

FOREIGN INVESTMENTS IN THE CHINESE ECONOMY: FEATURES AND DYNAMICS

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Abstract. *The article analyzes the dynamics of foreign investment in the Chinese economy, explores economic indicators of the sectors of the economy with the largest amount of foreign capital.*

Keywords: foreign investment, Chinese economy.

One of the most important elements of China's open foreign policy is foreign investment (FI). Attracting FI is one of the most common forms of international movement of capital factors, which contributes to China's participation in the processes of globalization of the world economy. China has maintained a leading position in attracting FI among developing countries for many years in a row, ranking second after the United States.

An UNCTAD business survey conducted as part of the preparation of the World Investment Report (2020) showed that China is the most attractive country for investment [1]. An important feature of the process of attracting FI in China is that almost a third of foreign investors in China are Chinese living in the countries of West and Southeast Asia. According to National Bureau of Statistics of China, the largest investors in the Chinese economy are: Hong Kong, Republic of Korea, countries ASEAN (Vietnam, Indonesia, Cambodia, Laos, Malaysia, Singapore, Thailand). The top ten foreign investors also include Taiwan and Macau [2].

Another third of foreign investors are Chinese companies. They create joint production abroad and return to China in order to receive tax benefits, which are considered by many experts as a long-term tax amnesty for the return of capital to the country. During the years of operation of the preferential tax system, foreign direct investment has increased, and tax revenues to the budget have increased.

Another third of investors are large multinational corporations that take advantage of China's business climate. In this regard, it can be said that the inflow of foreign direct investment in China is due to the favorable business environment within the country, which attracts primarily domestic investors, and also provides an opportunity for foreign investors to take advantage of China's economic growth.

China's ongoing reforms and policy of opening up to the outside world are helping to expand the use of foreign investment, which has become the driving force behind China's economic development in recent years, playing an important role in industrial development, modernization, raising taxes, and promoting employment (Figure 1).

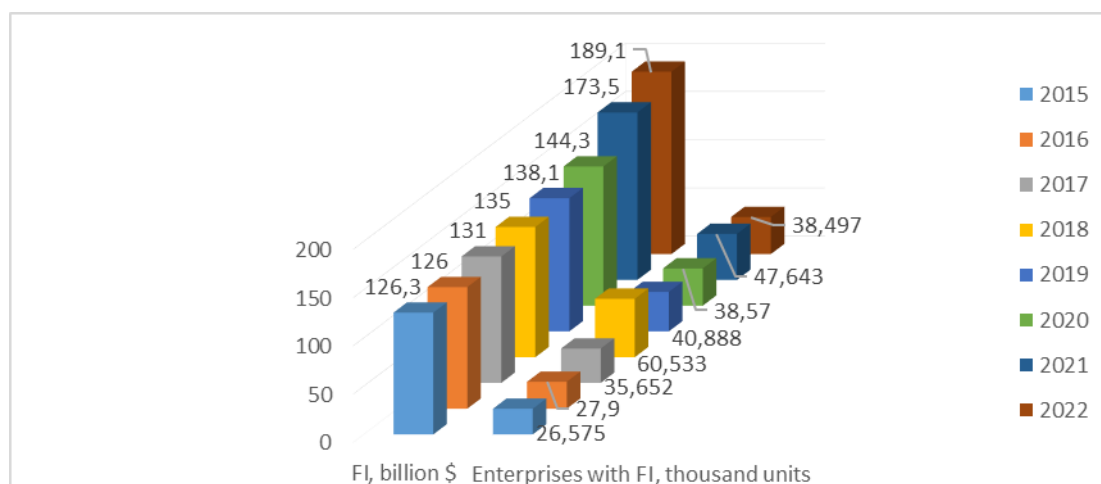


Figure 1 – The growth rate of foreign investment in the Chinese economy 2015–2022
Source: developed by the author based on [3].

Specifically, the year 2019 witnessed the establishment of 40,888 enterprises (excluding banking, securities and insurance) with foreign direct investment, down by 32.5 % over that of the 2018 year, and the foreign direct investment actually utilized totaled 138.1 billion US dollars, up by 2.4 %. There were 5,591 newly established enterprises receiving direct investment from countries along the Belt and Road, up by 24.8 %; and foreign capital directly invested in China reached 8.4 billion US dollars, up by 30.6 %. In 2019, the foreign investment actually utilized by high technology industry reached 39.1 billion US dollars, up by 21.7 %.

The year 2020 witnessed the establishment of 38,570 enterprises with foreign direct investment, down by 5.7 % over that of the 2019 year, and the foreign direct investment actually utilized totaled 144.4 billion US dollars, up by 4.5 %. Specifically, there were 4,294 newly established enterprises receiving direct investment from countries along the Belt and Road, down by 23.2 %; and foreign capital directly invested in China reached 8.3 billion US dollars, down by 1.8 %. In 2020, the foreign investment actually utilized by high technology industry reached 42.8 billion US dollars, up by 9.5 %.

The year 2021 witnessed the establishment of 47,643 enterprises with foreign direct investment, up by 23.5 % over that of the previous year, and the foreign direct investment actually utilized totaled 173.5 billion US dollars, up by 20.2 %. Specifically, there were 5,336 newly established enterprises receiving direct investment from countries along the Belt and Road (including the investment in China via some free ports), up by 24.3%; and foreign capital directly invested in China reached 11.2 billion US dollars, up by 36.0 %.

The year 2022 witnessed the establishment of 38,497 enterprises with foreign direct investment, down by 19.2 % over that of the previous year, and the foreign direct investment actually utilized totaled 189.1 billion US dollars, up by 8.0 %. Specifically, there were 4,519 newly established enterprises receiving direct investment from countries along the Belt and Road, down by 15.3 %; and foreign capital directly invested in China reached 13.7 billion US dollars, up by 18.6 %.

