, the entry barriers for firms were removed. However, exit barriers remained and continue until today. In fact, the lack of an exit policy has itself become an entry barrier as far as India is concerned. By contrast, in China, firms are free to enter and exit as their conditions demand.

India – China comparisons:

The table below (World Bank, 2003) provides a snapshot of the business climate in India and China by identifying specific regulations and policies that encourage or discourage investment, productivity, and growth. Key indicators are used to help measure the ease or difficulty of operating a business: starting a business, hiring and firing workers, enforcing contracts, getting credit, and closing a business. The data show clearly the extraordinary costs of closing a business, and the relatively high costs of opening a business in India.

In (Blaxill and Maira, 2000) a high quality sample of 28 executives in large, multinational companies in Europe, North America, and Asia were interviewed to understand the factors that business people consider, and criteria they use, when deciding to make investments, especially when comparing India and China.

Snapshot of Business Climates in India and China, 2003

Indicator	India	China	OECD Average
<i>Starting a Business</i>			
Number of procedures	10	11	7
Duration (days)	88	46	30
Cost (% of GNI per capita)	49.8	14.3	10.2
Min. Capital (% of GNI per capita)	430.4	3855.9	61.2
<i>Hiring and Firing Workers</i>			
Flexibility of Hiring Index	33	17	49
Conditions of Employment Index	75	67	58
Flexibility of Firing Index	45	57	28
Employment Laws Index	51	47	45
<i>Enforcing Contracts</i>			
Number of procedures	22	20	17
Duration (days)	365	180	233
Cost (% of GNI per capita)	95	32	7.1
Procedural Complexity Index	50	52	49
<i>Getting Credit</i>			
Public Credit Registry operates?	No	Yes	
Year Public Credit Registry established	-	1999	
Public Credit Registry coverage (borrowers per 1000 capita)	0	3	43.2
Public Credit Registry Index	0	56	58
Private Credit Bureau operates?	No	No	
Private Credit Bureau coverage (borrowers per 1000 capita)	0	0	443.5
Creditor Rights Index	3	2	1
<i>Closing a Business</i>			
Actual time (in years)	11.3	2.6	1.8
Actual cost (% of estate)	8	18	7
Goals of Insolvency Index	21	51	77
Court Powers Index	33	67	36
<i>Economy Characteristics</i>			
Region	South Asia	East Asia and Pacific	
Income category	Low income	Lower middle income	
Legal origin	English	German	
GNI per capita (US\$)	480	940	23135
Informal economy (% GNI)	23.1	13.1	16.8
Population	1,032,354,634	1,271,849,984	41,068,094

Note: GNI is gross national income.

Source: worldbank.org

India-China Comparison¹⁴

Governmental processes:

In comparing the two, the majority (55 percent respondents) commented on the process of obtaining the required decisions from the Government machinery. Almost all of them said that the process was much more effective in China, with some drawing a quite stark contrast in China's favor. There were only two exceptions: both in the infrastructure sectors. One of these said the Indian process was a little quicker, and the other that both were equally slow but the Chinese stuck to their decisions once taken. Some other companies also said that the process took as long in China as in India but even these companies said that in China once the decisions were taken they were firm, whereas in India decisions were often changed. The majority said that the process was actually much faster in China. And some commented that since they were in partnership with Government-owned companies in China, they did not have to hassle with the Government machinery at all!

Skill levels:

The next most often cited factor in comparing the two countries was skill levels (22 percent of companies). All of them said that India was fairly well ahead of China. They commented very favorably on Indian managers as well as the high levels of technical skills. In the case of China, although there was great respect for the commercial and technical energy of the Chinese people, some executives expressed the view that China was still developing the skills required to manage a modern economy and that those skills were often scarce. In India, by contrast, there was a great and underutilized people resource base that provided important advantages to Indian operations.

Legal system and business culture:

Other factors were the legal system (17 percent of companies) and the business culture (also 17 percent). On both these, India was ahead of China in the views of all those who mentioned them. However, some did say that the legal system in India was a mixed blessing, in that one could get caught in lengthy litigation.

Market size and potential:

Market size was mentioned by 17 percent, all in favor of China. These companies tended to group China and India together in their corporate strategies. They have similar characteristics: the world's largest, emerging markets with low average per capita income levels and promising futures. Along each dimension, China scores above India, with larger markets, slightly higher income levels (especially in the coastal cities) and higher projected growth. If forced to make a choice between the two countries, almost all would choose China as the preferred location for investment. Some had already done so, by investing in China but not India, whereas one company was pulling out of India while maintaining its investment in China.

Making Profits:

17 percent also mentioned the ability to generate profits, which must be at the end of the day a key measure of attractiveness of a market. The experience of our respondents is very mixed in China so far. Some have begun to make profits and some continue to lose money. China has developed a reputation with some of the companies as a place where substantial over-investment has led to excess capacity and heavy price-cutting. But even the losers say they are in for the long haul because of the attractiveness of the market.

¹⁴ Blaxill and Maira (2000) in Sachs and Bajpai, "Foreign Direct Investment in India: How Can \$10 Billion in Annual Inflows Be Realized", a report prepared for the Minister of Commerce & Industry, Government of India.

Some Impediments to Greater FDI Flows at the State Level:

1. Lack of Decision-Making Authority with the State Governments

In India, the reform process so far has mainly been concentrated at the central level. India has yet to free up its state governments sufficiently so that they can add greater dynamism to the reforms. In most key infrastructure areas, the central government remains in control, or at least with veto power over state actions. Greater freedom to the states will help foster greater competition among themselves. The state governments in India need to be viewed as potential agents of rapid and salutary change.

Brazil, China, and Russia are examples where regional governments take the lead in pushing reforms and prompting further actions by the central government. In Brazil, it is São Paulo and Minas Gerais which are the reform leaders at the regional level; in China, it is the coastal provinces, and the provinces farthest from Beijing, in the lead; in Russia, reform leaders in Nizhny Novgorod and in the Russian Far East have been major spurs to reforms at the central level.

In China's case, the two disastrous leftist campaigns, the Great Leap Forward (1958-62) and the Cultural Revolution (1966-76), undermined belief in Marxist dogmas, weakened the state's administrative capacity, and discredited central planning. The Great Leap Forward program of crash industrialization starved around 30 million to death in the 1958-61 period, and the Cultural Revolution purged about 60 percent of party officials.

The legacy of these two disasters enabled Deng Xiaoping to quickly transfer a significant amount of formal and informal economic policymaking power and resources to the provinces when he returned to power in 1978. The central ministerial and party apparatus were too politically exhausted and too discredited to resist his decentralization. This ending of Beijing's stranglehold over political power has been fundamental to the continuation of economic reforms.

One major example of decentralization in economic policy making in China was that all trade was initially handled at the federal level by the State Trading Corporation (STC). However, in the mid-1980s, provinces were allowed to set up a provincial trading corporation. Later, more trading corporations were established and competed with one another. Finally, the provinces allowed firms to export directly. Similarly, another example was the mechanism adopted by the federal government to collect taxes. Provinces were given tax quotas, which meant that they had to collect a certain amount every year, but that any collection above the fixed quota could be kept by the provinces, thereby building in an incentive for the provinces to collect higher levels of revenue. However, with the introduction of VAT in 1994, this system was discontinued.¹⁵

¹⁵ Wing Thye Woo provided this information.

2. Limited Scale of EPZs and SEZs

The very modest contributions of India's export processing zones in attracting FDI and overall export development call for a policy revision. India's export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale; the Government's general ambivalence about attracting FDI; the unclear and changing incentive packages attached to the zones; and the power of the central government in the regulation of the zones, in comparison with the major responsibility of local and provincial government in China. Ironically, while India established her first free trade zone, as mentioned earlier, in Kandla, Gujarat in 1965 compared with China's initial efforts in 1979, the Indian zones never seemed to take off — either in attracting investments or in promoting exports.

It must be pointed out here that the Government of India has introduced an Export/Import Policy effective April 2000 for setting up SEZs in the country with a view to provide an internationally competitive and hassle free environment for exports.¹⁶ Units may be set up in an SEZ for manufacturing goods and rendering services. All the import/export operations of the SEZ units will be on a self-certification basis. The units in the zone have to be net-foreign-exchange earners, but they shall not be subjected to any pre-determined value addition or minimum export performance requirements. Sales in the Domestic Tariff Area by SEZ units shall be subject to payment of full customs duties and import duty in force. Further offshore banking units may be set up in the SEZs.

