

Анализ и оценка опыта Китая по привлечению прямых иностранных инвестиций

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Аннотация

Данная статья представляет собой анализ роли прямых иностранных инвестиций в улучшении экономического развития государства. В зависимости от степени экономического и социального развития, уровня внешней открытости государства и задач, которые оно устанавливает, определяются различные подходы и методы для привлечения инвестиций. Автор дает оценку опыту Китая в привлечении иностранных инвесторов. Анализируется политика «открытых дверей», ее принципы и этапы реализации. Рассматриваются особенности политики Китая, которая направлена на стимулирование иностранных капиталовложений. Также предлагается использование опыта привлечения иностранных инвестиций Китая в России.

Ключевые слова: инвестиции, иностранные капиталовложения, иностранные инвесторы, политика «открытых дверей», инвестиционный климат, экономический рост, свободные экономические зоны, ВВП, ПИИ, Китай.

Analysis and estimation of China experience on foreign direct investments attraction

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Annotation

Through this the article it was discussed about the role of foreign direct investment in the development of the state economy. In each country there is a specific approach of attracting foreign investment, predetermined by the level of socio-economic development, the degree of external openness and certain objectives. The author evaluates China's experience in attracting foreign investors. The concept and principles of the policy of "open doors", the stages of its implementation are analyzed. The features of China's policy focused on stimulating foreign investment are considered. It is proposed to apply the Chinese experience of attracting foreign investments in Russia.

Keywords: investment, foreign investment, foreign investors, open door policy, investment climate, economic growth, free economic zones, GDP, FDI, China.

Foreign direct investments are needed for the economic development of every county and Russian Federation is not an exemption. The most important task of the state is to initiate the attraction of foreign investments. Despite that the volume of FDI is not commensurate with the total volume of capital investments, they are still remaining the critical factor of economic development especially for emerging markets that lack of their own funds.

Foreign investments are generally classified into direct (real), portfolio (financial) and other investments.

Direct (real) investments represent the cash inflows of foreign investors in investment projects related to the creation of new enterprises, expansion, reconstruction, re-equipment of existing production facilities in various sectors of the economy. What is more, investors get the right to participate in the management control of an economic entity and can monitor its activities. These investments are, as a rule, medium and long term. But not only investments in investment projects are considered direct investments. Purchase of considerable amount of shares of enterprises (just in case foreign investor wants to establish either effective control of, or at least substantial influence over the target company) is also considered to be FDI. Moreover, the size of the package permitted for purchase by a foreign investor depends on the legislation of a particular state. In Russia it should be not less than 10-20% of the total value of share capital. Long-term investment loans with a targeted basis are also considered direct investments.

Financial (portfolio) investments are investments in securities. The purpose of such investments is either to obtain a stable income on a permanent basis (for example, purchase of preferred shares or government bonds) or conduct speculative operations. In this type of investment investor does not receive the right to take part in the management of enterprise.

Other investments are bank deposits, commodity loans, etc.

Direct investments have a particular importance for any state. The development of various spheres of the country largely depends on the volume of their receipt and direction. Foreign investments play crucial role in the development of state, such as:

- stimulation of investment processes in the country;
- development of the material base of local enterprises and production capacities;
- export development in the country;

- an increase in the taxable base;
- attraction of new technologies and qualified specialists from abroad;
- employment growth in cities and regions;
- stimulating competition on local markets and etc.

Therefore, the role of foreign direct investment for the development of any state is undeniable. Main advantages can be observed in GDP growth, the acceleration of the scientific progress, the development of innovation, the reduction of unemployment, the solution of social problems and others. A vivid example of economic growth based on attracting foreign direct investment is China. In 1978, China had 250 million hungry people (in 2007 this figure was reduced to 14.79 million people). About 80% of the economically active population was employed only in agriculture sphere. There were no conditions for the development of the economy.

Since 1993, China has been leading in attracting foreign investment (only in some years giving advantage to the United States). In 2016, China was considered to be the world's largest exporter. In 2017, the country ranks first in terms of gold and currency reserves in the world (\$ 3,108,500 millions), the second place in the production of electricity, exports of goods and services, the length of roads, the third place for imports and market capitalization of national enterprises.

However, currently the growth rate is slowing down: in 2017, China's GDP increased 6,8% in third quarter and 6,9% in two previous, which is much lower than in previous periods. In addition, in the beginning of 2016 there was a decline in the stock market of China, since then the growth rate is generally positive but low.

