
An Analysis of Regional Disparities in FDI in China

(Summary)

Xiao Yu, Jin Li, Kazumi Kawamura
 Researchers, Research Division, ERINA

1. Introduction

Foreign direct investment (FDI) has played a significant role in Chinese economic growth. It reached \$49.4 billion in 2000, or 350.3 billion RMB, accounting for 12.5% of total fixed asset investment (3261.9 billion RMB). Attention should be paid to two aspects of foreign capital growth in China: firstly, the disparity of FDI distribution among the eastern, central and western regions has increased since the initial prosperity of eastern China. Slow development in the central and western regions is becoming a serious problem. Secondly, the cost of production factors, such as land and labor, has sharply risen in the east, while that region's international comparative advantage has declined.

2. Distribution of FDI

Due to its large potential market and abundant cheap labor, China has gained more and more FDI from the mid-1980s. However, FDI has shown remarkable regional disparities in China, being concentrated in the coastal area. During the fifteen years from 1985 to 1999, 87.8% of total FDI was directed eastwards. Central China's share of FDI increased from 5.24% in 1985 to 9.22% in 1999, while that of the west decreased from 5.13% to 2.75%. Guangdong Province experienced the largest FDI gains, accounting for 29.39% of total FDI during this period. In 1985, Guangdong accounted for nearly half of total FDI: 49.42%.

On the other hand, per capita GNP and the price of production factors in the east were higher than other areas of China from the mid-1980s. This phenomenon indicates that the favorable investment climate, such as preferential policies, transportation, communications, human resources, etc., has weakened the influence of production factor costs on foreign investors.

3. Impact of FDI on Regional Development

FDI increases local investment and GDP, while also enhancing local human resources, but this is a relatively slow process. In addition, FDI also promotes the introduction of technology and the improvement of management.

3.1 FDI Disparity and Regional GDP

China utilized only \$13.55 billion dollars of accumulated foreign capital from 1986 to 1990. In this period, FDI had a negligible influence on regional development and the correlation between regional FDI and national income was weak. Since the 1990s, as FDI gradually increased, the correlation has strengthened, demonstrating that there is increasingly a consistent imbalance in the distribution of FDI and GDP.

3.2 Capital Inflow

In the last two decades, there was a strong correlation between the prosperity of the east and the large amount of FDI: 88% of total FDI was invested in the area. Continual investment on the part of multinational corporations can boost related industries, with a large project having the ability to raise capital inflows to the local area, as well as improve transport, communications and other services. On the other hand, FDI results in a significant increase in exports from the east. The value of foreign capital enterprise imports and exports reached \$139.1 billion in 1996, accounting for 47.3% of the total.

3.3 FDI and Population Migration

FDI not only directly provides employment opportunities, but also attracts labor immigrating to the area

being invested in. With their high technology and the high salaries they offer to employees, multinational corporations hold a strong attraction for external labor, especially highly-educated labor. In the early 1980s, the opening of the Pearl River Delta and the Changjiang River Delta caused labor to migrate to the east coast. Guangdong, Fujian, Zhejiang, Jiangsu and Shandong were still the main focus of immigration till the mid-1990s. The net increase in population in Shanghai was equivalent to a medium-sized city after Pudong was developed.

There was a net out-migration of population, especially highly-educated labor, from the central and west regions, and a net in-migration in the east. This reflects differing demands for labor in different areas. On the other hand, the potential of the central and the west declined as a result of the continuous outflow of highly-educated labor.

4. Conclusion

Having a comparative advantage and a very large potential market, China has become the biggest country utilizing foreign capital. However, the distribution of FDI in China is extremely unbalanced. Along with rapid economic growth, the cost of land and labor in the east is rising faster than in the central and western regions. After the 1997 Asian financial crisis, China's comparative advantage has dwindled due to the currency depreciation experienced by Southeast Asian countries. The growth rate of FDI and exports slowed in both 1998 and 1999, directly resulting in a fall in the economic growth rate.

But the economies of scale in eastern China have expanded. The increase in production factors prices is still not discouraging foreign capital inflows to the east. On the other hand, a great deal of surplus labor and rich natural resources in the central and western regions has not been utilized sufficiently. In 1997, China implemented a strategy to exploit the west. The central government offers many preferential policies to under-developed provinces, while at the same time, these provinces have also adopted many measures to absorb FDI. In summary, the investment environment in the west is gradually improving.