The policy provides for setting up SEZs in the public, private, or joint sectors or by State Governments. It was also envisaged that some of the existing Export EPZs would be converted into SEZs. Accordingly, the Government has converted Export Processing zones located at Kandla and Surat (Gujarat), Cochin (Kerala), Santa Cruz (Mumbai-Maharashtra), Falta (West Bengal), Madras (Tamil Nadu), Visakhapatnam (Andhra Pradesh) and Noida (Uttar Pradesh) into SEZs. In addition, approval has been given to establish 21 SEZs in various parts of the country in the private/joint sectors or by the State. As of March 2003, there were 659 units in operation in the 8 functional SEZs in India. Investment by the units in these zones was of the order of Rs.100566.20 million. The SEZ units provide employment to about 86,646 persons.

3. No Liberalization in Exit Barriers

While the reforms implemented so far have helped remove the entry barriers, the liberalization of exit barriers has yet to take place. In our view, this is a major deterrent to large volumes of FDI flowing to India. An exit policy needs to be formulated such that firms can enter and exit freely from the market. While it would be incorrect to ignore the

¹⁶ Based on the research work and recommendations of Bajpai and Sachs, the Minister of Commerce and Industry, Government of India announced new initiatives in India's Export/Import Policy for the year 2000/01. These relate to setting up SEZs and the involvement of India's State Governments in the country's export promotion effort. For details of the new policy, please access the Ministry's web site at: <http://dgftcom.nic.in/exim/2000/> For Harvard's research, please see [HIID DDP No. 641 "Strengthening India's Strategy for Economic Growth"](#).

need and potential merit of certain safeguards, it is also important to recognize that safeguards if wrongly designed and/or poorly enforced would turn into barriers that may adversely affect the health of the firm. The regulatory framework, which is in place, does not allow the firms to undertake restructuring.

4. Stringent Labor Laws

Large firms in India are not allowed to retrench or layoff any workers, or close down the unit without the permission of the state government. While the law was enacted with a view to monitor unfair retrenchment and layoff, in effect it has turned out to be a provision for job security in privately owned large firms. This is very much in line with the job security provided to public sector employees. Most importantly, the continuing barrier to the dismissal of unwanted workers in Indian establishments with 100 or more employees paralyzes firms in hiring new workers¹⁷. With regard to labor regulations and hiring and firing practices, India is ranked way below in the Global Competitiveness Report 2003. Labor-intensive manufacturing exports require competitive and flexible enterprises that can vary their employment according to changes in market demand and changes in technology, so India remains an unattractive base for such production in part because of the continuing obstacles to flexible management of the labor force.

5. Bureaucracy

Delays in decision making due to the multiplicity of agencies at the federal and state levels, the plethora of rules, and the bureaucratic mind-set of the many officials who have to be approached for permissions has been most frequently cited as a major obstacle to investment. The attitude towards foreign companies of many of the people whose clearance is required makes the process even more aggravating. Navigation is much easier in China where when the provincial government makes a decision it can see it through quickly to the end, unlike in India. The federal/state governments must find ways to simplify and speed up decision-making processes. While consolidation of regulatory agencies for a sector, and “single window” clearance procedures are beginning to improve the situation in India, much more needs to be done, and quickly, to reduce the bureaucratic tangles that many other foreign business continue to experience in India. There must also be greater transparency in the workings of these single agencies.

6. Infrastructure

The abysmal condition of the roads, power and ports is very frequently raised by potential investors as a major deterrent to higher FDI flows. It is pointed out that the condition of the infrastructure not only affects the operations of the business, but tarnishes the image of the country/state for potential investors in a very tangible way. The condition of international airports, the roads from airports into cities, and the interruptions of power supply, for instance, are major issues of concern.

¹⁷ According to the Industrial Disputes Act (IDA), 1947 if a firm employs 100 or more workers, then workers cannot be laid-off without the prior permission of the concerned state government. Besides, the Act prohibits closure unless of course the state government has granted approval to do so.

Improvement of the infrastructure is of course a priority for the government. However, improving the infrastructure of the state at large may take a fairly long time. It would be pragmatic to concentrate initially on improving the infrastructure for communications, uninterrupted power supply, and easy access to transport in smaller zones of the state. Major projects with foreign investment, especially export-intensive and knowledge-intensive projects, could be initially concentrated in these zones. The success of these ventures would have many benefits that could percolate to the rest of the state.

7. Finding Partners for Joint Ventures

The plethora of regulations and agencies make it difficult for a foreign investor to navigate in India. A good local partner can be a skilled guide. Invariably, those who have succeeded in India have a fine local partner. These local partners have taught the foreign companies how to get things done in India without yielding to corrupt practices.

8. Leveraging India's Educated Work Force

Focus on a few selected sectors will help Gujarat/India to leverage its comparative advantages and investors to realize the benefits. India's highly educated and skilled, English-speaking manpower is a major strength of India. Even companies that have come to India to sell to the domestic market have established valuable flows of software, products, and people to support their international operations. This is a modern India that exports knowledge-intensive products, whereas the traditional India continues to produce and export some of the finest handicrafts.

This is one area in which India scores over China. India's visible success in the software business is of course one manifestation of this strength. But foreign companies in the engineering industries can also leverage Indian engineering and production capabilities to source precision components for their international operations. India could be a significant player in higher value-added exports, in which so far it has a factor advantage over all other developing countries including China. Of course, in all such knowledge-intensive sectors, protection of intellectual property rights becomes a concern for both foreign and Indian business people. The Government must move faster and with more clarity to comply with international standards of protection. The uncertainty on this vital issue is making investors hold back, in the pharmaceutical industry for example, and a valuable window of opportunity could be closing for India, even though it is still ahead of other countries in the scale and quality of its educated workforce.

Concluding remarks:

Indian states, especially those on the coast could have achieved what Chinese coastal provinces have achieved in the growth of exports, in attracting large sums of FDI, and in creating large scale employment opportunities, but India failed in basic policy strategy. China's export growth was based on core policy and economic management decisions carried out beginning in the early 1980s. These can be summarized as follows. First, China understood that the root of export growth would be diversification away from

traditional sectors, especially raw materials, into non-traditional sectors, especially manufactured goods. But China lacked the technology by itself to be competitive in manufactured goods. Therefore, it invited foreign direct investors to provide the capital and the expertise to achieve export competitiveness in a wide range of sectors, including electronics, apparel, plastic toys, stuffed animals, ceramics, and many other labor-intensive sectors. In each sector, the key was to link foreign investor capital and expertise with a large and low-cost Chinese labor force. The foreign investors brought in the product design, specialized machine tools and capital goods, key intermediate products, and knowledge of world marketing channels. The Chinese assured these foreign investors certain key conditions for profitability, such as low taxes, reliable infrastructure, physical security, adequate power, decent logistics for the import and export of goods, and so forth.

At the center of China's export strategy were the SEZs in which favorable export conditions were assured. These SEZs along China's coastline were designed to give foreign investors and domestic enterprises favorable conditions for rapid export promotion. All key aspects of the export environment were secured. Exporters, for example, were allowed to import intermediate products and capital goods duty free. They were given generous tax holidays. The exporters were assured decent physical infrastructure, often through the provision of land, power, physical security, and transport to the ports, within specially created industrial parks.

India too has experimented with special zones, mainly export processing zones (EPZs), but one has to say that India's approach to export zones has been one of relative neglect rather than support. China's five main special economic zones (Shenzen, Zhuhai, Shantou, Xiamen, and Hainan) exported \$21.3 billion in 1999,¹⁸ roughly 11 percent of the national total. On the other hand, India's eight functional SEZs (Kandla, Santacruz, Noida, Madras, Vishakhapatnam, Cochin, Surat, and Falta), managed a tiny fraction of that, both in absolute levels and as a proportion of total Indian exports.¹⁹ India's EPZs have not performed as well as China's SEZs for many reasons, including:

1. limited scale and overcrowding of the EPZs
2. insufficient logistical links with airports and seaports
3. poor infrastructure in areas surrounding the zones (e.g. unpaved roads and poor physical security)
4. government ambivalence and red tape regarding inward foreign direct investment
5. unclear incentive packages governing inward investment, and
6. lack of interest and authority of state and local governments, and the private sector, compared with the central government, in the design, set up, and functioning of the zones.