According to the forecasts of a number of researchers, the expected growth rates of China's economy in the future are as follows (Fig. 1) [3]:

1) the optimistic scenario (with the preservation of trends) - the average annual growth in China's economy by 2033 will be 9.74%;

2) various variants of "regression to the mean": the average growth of the economy until 2023 will be 5%, and then it will decrease to 3.28 ... 3.89% to 2033;

3) a sharp slowdown: the average growth rate will drop to 2%.

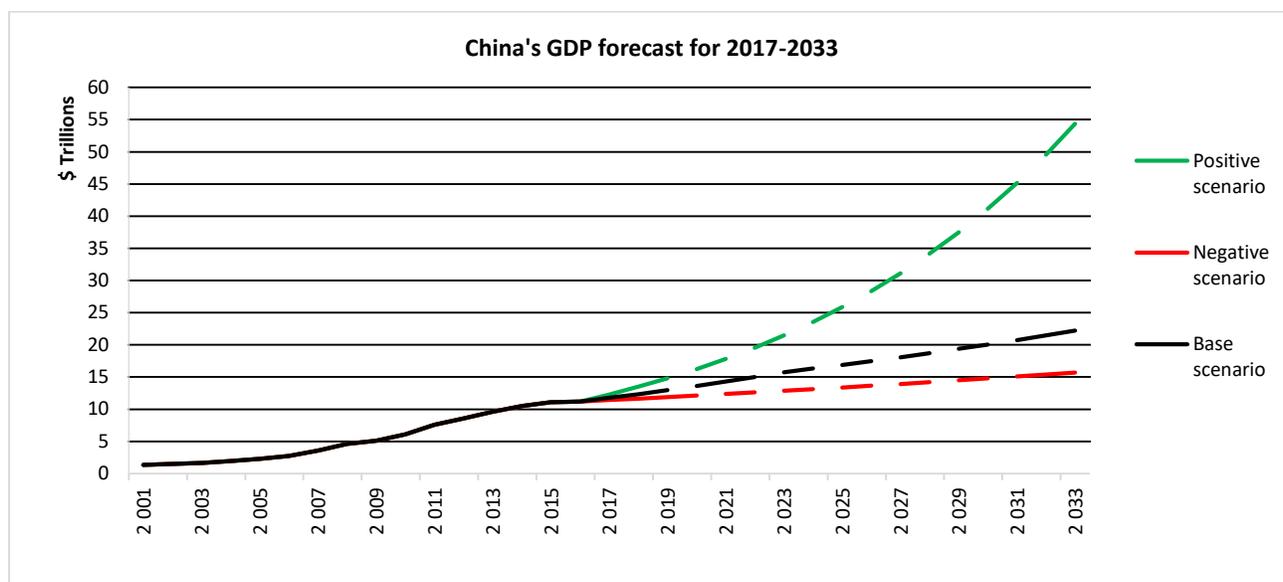


Fig. 1. China's GDP forecast for 2017-2033

The problem of attracting foreign investment is also relevant for Russia. In the conditions of the financial crisis, economic sanctions, the state budget deficit, the export of capital abroad, the inflow of capital investments from abroad would help to solve a certain part of the existing problems.

For the foreign investor the determining factor for making a decision on investing in the state is the investment climate of the country. The investment climate is a combination of political, economic, legal, administrative, and many other conditions of activities existing in a particular country, including measures that are taken by the government to attract foreign capital [5].

Factors that play a positive role in attracting foreign investment are considered to be the components of the investment climate, such as:

- 1) Rich and inexpensive natural resources;
- 2) Large domestic market for goods and services;
- 3) Cheap skilled labor;
- 4) Personnel with a high level of basic education, capable to perceive the latest technologies in production and management very quickly;
- 5) Absence of serious competition from domestic producers;
- 6) Possibility of investor participation in privatization;
- 7) Possibility of obtaining quick high profits.