Despite the effects of the COVID-19 pandemic around the world, foreign investment in China's economy has maintained a steady growth in the face of fluctuations in global transnational investment, which has played an important supporting role in building a new development paradigm (Figure 2).

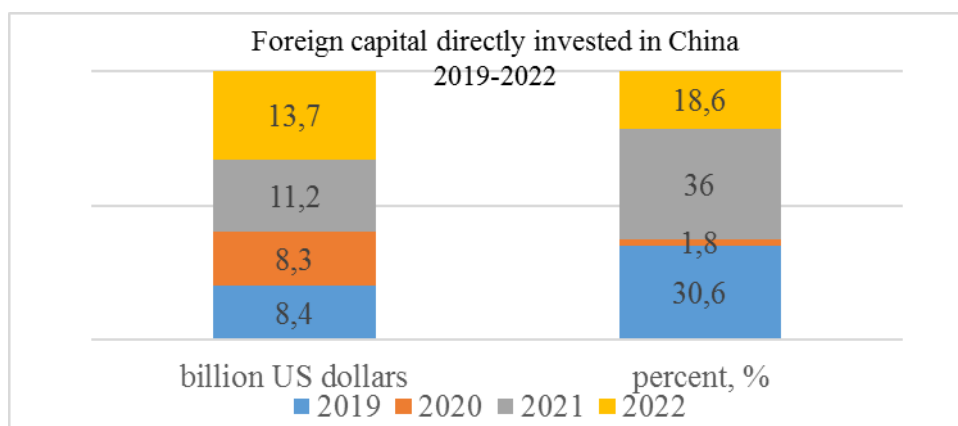


Figure 2 – Foreign capital directly invested in China 2019–2022

Source: developed by the author based on [4].

At the same time, China is showing some new characteristics in attracting foreign investment. First, the structure of foreign capital used has changed. For example, capital used by high-tech industries increased by 22.1 % to 28.8%, making such industries a new growth point for attracting foreign investment. Secondly, the supporting role of large projects is significant, and the number of large projects with attracted foreign capital over \$50 million and \$100 million increased by 26.1 % and 25.5 %, respectively. Thirdly, the impact of open platforms on attracting foreign investment is noticeable. The foreign capital actually used by the 21 pilot free trade zones reached US\$32.29 billion, accounting for 18.6 % of the total foreign capital absorbed by the entire country. The foreign capital actually used by the 230 national economic and technological development zones increased by 25.7 % year on year, 5.5 percentage points higher than the national average, which made a positive contribution to the stabilization of foreign investment.

Foreign direct investment (FDI) in mainland China rose 10 % year-on-year to \$19.02 billion in

January 2023, according to the Ministry of Commerce of the People's Republic of China. In high-tech industries, a rapid growth of FDI by 62.8 % was observed in January. In particular, foreign investment in high-tech production increased by 74.5%, and in high-tech services – by 59.6 % [5].

Analysis of the dynamics of foreign investment shows a gradual decline in investor interest in the mining and manufacturing industries, while growth in trade services, construction, agriculture, wholesale and retail trade, pharmaceuticals, research and education. For example, the maximum volume of foreign investments mastered by industries in 2021 falls on the manufacturing industry, commercial services, real estate, research and technical services, information transfer services, software and information technology (Figure 3).

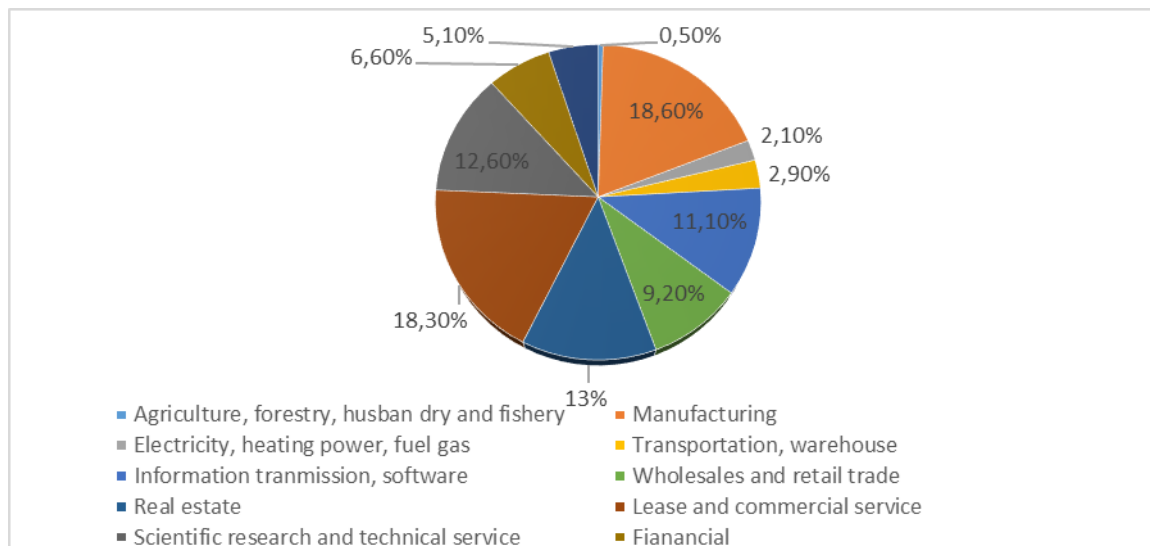


Figure 3 – Proportion of Foreign Investment Absorbed by Industries in 2021

Source: developed by the author based on [4, 5].

The study of the dynamics of foreign investment in the Chinese economy allows us to conclude that China has developed a fairly successful investment policy, the positive experience of which can be used in the Republic of Belarus.

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