Gujarat is not rated as one of the most attractive destinations for FDI in India, perhaps ranked around 5th or 6th. It is interesting to note that while Gujarat is perhaps next only to Maharashtra as far as attracting domestic private investment is concerned, it does

¹⁸ http://www.chamber.org.hk/info/daily_business_news/china/chi00021101.htm

¹⁹ In 2000/01, exports from India's eight SEZs were \$1.8 billion, roughly around 4.1% of national exports.

not score as well when it comes to foreign direct investment. This issue needs to be looked at from several different angles. For instance, is the State doing enough on the marketing front, not just in the U.S., but in other parts of the western world; have there been any exercises undertaken to understand what the issues and concerns of MNCs are when it comes to investing in Gujarat; are the investment incentives offered by the State in line with others, such as Maharashtra or Tamil Nadu? Perhaps a strategy focusing on the comparative advantages of Gujarat, relative to its other competitor states in India, needs to be put in place that highlights for multinationals why they should consider investing in Gujarat if investments are planned in sectors where the state is comparatively better placed than other leading Indian states.

Gujarat is one of the front runner states of India as far as some of the manufacturing sectors, such as engineering goods, chemical and petrochemical products, drugs and pharmaceuticals, and fertilizers, among others are concerned. However, it is essential that the state focuses much more than in the past on labor-intensive manufacturing production for exports. The potential for attracting much higher volumes of FDI, especially in Gujarat's SEZs is enormous. This will not only bring in greater FDI flows, but will also raise exports from Gujarat and create large-scale employment opportunities.

In China, the major responsibility for the SEZs rests with local and provincial governments, whereas in India, the responsibilities still remain heavily with Delhi. India's export environment suffers from several other institutional weaknesses. India's labor laws, noted unfavorably in several Global Competitiveness Reports, make it very costly to fire workers in enterprises of more than 100 workers. The result is that formal-sector firms (those that are registered and that pay their taxes) are loath to take on new employment, and the vast majority of India's employment is informal, in small, tax-evading, inefficient enterprises. Equally remarkably, India's legislation continues to restrict the entry of large firms, or the growth of small firms into large firms, in several areas of potential comparative advantage. Thus, a large number of products continue to be reserved, to a varying extent, for small-scale producers. Such restrictions virtually assure China's dominance in these sectors compared with India.

India's tax and tariff structures similarly remain anti-export biased. India's high overall tariff rates, especially tariffs on intermediate products that are used by exporters, impose a heavy indirect tax on export competitiveness. There are duty drawback systems to reduce this anti-export bias, but such programs are administratively burdensome and often too costly to use effectively. Finally, the regulatory attitude towards foreign direct investors, who could be the fuel for India's export drive, continues to be ambivalent. The government promotes FDI on the one hand, but then maintains regulations against full foreign ownership, or insists on lengthy approval processes, on the other hand.

Both the hardware and software of export-led growth need revamping. On the hardware side, the development of industrial parks for exports should be greatly intensified and enhanced. Private developers need the freedom to acquire urban and peri-urban land and to develop privately financed infrastructure in support of exports. The

government must take urgent measures to reduce export costs, including private-sector provision of port services; zero tariff ratings on capital and intermediate goods imports used for export (based on an effective duty exemption scheme); enhanced export-oriented infrastructure, especially roads to the airports, reliable power supply, and telecommunications facilities to support export zones.

Labor legislation should be revised to allow managerial flexibility in the hire and dismissal of workers in export-oriented sectors. The reservation of labor-intensive sectors to small-scale enterprises should simply be scrapped. This is the kiss of death to effective international competitiveness in labor-intensive exports. The government should actively encourage inward investment in export-oriented sectors, allowing 100 percent foreign ownership without administrative interference, and with the provision of generous tax holidays as necessary to attract internationally mobile capital from other locations.

Lessons for Gujarat:

I Legislative and policy reforms:

1) Working with the federal government, move expeditiously to reform labor laws, to begin with, at least with respect to the SEZs. Labor laws in Chinese SEZs are more favorable, allowing labor contracts to be modified or rescinded through consultations between both parties. 2) An exit policy needs to be formulated such that firms can exit from the market freely. Exit policy needs to be designed in a way that it removes exit barriers and at the same time protects the necessary internal order in the firms. 3) Remove unnecessary restrictions on equity participation by foreign companies. 4) Standardize guidelines for environmental issues. 5) Strengthen intellectual property rules, especially in sectors where India has a comparative advantage with its educated and skilled workforce. 6) Reduce the variance of FDI laws based on sector. 7) Increase trade openness.

II Government processes and machinery:

1) Increase areas for automatic approval. 2) Reduce the role of the approving bodies. 3) Streamline the number of agencies involved when approvals are necessary.

Center-State dynamics: 1) Devolve more authority in selected areas to the States to negotiate FDI projects.

III Infrastructure:

1) Increase political commitment, regulatory transparency, and dispute resolution mechanisms to attract foreign participation in infrastructure. 2) Focus immediately on the infrastructure of ports, roads, telecommunications, and airports in selected areas to make the state more attractive to foreign investors.

IV Concentrated zones for FDI activity:

1) Establish SEZs all along the Gujarat coast on an expedited time table. This is critical in view of the fact that several Indian states are in the process of setting up such SEZs and the sooner Gujarat's SEZs are up and running, the better it will be for attracting both potential domestic and foreign investors. 2) Use SEZs to provide special procedures for these projects and increase trade openness. 3) Expand the use of technology parks and other zones that increase the opportunities for agglomeration of industries for which India is particularly attractive. 4) As the example of Guangdong and Jiangsu show, export-oriented manufacturing FFEs belonged to the small and medium-scale enterprises. The large scale FFEs were setup to serve local markets. In order to establish export-oriented manufacturing units, China's example would suggest an emphasis on small-and-medium-scale enterprises.

V Networking with Non-resident Indians:

As in the case of China's coastal provinces, where overseas Chinese in Hong Kong, Taiwan, and Macao have invested heavily in mainland China, develop networks with Gujarati Non-resident Indians to encourage them to invest in Gujarat. Guangdong leveraged its relationships with the global Chinese community to attract FDI flows, which laid the foundation of small and medium-scale enterprises. Similarly, Gujarat should leverage relationships with the global Gujarati community, well known for its trading acumen, to attract foreign investment for the state.

VI Engagement of foreign investors:

1) Create a council of senior Gujarat state government officials and representatives of large foreign-invested companies to: a) deepen the insights into issues that impede FDI b) develop high impact actions; c) learn from these actions and adjust quickly; and d) build mutual respect and trust. Some examples of such Councils are given in Appendix I.

Indian federal and Gujarat state officials meet with foreign business people in many fora in India and abroad to market Gujarat and to provide occasions for sharing of views. Some of these meetings are organized jointly with Indian business associations also. While there is not a lack of effort to meet, as potential foreign investors admit, the processes are not perceived as effective. The meetings generally amount to speeches in which platitudes are expressed or, if genuine concerns are voiced, they are seen as unreasonable criticism. Besides, the format of the meetings neither permits deeper dialogue, nor the development of possible solutions. Therefore, these meetings, though well intentioned and often costly, are not considered useful by senior foreign participants. Hence the real decision-makers in the large foreign companies generally do not take them seriously.

The quality and style of the process of engagement must change to attract the people who matter and to improve the outcomes.

The goals of the process for engaging foreign investors must be:

1) Understand together what the needs of various stakeholders are and how insightful, high-impact changes could be made with little disturbance.

- 2) Develop a sense of deeper partnership and involvement in finding solutions.
- 3) Develop a panel of foreign participants who are willing to propagate the message that Gujarat welcomes foreign investment.

VII Proximity to Financial Hub:

Shanghai and Hong Kong served as the financial gateways for the coastal regions of China. The financial services infrastructure played an important role in handling capital flows towards the regions. Bombay and Ahmedabad, in close proximity to Gujarat, have the requisite financial infrastructure to serve foreign capital intended for the state. The state government should strive to establish appropriate relationships with financial service firms in these cities so as to facilitate the investment process.