In addition, some researchers determine the following privileges and guarantees, which are important for foreign investors [2]:

- 1) Guarantee of repatriation of invested capital and net profit;

2) Guarantee of repatriation of foreign capital or capital investments in one year after the start of a profitable business excluding the profit received from the sale of land;

3) Exemption from requisition or expropriation within 20 years from the beginning of a profitable business, provided that the share of ownership is at least 45% of the total authorized capital;

4) Possibility of 100% ownership of property in the country for foreign capital;

5) Equation of the rights for national and foreign capital in matters relating to founders, directors, heads of companies;

6) Equation of the rights in the field of public protection for local and foreign founders and shareholders;

7) Equation of the rights for the requirements of the minimum share of national capital, conditions for hiring the national labor force, including instructions for hiring directors for newly created enterprises, participation in the board of directors;

9) Equal treatment and protection conditions for local companies.

It is the favorable investment climate and its separate components that played a decisive role in attracting foreign money in China.

The attraction of foreign investment in the PRC began in the late 1970s. The founder of the ideas of domestic and foreign policy is Deng Xiaoping, who was a leader of China in 1976.

In the end of 1978, on the third plenum of the Central Committee of the Communist Party of China the economic reforms were announced [4]. This meant that the PRC - a closed state for the external investors with a planned-administrative economy - began to implement a new foreign economic policy. The goal of this policy was the full involvement and use of foreign investment.

We can say that the "openness policy" of China are the measures to attract foreign capital to the country in the form of direct investments, loans, joint ventures, and the attraction of capital through free economic zones.

At the heart of the new economic policy was the principle of "open economy". It was realized on the basis of the concept of "four windows":

1) technology attraction;

2) attraction of world standards of management;

3) attracting new knowledge;

4) open foreign policy.

One of the main elements of the policy of "openness" is the concept of complementarity of economic complexes of the border areas of neighboring countries. According to this concept, China

should provide ready products in return for skilled labor, investment and new technologies. So, in the early 1990s, China exported to the regions adjacent to its borders clothes, shoes, utensils, small household utensils; then the export of food began to grow (with the expansion of its nomenclature); in recent years, more and more places in exports are occupied by machinery and equipment. The Chinese provinces import various types of raw materials: timber, pearls, ornamental stones from Burma, mineral and chemical raw materials from Vietnam, timber, coal, metals, chemical fertilizers from Russia, timber and scrap metal from the DPRK.

"Open-door policy" was characterized by the following features [1]:

- 1) Establishment of mutual trust (part of the land borders of China were controversial areas, relations with neighboring countries have been strained);
- 2) Creation of favorable foreign policy climate;
- 3) Resolution of border disputes (the relevant agreements were signed, in particular, with Russia, Kazakhstan and Vietnam);
- 4) Creation of a set of economic institutions;
- 5) Active "promotion" of policies among foreign investors and its own population (the ability of border regions to catch up with the most developed southern provinces in terms of welfare and economic growth).

By the early 1980s of the 20th century, China's policy of attracting foreign investment was carried out in four main areas:

- integration of separate administrative entities in the process of foreign economic relations establishing. Some parts of functions were transferred to the governments of the provinces and cities from the Ministry of foreign economic relations and foreign trade. As a result, the provinces have established their own foreign trade organizations, which acted as agents of Chinese enterprises in the implementation of foreign trade operations. Thus the profit earned by local businesses went straight to local budgets;

- attraction of the international credits (foreign government loans, international financial institutions, foreign Bank loans for export, as well as securities and stocks invested by China abroad for raising funds). The main purpose of these credits was financing of energy facilities, transport and communications, petrochemical, metallurgical, light industry, agriculture, culture, education and scientific research;

- capital raising from overseas Chinese immigrants living in other countries. This refers to the return of capital, previously exported from the country;

- creation of free economic zones of various types [4].

Initially in these zones fast production was mastered in the first place, such production as services, enterprises of light and food industry, tourism. When a favorable investment climate was formed in these zones, foreign investors started to be involved in more technologically sophisticated production.

What is more, China formed a "border zone of openness" [6]. It was based on the open border of the cities and free economic zones. The first cities which were given the "open" status in June 1991 were cities Heihe, Suifenhe (province of Hey-Longjiang), Hunchun (Jilin province) and man-Joule (IMAR), located on the border with Russia. In August 1992, "open" status was given to Erenhot (IMAR) on the border with Mongolia; Tachan, Bole, Yining (Xinjiang) on the border with Kazakhstan; Hotspring (Yunnan province), Pisani, Dongxing on the border with Vietnam; Wandin and Ruili (Yunnan province) on the border with Burma. In addition, in the period from August 1992 to March 1993 the "zone of openness" was a fortified by the administrative centers in seven border provinces. [6]

As for free economic zones, currently there are 5 special economic zones 90 zones of techno-economic development of the state level, 114 zones of new and high technologies, 13 free-trade zones, 14 zones of border economic cooperation at the state level.