VIII Follow-up of Global Investors' Summit:

It is critical that appropriate follow-up action is taken on the 76 MOUs that were entered into for investments worth Indian Rs.66,068 crores²⁰ (roughly \$140 billion). It is certainly very encouraging that the September 2003 Summit helped the state government showcase the potential of the state as an attractive investment destination and enter into agreements with potential investors. However, how many of these proposed investments actually turn into projects on the ground will be the real test.

²⁰ One crore = 10 million

Appendix I Timeline of China's Regional Preferential Policies

Year of approval	Number and type of opened zone	Location
1979	3 Special Economic Zones	Guangdong.
1980	1 Special Economic Zone	Fujian.
1984	14 Open Coastal Cities	Liaoning, Hebei, Tianjin, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong and Guangxi.
	10 Economic and Technological Development Zones	Liaoning, Hebei, Tianjin, Shandong, Jiangsu, Zhejiang and Guangdong.
1985	1 Economic and Technological Development Zone	Fujian.
	3 Coastal Open Economic Zones	Pearl river delta, Yangtze river delta and Fujian.
1986	2 Economic and Technological Development Zones	Shanghai.
1988	Open Coastal Belt	Liaoning, Shandong, Guangxi and Hebei.
	1 Special Economic Zone	Hainan.
	1 Economic and Technological Development Zone	Shanghai.
1990	Pudong New Area	Shanghai
1992	13 bonded areas in major coastal port cities	Tianjin, Guangdong, Liaoning, Shandong Jiangsu, Zhejiang, Fujian and Hainan.
	10 major cities along the Yangtze river	Jiangsu, Anhui, Jiangxi, Hunan, Hubei and Sichuan.
	13 Border Economic Cooperation Zones	Jilin, Heilongjiang, Inner Mongolia, Xinjiang, Yunnan and Guangxi.
	All capital cities of inland provinces and autonomous regions	
	5 Economic and Technological Development Zones	Fujian, Liaoning, Jiangsu, Shandong and Zhejiang.
1993	12 Economic and Technological Development Zones	Anhui, Guangdong, Heilongjiang, Hubei, Liaoning, Sichuan, Fujian, Jilin and Zhejiang.
1994	2 Economic and Technological Development Zones	Beijing and Xinjiang.

Appendix II – International Advisory Councils

1 *Hong Kong: Council of International Advisers*

- Goal: help the government make Hong Kong a premier financial center and the “premier international city in Asia” (compete with Singapore)
- Initiated in October 1998 by Chief Executive Tung
- 14 international businessmen
- First meeting January 20, 1999
- HK\$1.5mm spent
- More of a PR benefit
- Maintain confidence of foreign business investors
- Reinforced what government already said was necessary:
 - Reduce costs—business costs, wages, taxes, property
 - Clean up environment
 - Improve education standards, particularly English

Original Members:

Name	Title	Company
Baumann, Karl-Hermann	Chairman, Supervisory Board	Siemens AG
Boonstra, Cor	President	Royal Philips Electronics
Desmarais, Andre	President	Power Corporation of Canada
Galvin, Christopher	President	Motorola, Inc.
Greenberg, Maurice	Chairman	American International Group
Kopper, Hilmar	Chairman, Supervisory Board	Deutsche Bank
Monod, Jerome	Chairman, Supervisory Board	Suez Lyonnaise des Eaux
Murdoch, Rupert	Chairman	News Corporation
Purves, Sir William	former Chairman	HSBC Holdings
Takagaki, Tasuku	Chairman	Bank of Tokyo-Mitsubishi
Toyoda, Soichiro	Chairman	Toyota Motor Corporation
van den Bergh, Maarten	President	Royal Dutch Petroleum Co.
Volker, Paul	Former Chairman	US Federal Reserve Board
Welch, Jack	Former Chairman	General Electric

2 *Jakarta: Economic, Social and Security Council*

- Goals: help Abdurrahman Wahid speed up the country’s economic recovery and provide a second opinion for the Cabinet:
 “...[G]lobally, the International community...demands a council that gives a second opinion, so that in facing the IMF and the World Bank, we will have a sound board supported by highly competent, internationally recognized and well-experienced figures.”

— Kwik Kian Gie, Indonesian economist

- Initiated in Novemer 1999 by President Wahid
- 17-member council

Original Members:

Name	Title	Company
Kissinger, Henry	former Secretary of State	United States
Lee Kuan Yew	Senior Minister	Singapore
Volcker, Paul	former Chairman	US Federal Reserve Board

3 Shanghai: International Business Leaders Advisory Council

- Goal: help the mayor define Shanghai's economic problems and then find solutions
- Initiated in 1998 by Chinese Premier Zhu Rongji
- 27 foreign executives
- November 1, 1996 meeting: growing unemployment from restructuring and inefficient commercial-distribution network
- Prior meetings: contributions to Shanghai's reform and opening up into a major international financial and trade center

Singapore: Singapore-US Business Council (SUBC)

- Goal: Boost economic cooperation between the two countries by fostering:
 - US-Singapore trade and investment flows
 - Joint ventures between their private sectors in third-country markets
 - Business networking among business leaders
- Initiated in October 1995 by Prime Minister Goh Chok Tong
- Ten Americans, 10 Singaporeans, chaired by Deputy Prime Minister Tony Tan
- First meeting August 7-9, 1996—scheduled to meet every 18 months for two days in Singapore
- Mickey Kantor invited
- Economic Development Board (Singapore) serves as secretariat and coordinates meetings
- Similar councils with Germany, Britain, France, Australia, and Thailand
- China tie-in—second meeting in May 1998, China-Singapore Suzhou Industrial Park: “concrete symbol of three-way cooperation”

Original Members:

Name	Title	Company
Bryan, John H.	Chairman and CEO	Sara Lee Corporation
Coulter, David	Chairman and CEO	Bank of America
Junkins, Jerry R.	Chairman and CEO	Texas Instruments
Knight, Charles F.	Chairman and CEO	Emerson Electric
Loucks, Vernon Jr.	Chairman and CEO	Baxter International
Luciano, Robert P.	Chairman and CEO	Schering-Plough Corporation
Lucio, Noto	Chairman and CEO	Mobil Oil Corporation
Raymond, Lee R.	Chairman and CEO	Exxon Corporation
Shugart, Alan F.	Chairman and CEO	Seagate Technology International
Warner, Douglas A. III	Chairman and CEO	J.P. Morgan & Company

4 *South Africa: International Investment Council*

- Goal: "...ensure that South Africa is an attractive destination for foreign investment
- Initiated by President Thabo Mbeki, June 1999
- To address high interest rates, growth, high unemployment, and the country's competitiveness
- 13 international business leaders

Original Members:

Name	Title	Company
FitzGerald, Niall	Chairman and CEO	Unilever, PLC
Makihara, Minoru	Chairman	Mitsubishi Corporation
O'Reilly, Anthony J.F.	Irish media mogul	
Rhodes, William	Vice-Chairman	Citigroup, Inc.
Schremp, Juergen	Chairman and CEO	DaimlerChrysler AG
Soros, George	Financier	Soros Foundations

Table 1
FDI and other Foreign Investment in China by Provinces 1997-2002 USD million

Region and Sector	1997	1997	1997	1998	1998	1998
	FDI	Foreign Other Investment	FDI as Percent of National Total	FDI	Foreign Other Investment	FDI as Percent of National Total
National Total	45257.04	7130.3	100.00	45462.75	2094.74	100.00
Regional Total	44901.09	1473.3	99.21	45283.89	1907.6	99.61
Beijing	1592.86	0	3.52	2168	0	4.77
Tianjin	2511.35	0	5.55	2113.61	0	4.65
Hebei	1100.64	2.44	2.43	1428.68	0	3.14
Shanxi	265.92	3.01	0.59	244.51	0	0.54
Inner Mongolia	73.25	0	0.16	90.82	0	0.20
Liaoning	2204.7	161.65	4.87	2190.45	215.79	4.82
Jilin	402.27	0	0.89	409.17	0	0.90
Heilongjiang	734.85	0	1.62	526.39	0	1.16
Shanghai	4225.36	0	9.34	3601.5	66.24	7.92
Jiangsu	5435.11	0	12.01	6631.79	0	14.59
Zhejiang	1503.45	0	3.32	1318.02	22.1	2.90
Anhui	434.43	0	0.96	276.73	0	0.61
Fujian	4196.66	0.44	9.27	4212.11	0	9.26
Jiangxi	477.68	3.35	1.06	464.96	0	1.02
Shandong	2492.94	282.62	5.51	2202.74	528.26	4.85
Henan	692.04	0	1.53	0	616.54	1.36
Hubei	790.19	58.47	1.75	972.94	63.55	2.14
Hunan	917.02	0	2.03	818.16	0	1.80
Guangdong	11710.83	924.12	25.88	12019.94	1011.66	26.44
Guangxi	879.86	5.93	1.94	886.13	0	1.95
Hainan	705.54	0	1.56	717.15	0	1.58
Chongqing	386.75	31.27	0.85	431.07	0	0.95
Sichuan	248.46	0	0.55	372.48	0	0.82
Guizhou	49.77	0	0.11	45.35	0	0.10
Yunnan	165.66	0	0.37	145.68	0	0.32
Tibet	0	0	0.00	0	0	0.00
Shaanxi	628.16	0	1.39	300.1	0	0.66
Gansu	41.44	0	0.09	38.64	0	0.08
Qinghai	2.47	0	0.01	0	0	0.00
Ningxia	6.71	0	0.01	18.56	0	0.04
Xinjiang	24.72	0	0.05	21.67	0	0.05
Ministry Total	355.95	5657	0.79	178.86	187.14	0.39

Continued...