Thus, the policy of "openness" included several stages. The first stage started in the mid of 1970s and continued until the end of 1980s. At this stage, the government actively participated in the creation of the free economic zones and the open-type border cities. For this purpose, there were developed large-scale projects based on the experience of other countries and to create the infrastructure necessary for entrepreneurs to create and develop production. Foreign investors were granted tax, customs and administrative privileges. State budget was the main source of all costs.

In the late 1980s, the second phase of development of the state policy of attracting investment was started. Free economic zones had to move from state financing to self-financing, bank lending and use of funds received from foreign entrepreneurs. At the same time, favorable investment climate created for investors had to be preserved.

At this time the concept of investment attraction changes from regional to the industry one. Support of underdeveloped sectors of economy started. Therefore, entrepreneurs who invest in areas beneficial to the state were encouraged by the government. This kind of investment policy was focused on the most effective technical and science-intensive projects in priority sectors (electronic, energy, light, food, transportation, communication, etc.).

The researchers note that as a result, transition from quantitative development of external resources to the multilateral system of foreign investment promotion occurred. The result was a diversification of investments and beginning of investing in medium-and long-term projects [5]

The third stage of the investment policy of China considered to be performed from the mid 90s of the 20th century to the present day. This period is associated with the entry of China into the WTO. Foreign direct investment started to be involved in retail, real estate, transport, insurance, consulting, financial services in the largest commercial and industrial centers of the country - Beijing, Tianjin, Shanghai, Guangzhou, Shenzhen.

A bright feature of China's join to WTO is the intensive influx of foreign portfolio investments, which was followed by the entry of Chinese companies (Ping An Insurance, Great Wall Auto, China Resources Power, China Life Insurance) to foreign stock markets.

As the result of policy of foreign investment stimulating, China has attracted quite a large number of funds from abroad. And about 60% of foreign capital flows into China are due to the help of free economic zones [8]. But this is facilitated not only by the policy of "open doors". The factors that influenced the attraction of foreign investors in China are [7]:

- 1) Political stability;
- 2) Long-term economic growth;
- 3) State support of economic activity in the territory of the whole state;
- 4) State investments in the development of infrastructure, human capital, scientific research;
- 5) Cheap labor and availability of natural resources.

Consequences of Chinese successful activities in attraction of FDI could be seen due to confident and solid growth of GDP. It would not be appropriate to compare current total GDP in China and Russia because of different labor-force capacities in these countries but we do can match GDP per capita and thus equalize total numbers according to population of countries (Fig. 2).

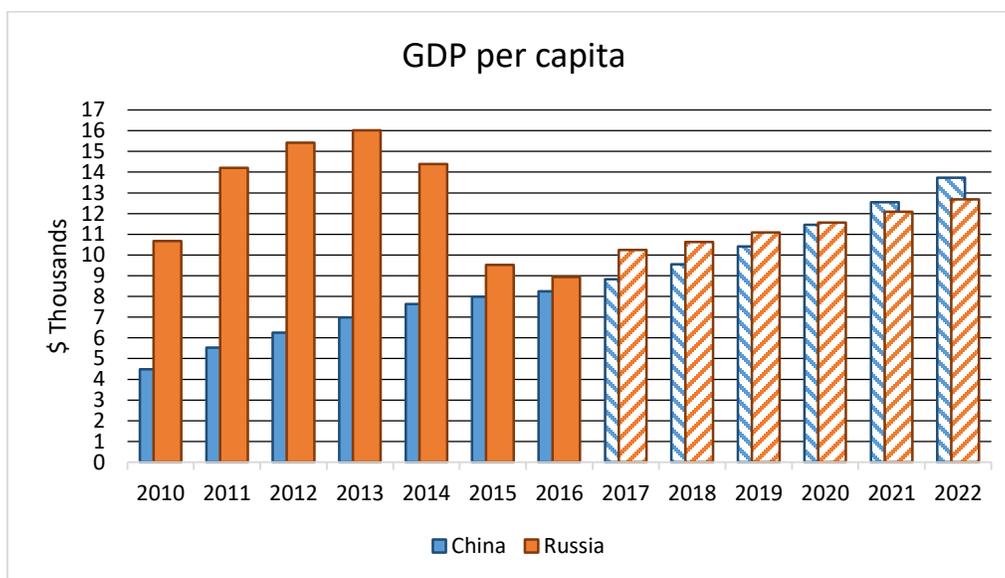


Fig. 2. GDP per capita in China and Russia in 2010-2022 [9]