FDI and other Foreign Investment in China by Provinces 1997-2002 USD million

Region and Sector	1999	1999	1999	2000	2000	2000
	FDI	Foreign Other Investment	FDI as Percent of National Total	FDI	Foreign Other Investment	FDI as Percent of National Total
National Total	40318.71	2128.25	100.00	40714.81	8641.46	100.00
Regional Total	39934.82	0	99.05	40332.89	1710.97	99.06
Beijing	1975.25	0	4.90	1683.68	0	4.14
Tianjin	1763.99	0	4.38	1166.01	0	2.86
Hebei	1042.02	0	2.58	679.23	3.71	1.67
Shanxi	391.29	0	0.97	224.72	0	0.55
Inner Mongolia	64.56	0	0.16	105.68	0	0.26
Liaoning	1061.73	0	2.63	2044.46	0	5.02
Jilin	301.2	0	0.75	337.01	0	0.83
Heilongjiang	318.28	0	0.79	300.86	0	0.74
Shanghai	2836.65	0	7.04	3160.14	0	7.76
Jiangsu	6077.56	0	15.07	6425.5	0	15.78
Zhejiang	1232.62	0	3.06	1612.66	0	3.96
Anhui	261.31	0	0.65	318.47	0	0.78
Fujian	4024.03	0	9.98	3431.91	0	8.43
Jiangxi	320.8	0	0.80	227.24	0	0.56
Shandong	2258.78	206.69	5.60	2971.19	56.36	7.30
Henan	521.35	0	1.29	564.03	0	1.39
Hubei	914.88	74.26	2.27	943.68	92.44	2.32
Hunan	653.74	0	1.62	678.33	0	1.67
Guangdong	11657.5	1234.88	28.91	11280.91	1554.03	27.71
Guangxi	635.12	0	1.58	524.66	3	1.29
Hainan	484.49	0	1.20	430.8	0	1.06
Chongqing	238.93	2.42	0.59	244.36	1.43	0.60
Sichuan	341.01	0	0.85	436.94	0	1.07
Guizhou	40.9	0	0.10	25.01	0	0.06
Yunnan	153.85	0	0.38	128.12	0	0.31
Tibet	0	0	0.00	0	0	0.00
Shaanxi	241.97	0	0.60	288.42	0	0.71
Gansu	41.04	0	0.10	62.35	0	0.15
Qinghai	4.59	0	0.01	0	0	0.00
Ningxia	51.34	0	0.13	17.41	0	0.04
Xinjiang	24.04	0	0.06	19.11	0	0.05
Ministry Total	383.89	610	0.95	381.92	6930.49	0.94

Continued...

FDI and other Foreign Investment in China by Provinces 1997-2002 USD million

Region and Sector	2001	2001	2001	2002	2002	2002
	FDI	Foreign Other Investment	FDI as Percent of National Total	FDI	Foreign Other Investment	FDI as Percent of National Total
National Total	46877.59	2794.53	100.00	52742.86	2268.26	100.00
Regional Total	46367	1946.53	98.91	52471.26	2268.26	99.49
Beijing	1768.18	0	3.77	1724.64	0	3.27
Tianjin	2133.48	0	4.55	1581.95	0	3.00
Hebei	669.89	6.94	1.43	782.71	4.9	1.48
Shanxi	233.93	0	0.50	211.64	0	0.40
Inner Mongolia	107.03	0	0.23	177.01	0	0.34
Liaoning	2516.12	0	5.37	3411.68	0	6.47
Jilin	337.66	0	0.72	244.68	0	0.46
Heilongjiang	341.14	0	0.73	355.11	0	0.67
Shanghai	4291.59	0	9.15	4272.29	0	8.10
Jiangsu	6914.82	0	14.75	10189.6	0	19.32
Zhejiang	2211.62	0	4.72	3076.1	0	5.83
Anhui	336.72	0	0.72	383.75	0	0.73
Fujian	3918.04	0	8.36	3838.37	0	7.28
Jiangxi	395.75	0	0.84	1081.97	0	2.05
Shandong	3520.93	0	7.51	4734.04	66.06	8.98
Henan	457.29	0	0.98	404.63	0	0.77
Hubei	1188.6	235.65	2.54	1426.65	218.7	2.70
Hunan	810.11	0	1.73	900.22	0	1.71
Guangdong	11932.03	1702.63	25.45	11334	1977.32	21.49
Guangxi	384.16	0	0.82	417.26	0	0.79
Hainan	466.91	0	1.00	511.96	0	0.97
Chongqing	256.49	1.31	0.55	195.76	1.28	0.37
Sichuan	581.88	0	1.24	555.83	0	1.05
Guizhou	28.29	0	0.06	38.21	0	0.07
Yunnan	64.57	0	0.14	111.69	0	0.21
Tibet	0	0	0.00	0	0	0.00
Shaanxi	351.74	0	0.75	360.05	0	0.68
Gansu	74.39	0	0.16	61.21	0	0.12
Qinghai	36.49	0	0.08	47.26	0	0.09
Ningxia	16.8	0	0.04	22	0	0.04
Xinjiang	20.35	0	0.04	18.99	0	0.04
Ministry Total	510.59	848	1.09	271.6	0	0.51

Notes: Foreign Direct Investment refers to the investments inside China by foreign enterprises and economic organizations or individuals (including overseas Chinese, compatriots from Hong Kong, Macao and Taiwan, and Chinese enterprises registered abroad), following the relevant policies and laws of China, for the establishment of ventures exclusively with foreign own investment, Sino-foreign joint ventures and cooperative enterprises or for co-operative exploration of resources with enterprises or economic organizations in China. It includes the re-investment of the foreign entrepreneurs with the profits gained from the investment and the funds that enterprises borrow from abroad in the total investment of projects which are approved by the relevant department of the government.

Other Investment by Foreign Entrepreneurs refers to all forms of utilization of foreign capitals other than foreign borrowings and foreign direct investment. It includes the total value of stock shares in foreign currencies issued by enterprises at domestic or foreign stock exchanges (now mainly consisting of H shares issued at Hong Kong Security Market and B shares issued at domestic security markets), rent payable for the imported equipment through international leasing arrangement, cost of imported equipment, technology and materials provided by foreign counterparts in compensation trade and processing and assembly trade.

Source: Cumulated from China Statistical Yearbooks (1998-2003).