At first glance it could be understandable that China (the country which lost 38 million of its citizens due to the starving in 1959-1961) in 2021 will be outpacing Russia by average distribution of wealth per person. From this standpoint, it is necessary to evaluate the importance of FDI as an engine of future economic growth.

In Russia, despite the presence of some factors (for example, cheap labor), the state support is missing. The poor infrastructure of regions, underfunding of scientific research in provincial Universities, and the most important – bad investment climate (which comprise bureaucracy, lawlessness and political notorious) which prevents the entry of foreign investment on the territory of the Russian Federation. The experience of China in attracting foreign investment and implementing the policy of "open doors", would help to attract foreign capital in our state.

Looking at the line chart below, we can evaluate several features of FDI which are typical for Russia. First of all, graph has a sharp fluctuation - amount of foreign direct investment varies in several times within a couple years both in positive and negative sides (Fig. 3).

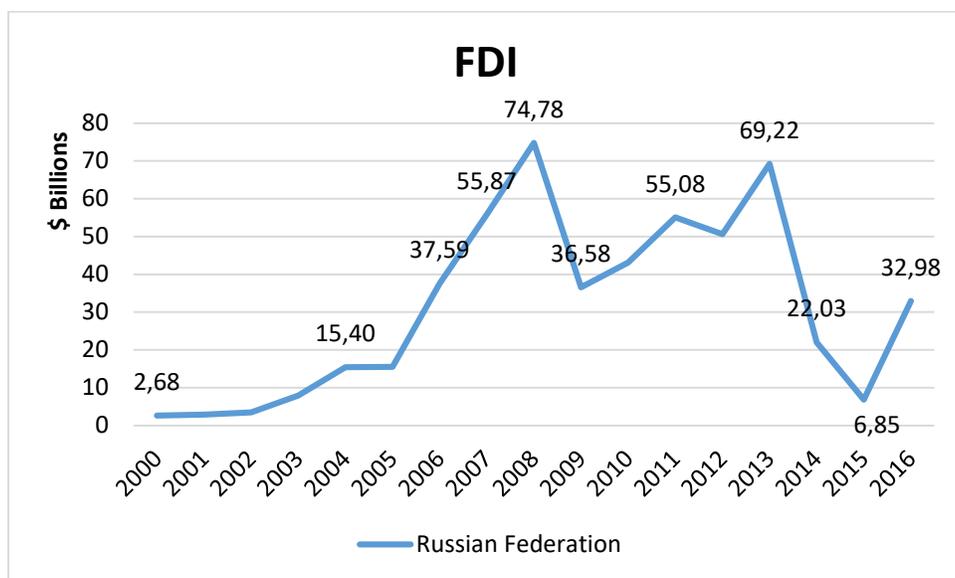


Fig. 3. Inflows of Foreign Direct Investments to Russia in 2000-2016 [10]

That is understandable as FDI is very sensitive to any macro-economic and political changes. Ones, oil prices were stable and high, as well as ruble felt itself confident, it created favorable conditions for foreign direct investment inflows. And just oil prices start hesitating it immediately affects exchange rate of national currency and as a result scare away foreign investments. Political tensions inside country and outside conflicts with state participation play the same role – frightening foreign investors.

Nowadays, state economists claim that the worst time has passed and national economy starts recovering. And the significant increase of FDI from 6,85 to 32,98 billion \$ in 2016 is just an appropriate proof of that. Rise of FDI in 4,8 times looks impressive and outstanding but these figures contain artificial 11 billion \$ due to privatization of 19,5% of Rosneft by foreign fund which was financed by Russian bank.

There is no doubt that without structural reforms and developing investments climate Russian economy would not growth under the high rates which are relative to emerging markets (India - 6,7%, China – 6,8%, Indonesia – 5,2%, Philippines – 6,2% GDP growth rates in 2016) and Chinese experience is an appropriate example of “how to do” to achieve successful results.

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