Table 2
Existing Definitional Difference of FDI between China and India

IMF	China	India
Equity capital	Equity capital	Equity capital reported on the basis of issue/ transfer of equity or preference shares to foreign direct investors
Reinvested earnings of foreign companies	Reinvested earnings of foreign companies	NA
Inter-company debt transactions	Inter-company debt transactions	NA
Short-term and long-term loans	Short-term and long-term loans	NA
Financial leasing	Financial leasing	NA
Trade credits	Trade credits	NA
Grants	Grants	NA
Bonds	Bonds	NA
Non-cash acquisition of equity (tangible and intangible components such as technology fee, brand name, etc.)	Non-cash acquisition of equity (tangible and intangible components such as technology fee, brand name, etc.)	NA
Investment made by foreign venture capital investors	Investment made by foreign venture capital investors	NA
Earnings data of indirectly-held FDI enterprises	Earnings data of indirectly-held FDI enterprises	NA
Control premium	Control premium	NA
Non-competition fee	Non-competition fee	NA
	Imported Equipment	NA
	Round-tripping of capital	NA

Source: Bajpai and Dasgupta (2004)

Table 3: FDI and GDP 1998-2002, USD Billion

	1998	1998	1998	1999	1999	1999
Region	GDP	FDI	FDI as Percent of GDP	GDP	FDI	FDI as Percent of GDP
Beijing	2.43	2.17	89.24	2.63	1.98	75.20
Tianjin	1.98	2.11	106.93	1.75	1.76	100.71
Hebei	5.14	1.43	27.79	5.52	1.04	18.88
Shanxi	1.93	0.24	12.64	1.82	0.39	21.50
Inner Mongolia	1.44	0.09	6.31	1.53	0.06	4.21
Liaoning	4.69	2.19	46.72	5.04	1.06	21.07
Jilin	1.88	0.41	21.74	2.02	0.30	14.93
Heilongjiang	3.42	0.53	15.38	3.50	0.32	9.09
Shanghai	4.45	3.60	80.84	4.87	2.84	58.20
Jiangsu	8.70	6.63	76.26	9.30	6.08	65.36
Zhejiang	6.02	1.32	21.88	6.48	1.23	19.02
Anhui	3.39	0.28	8.17	3.51	0.26	7.44
Fujian	4.02	4.21	104.72	4.29	4.02	93.83
Jiangxi	2.24	0.46	20.79	2.37	0.32	13.53
Shandong	8.65	2.20	25.46	9.26	2.26	24.40
Henan	5.26	0.00	0.00	5.53	0.52	9.43
Hubei	4.47	0.97	21.75	4.66	0.91	19.63
Hunan	3.88	0.82	21.09	4.02	0.65	16.27
Guangdong	9.57	12.02	125.66	10.22	11.66	114.01
Guangxi	2.30	0.89	38.55	2.36	0.64	26.92
Hainan	0.53	0.72	135.27	0.57	0.48	85.11
Sichuan	1.73	0.43	24.97	1.79	0.24	13.37
Chongqing	4.32	0.37	8.61	4.48	0.34	7.61
Guizhou	1.02	0.05	4.46	1.10	0.04	3.71
Yunnan	2.17	0.15	6.72	2.24	0.15	6.86
Tibet	0.11	0.00	0.00	0.13	0.00	0.00
Shaanxi	1.67	0.30	17.98	1.80	0.24	13.47
Gansu	1.05	0.04	3.68	1.13	0.04	3.65
Qinghai	0.27	0.00	0.00	0.29	0.00	1.59
Ningxia	0.27	0.02	6.76	0.29	0.05	17.60
Xinjiang	1.35	0.02	1.61	1.41	0.02	1.70
National	100.35	45.46	45.30	105.90	40.32	38.07

Continued...

Table 3: FDI and GDP 1998-2002, USD Billion

Region	2000 GDP	2000 FDI	2000 FDI as Percent of GDP	2001 GDP	2001 FDI	2001 FDI as Percent of GDP
Beijing	2.99	1.68	56.23	3.44	1.77	51.43
Tianjin	1.98	1.17	58.88	2.22	2.13	95.97
Hebei	6.15	0.68	11.05	6.74	0.67	9.94
Shanxi	1.99	0.22	11.32	2.15	0.23	10.88
Inner Mongolia	1.69	0.11	6.24	1.87	0.11	5.73
Liaoning	5.64	2.04	36.25	6.08	2.52	41.38
Jilin	2.20	0.34	15.32	2.46	0.34	13.75
Heilongjiang	3.93	0.30	7.66	4.30	0.34	7.93
Shanghai	5.50	3.16	57.48	5.98	4.29	71.75
Jiangsu	10.37	6.43	61.98	11.49	6.91	60.17
Zhejiang	7.29	1.61	22.12	8.15	2.21	27.13
Anhui	3.67	0.32	8.68	3.97	0.34	8.47
Fujian	4.74	3.43	72.48	5.14	3.92	76.24
Jiangxi	2.42	0.23	9.39	2.63	0.40	15.06
Shandong	10.32	2.97	28.79	11.40	3.52	30.88
Henan	6.21	0.56	9.09	6.81	0.46	6.71
Hubei	5.17	0.94	18.27	5.63	1.19	21.10
Hunan	4.46	0.68	15.21	4.81	0.81	16.83
Guangdong	11.67	11.28	96.65	12.86	11.93	92.75
Guangxi	2.48	0.52	21.19	2.70	0.38	14.25
Hainan	0.63	0.43	68.78	0.66	0.47	70.79
Sichuan	1.92	0.24	12.73	2.11	0.26	12.13
Chongqing	4.84	0.44	9.02	5.34	0.58	10.89
Guizhou	1.20	0.03	2.08	1.31	0.03	2.16
Yunnan	2.36	0.13	5.42	2.51	0.06	2.58
Tibet	0.14	0.00	0.00	0.17	0.00	0.00
Shaanxi	2.01	0.29	14.38	2.23	0.35	15.79
Gansu	1.19	0.06	5.25	1.30	0.07	5.74
Qinghai	0.32	0.00	0.00	0.36	0.04	10.04
Ningxia	0.32	0.02	5.43	0.36	0.02	4.66
Xinjiang	1.65	0.02	1.16	1.79	0.02	1.13
National	117.43	40.71	34.67	128.99	46.88	36.34

Continued...

Table 3: FDI and GDP 1998-2002, USD Billion

	2002	2002	2002
Region	GDP	FDI	FDI as Percent of GDP
Beijing	3.89	1.72	44.37
Tianjin	2.48	1.58	63.84
Hebei	7.40	0.78	10.58
Shanxi	2.44	0.21	8.68
Inner Mongolia	2.10	0.18	8.45
Liaoning	6.59	3.41	51.74
Jilin	2.71	0.24	9.02
Heilongjiang	4.69	0.36	7.57
Shanghai	6.53	4.27	65.38
Jiangsu	12.84	10.19	79.33
Zhejiang	9.42	3.08	32.66
Anhui	4.31	0.38	8.90
Fujian	5.66	3.84	67.86
Jiangxi	2.96	1.08	36.55
Shandong	12.75	4.73	37.13
Henan	7.45	0.40	5.43
Hubei	6.01	1.43	23.73
Hunan	5.24	0.90	17.16
Guangdong	14.22	11.33	79.71
Guangxi	2.97	0.42	14.07
Hainan	0.73	0.51	70.14
Sichuan	2.38	0.20	8.22
Chongqing	5.89	0.56	9.44
Guizhou	1.43	0.04	2.67
Yunnan	2.70	0.11	4.14
Tibet	0.20	0.00	0.00
Shaanxi	2.46	0.36	14.64
Gansu	140.32	0.06	0.04
Qinghai	0.41	0.05	11.47
Ningxia	0.40	0.02	5.53
Xinjiang	1.93	0.02	0.98
National	281.51	52.74	18.74

Source: Cumulated from China Statistical Yearbooks (1999-2003); Hebei Statistical Yearbook, 2003; Jiangsu Statistical Yearbook, 2003; Zhejiang Statistical Yearbook, 2003; Fujian Statistical Yearbook, 2003; Shandong Statistical Yearbook, 2003; Guangdong Statistical Yearbook, 2003; Hainan Statistical Yearbook, 2003.

Table 4
Foreign Funded Enterprises and Urban Employment Generation by Province
(10,000 workers)

Year	1994	1994	1994	1995	1995	1995
Province	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs
Beijing	510.1	15.5	3.04	506	18.1	3.58
Tianjin	318.5	7.6	2.39	319.8	12.9	4.03
Hebei	760.8	5.4	0.71	793.8	7.2	0.91
Shanxi	509.7	1.9	0.37	513.4	1.9	0.37
Inner Mongolia	432.5	1.7	0.39	435	2.2	0.51
Liaoning	1152	12.9	1.12	1167.9	17.8	1.52
Jilin	606.7	5.3	0.87	623.4	6.2	0.99
Heilongjiang	949	5	0.53	968.9	5.5	0.57
Shanghai	530.3	17.2	3.24	537.6	22.2	4.13
Jiangsu	973.8	16.1	1.65	992.4	18	1.81
Zhejiang	592.6	12	2.02	603.7	12.7	2.10
Anhui	576.7	2.1	0.36	614.6	3.8	0.62
Fujian	417.4	23.1	5.53	418.5	16.4	3.92
Jiangxi	485.2	1.3	0.27	503.1	1.9	0.38
Shandong	984.6	12.5	1.27	1052.9	24.7	2.35
Henan	891.6	6.4	0.72	923.7	7.6	0.82
Hubei	846.6	3.3	0.39	896.6	4.2	0.47
Hunan	716	1.9	0.27	750	3.2	0.43
Guangdong	1076	29.1	2.70	1137.6	35.8	3.15
Guangxi	401.1	4.1	1.02	417.9	5.7	1.36
Hainan	134.1	1.7	1.27	132.4	1.8	1.36
Chongqing						
Sichuan	1097.6	3.7	0.34	1157.6	5.1	0.44
Guizhou	270.8	1	0.37	269.4	1.5	0.56
Yunnan	345.9	1.1	0.32	351	1	0.28
Tibet						
Shaanxi	436.7	1.2	0.27	449.5	1.2	0.27
Gansu	282.9	0.6	0.21	283.4	1.1	0.39
Qinghai	73	0.1	0.14	73.3	0.1	0.14
Ningxia	78.5	0.6	0.76	81.1	0.9	1.11
Xinjiang	344.8	0.7	0.20	349.7	0.5	0.14

Continued...

Foreign Funded Enterprises and Urban Employment Generation by Province

Year	1996	1996	1996	1997	1997	1997
Province	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs
Beijing	496.7	20.7	4.17	499.6	21.2	4.24
Tianjin	317	15	4.73	318.8	18.2	5.71
Hebei	808	8	0.99	801.7	8.1	1.01
Shanxi	524.8	1.9	0.36	519.1	1.8	0.35
Inner Mongolia	438.5	2.7	0.62	445	2.8	0.63
Liaoning	1159.5	17.2	1.48	1141.8	19.1	1.67
Jilin	628.4	7.2	1.15	621.2	7.4	1.19
Heilongjiang	968	4.6	0.48	970.6	4.7	0.48
Shanghai	537.3	27.1	5.04	527.7	29.8	5.65
Jiangsu	989.2	22.1	2.23	995.1	23.8	2.39
Zhejiang	605.9	14.4	2.38	600.7	14.8	2.46
Anhui	627.4	3.5	0.56	646.9	4	0.62
Fujian	426.6	28.4	6.66	432.1	32.2	7.45
Jiangxi	521.1	1.6	0.31	527.3	2.5	0.47
Shandong	1084.7	25.9	2.39	1118.3	28.9	2.58
Henan	981.4	7.3	0.74	1001.8	7.2	0.72
Hubei	899.5	4.1	0.46	925.2	4.7	0.51
Hunan	781.7	3.3	0.42	815.9	3.6	0.44
Guangdong	1141.8	40.3	3.53	1156.5	42.6	3.68
Guangxi	419.6	5.4	1.29	420.1	6.6	1.57
Hainan	128.9	1.9	1.47	121.1	2.2	1.82
Chongqing				369	2.8	0.76
Sichuan	1142.5	6	0.53	794	3.6	0.45
Guizhou	277.8	1.2	0.43	281.2	1.4	0.50
Yunnan	357.9	1.2	0.34	363.6	1.5	0.41
Tibet				22.4	0.1	0.45
Shaanxi	467.3	1.2	0.26	469.8	1.3	0.28
Gansu	288.2	1.2	0.42	285.5	1.1	0.39
Qinghai	73.6	0.2	0.27	74	0.1	0.14
Ningxia	81.4	1	1.23	83.7	1.1	1.31
Xinjiang	352.8	0.6	0.17	355.8	0.6	0.17

Continued...

Foreign Funded Enterprises and Urban Employment Generation by Province

Year	1998	1998	1998	1999	1999	1999
Province	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs
Beijing	463.3	18.5	3.99	456.6	20.6	4.51
Tianjin	253.9	6.3	2.48	251.8	22.2	8.82
Hebei	746.9	11.7	1.57	746.6	6.7	0.90
Shanxi	459.3	8.2	1.79	455.7	1	0.22
Inner Mongolia	399.8	6.9	1.73	396	2.1	0.53
Liaoning	884.9	17.4	1.97	857.5	18.9	2.20
Jilin	511	16	3.13	475.4	5.7	1.20
Heilongjiang	818.6	18.4	2.25	784.9	3.6	0.46
Shanghai	446.8	24.5	5.48	419.7	36.8	8.77
Jiangsu	899.1	21.4	2.38	886.3	28.6	3.23
Zhejiang	554.5	22.2	4.00	570.7	12.3	2.16
Anhui	593.5	17.7	2.98	588.2	4	0.68
Fujian	421.6	7.2	1.71	417.1	36.5	8.75
Jiangxi	429.9	2.1	0.49	415.7	2	0.48
Shandong	1061.4	34.5	3.25	1079	33.9	3.14
Henan	932.4	29.8	3.20	893.9	5.8	0.65
Hubei	845.8	27.4	3.24	802.5	3.5	0.44
Hunan	711.6	9.8	1.38	685.9	2.8	0.41
Guangdong	1104.4	30.7	2.78	1095.7	40.5	3.70
Guangxi	402.8	7.5	1.86	401.2	4.1	1.02
Hainan	110.5	2.6	2.35	110.9	1.6	1.44
Chongqing	328.1	9	2.74	296.5	2.2	0.74
Sichuan	705.2	30.8	4.37	684.1	3.8	0.56
Guizhou	263.7	3.7	1.40	247.7	1.3	0.52
Yunnan	361.7	7.9	2.18	362.2	1.2	0.33
Tibet	20.9	0.1	0.48	21.3		0.00
Shaanxi	446.3	9.3	2.08	455	1.6	0.35
Gansu	268.9	2.5	0.93	266.4	0.9	0.34
Qinghai	68.1	0.2	0.29	67.9		0.00
Ningxia	78.3	2	2.55	78.8	1	1.27
Xinjiang	334.5	4	1.20	326.9	0.5	0.15

Continued...

Foreign Funded Enterprises and Urban Employment Generation by Province

Year	2000	2000	2000	2001	2001	2001
Province	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs
Beijing	456.3	23.8	5.22	464.2	25.7	5.54
Tianjin	238.6	24.6	10.31	241.3	27	11.19
Hebei	734.1	6.9	0.94	661.7	7.5	1.13
Shanxi	430.5	0.9	0.21	424.3	1.2	0.28
Inner Mongolia	385.1	2.2	0.57	380.8	1.8	0.47
Liaoning	846.6	20.9	2.47	855.9	21.6	2.52
Jilin	437.9	5.9	1.35	417.2	6.1	1.46
Heilongjiang	721.8	3.4	0.47	712.2	3.6	0.51
Shanghai	417.5	40.3	9.65	437.4	40.2	9.19
Jiangsu	870.8	31.4	3.61	881	34.3	3.89
Zhejiang	592.1	13.9	2.35	601.9	14.5	2.41
Anhui	575.1	3.6	0.63	568.2	4.1	0.72
Fujian	416.1	40.3	9.69	422.6	35.7	8.45
Jiangxi	388.1	1.4	0.36	380.8	1.4	0.37
Shandong	1022.2	38.7	3.79	1018	42.3	4.16
Henan	859.3	5.5	0.64	828.8	5.4	0.65
Hubei	726.1	4.7	0.65	670.8	5.8	0.86
Hunan	606	2.9	0.48	561.3	2.3	0.41
Guangdong	1075.9	43	4.00	1104.1	46.4	4.20
Guangxi	385	3.8	0.99	383.9	3.8	0.99
Hainan	109.7	1.7	1.55	110.2	1.7	1.54
Chongqing	283.9	2.6	0.92	136.6	2.7	1.98
Sichuan	646.8	3.3	0.51	361	3.1	0.86
Guizhou	243.3	1.2	0.49	158	1	0.63
Yunnan	346.5	1.3	0.38	212	1.3	0.61
Tibet	22.6		0.00	15.8		0.00
Shaanxi	469.6	1.6	0.34	265.1	2.3	0.87
Gansu	247.6	0.9	0.36	163.1	1.4	0.86
Qinghai	66.6		0.00	37.2		0.00
Ningxia	76.5	1	1.31	48.8	0.8	1.64
Xinjiang	318.4	0.5	0.16	201.1	0.6	0.30

Continued...

Foreign Funded Enterprises and Urban Employment Generation by Province

Year	2002	2002	2002
Province	Total Urban Workers	Workers in Foreign Funded Economic Units	Percent of Workers Employed by FFEs
Beijing	633.3	29.2	4.61
Tianjin	234.4	29.7	12.67
Hebei	653.9	9	1.38
Shanxi	417.1	1.3	0.31
Inner Mongolia	359.6	2	0.56
Liaoning	848.5	24.8	2.92
Jilin	439.4	6.4	1.46
Heilongjiang	697.2	3.3	0.47
Shanghai	489.3	51	10.42
Jiangsu	856.3	37.7	4.40
Zhejiang	649.2	16	2.46
Anhui	562.4	4.3	0.76
Fujian	436	37	8.49
Jiangxi	377.7	1.9	0.50
Shandong	1056.7	50.1	4.74
Henan	831.1	5.2	0.63
Hubei	669.9	5.6	0.84
Hunan	570.5	2.8	0.49
Guangdong	1186.4	54.1	4.56
Guangxi	381.6	3.8	1.00
Hainan	108.2	1.3	1.20
Chongqing	298	2.9	0.97
Sichuan	646.5	4.6	0.71
Guizhou	239.6	1	0.42
Yunnan	350.5	1.6	0.46
Tibet	25.3		0.00
Shaanxi	510.5	2	0.39
Gansu	246.7	1.4	0.57
Qinghai	70		0.00
Ningxia	78.3	0.8	1.02
Xinjiang	328	0.7	0.21

Source: Cumulated from China Statistical Yearbooks (1995-2002)

Table 5 Contribution to Local Exports of FIEs by Provinces (2000)

Provinces	Total Export (US \$100 mil.)	Export by FIEs (US \$100 mil.)	Contribution to local exports of FIEs (%)
National Total	2492.1	1194.41	48
Beijing	76.6	28.71	37
Tianjin	76.8	63.79	83
Hebei	32.8	10.12	31
Sanxi	20.9	1.52	7
Inner Mongolia	11.2	1.38	12
Liaoning	105.9	62.45	59
Jilin	14.9	3.92	26
Heilongjiang	24.2	2.67	11
Shanghai	246.4	142.61	58
Jiangsu	263.8	144.53	55
Zhejiang	204.8	53.49	26
Anhui	21.2	4	19
Fujian	136.3	75.97	56
Jiangxi	11.9	1.63	14
Shandong	160.9	79.82	50
Henan	15.8	3.09	20
Hubei	19	4.3	23
Hunan	16.3	1.82	11
Guangdong	934.3	495.1	53
Guangxi	16.4	3.41	21
Hainan	6.1	3.05	50
Sichuan	10.6	0.9	8
Chongqing	14.3	3.42	24
Guizhou	4.8	0.4	8
Yunnan	10.9	0.81	7
Tibet	1.1	0.04	4
Shaanxi	13.3	1.16	9
Gansu	4.2	0.38	9
Qinghai	1.4	0.02	1
Ningxia	3.5	0.43	12
Xinjiang	11.5	0.91	8

Note: FIEs refers to Foreign Invested Enterprises.

Source: Cumulated by OECD, 2002, by the data from MOFTEC: "Statistics on FDI in China 2001", and "China Statistical Abstract, 2001".

Table 6
Share of Value Added of Industry of FIEs in Provinces (2000) (100 million USD)

Provinces	Total Value Added of Industries	Value Added of Industries by FIEs	Share of Value Added of FIEs in the Total (%)
National Total	21564.74	4850.92	22
Beijing	584.48	218.01	37
Tianjin	490.09	178.78	36
Hebei	976.62	89.46	9
Sanxi	400.65	14.01	3
Inner Mongolia	235.73	14.49	6
Liaoning	935.84	153.11	16
Jilin	412.22	72.72	18
Heilongjiang	933.8	35.08	4
Shanghai	1541.71	727.25	47
Jiangsu	2234.58	544.12	24
Zhejiang	1267.75	217.39	17
Anhui	494.51	40.27	8
Fujian	665.02	369.85	57
Jiangxi	248.97	19.05	8
Shandong	2098.8	262.28	12
Henan	993.62	75.15	8
Hubei	946.42	101.96	11
Hunan	461.82	26.34	6
Guangdong	2788.16	1504.7	54
Guangxi	281.8	29.01	10
Hainan	54.63	11.07	20
Sichuan	239.47	30.71	13
Chongqing	634.31	40.17	6
Guizhou	196.04	4.05	2
Yunnan	491.12	18.69	4
Tibet	8.42	0.02	0.2
Shaanxi	345.95	35.79	10
Gansu	225.57	6.14	3
Qinghai	58.32	0.92	2
Ningxia	61.6	5.07	8
Xinjiang	256.72	5.28	2

Note: FIEs refers to Foreign Invested Enterprises.

Source: Source: Cumulated by OECD, 2002, by the data from MOFTEC: "Statistics on FDI in China 2001", and "China Statistical Abstract, 2001".

Table 7
Provincial Exports and Share of Foreign Funded Enterprises (1995, 1999-2002)
10,000 USD

	1995	1995	1995	1999	1999	1999	2000	2000	2000
Province	Total Exports	FFE Exports	FFE Exports as % of Total Province Exports	Total Exports	FFE Exports	FFE Exports as % of Total Province Exports	Total Exports	FFE Exports	FFE Exports as % of Total Province Exports
Hebei	286635	32607	11.38	311957	80044	25.66	370685	101240	27.31
Jiangsu	1006300	293600	29.18	1858200	985907	53.06	2638100	1445340	54.79
Zhejiang	769782	110982	14.42	1287125	332775	25.85	1944279	534851	27.51
Fujian	790806	354323	44.81	1035193	588818	56.88	1290828	759713	58.85
Shandong	816101	253751	31.09	1157909	585026	50.52	1552905	792766	51.05
Guangdong	5659200	2576243	45.52	7770500	3939790	50.70	9191900	4951011	53.86
Hainan	83000	5777	6.96	74860	28669	38.30	80289	30464	37.94

	2001	2001	2001	2002	2002	2002
Province	Total Exports	FFE Exports	FFE Exports as % of Total Province Exports	Total Exports	FFE Exports	FFE Exports as % of Total Province Exports
Hebei	395613	114228	28.87	459402	143722	31.28
Jiangsu	2939300	1664217	56.62	3902900	2424878	62.13
Zhejiang	2297747	709930	30.90	2941820	920127	31.28
Fujian	1392232	828809	59.53	1737086	1046590	60.25
Shandong	1812899	923578	50.94	2115110	1098793	51.95
Guangdong	9542100	5437384	56.98	11845800	6962505	58.78
Hainan	80094	30039	37.50	81930	35466	43.29

Source: Cumulated from China Statistical Yearbook (various years); Hebei Statistical Yearbook, 2003; Jiangsu Statistical Yearbook, 2003; Zhejiang Statistical Yearbook, 2003; Fujian Statistical Yearbook, 2003; Shandong Statistical Yearbook, 2003; Guangdong Statistical Yearbook, 2003; Hainan Statistical Yearbook, 2003.

Table 8
Average Wages of Urban Workers by Ownership (2002), Yuan

	Total Average Wage	Other Ownership Units	State-owned Units	Collective-owned Units
Zhejiang	18227	14650	22195	13281
Fujian	13306	11987	15026	10119
Guangdong	16769	17321	18366	8403

Notes: **Other Ownership Units** refer to units registered with other types of ownership, including cooperative units, joint ownership units, limited companies, share holding corporations, units invested by entrepreneurs from Hong Kong, Macao, and Taiwan, and foreign-invested units.

State-owned Units refer to economic units whose assets are owned by the state. Included are non-corporation units registered according to Regulation of the People's Republic of China on the Registration of Enterprises and Corporations, state organs, institutions and social organizations at the central and local levels.

Collective Units refer to economic units registered according to Regulation of the People's Republic of China on the Registration of Enterprises and Corporations where the means of production are collectively owned.

Source: Statistical Yearbook of Zhejiang, 2003; Statistical Yearbook of Fujian, 2003; Statistical Yearbook of Guangdong, 2003.

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