

# Research on the Utilization of Foreign Direct Investment in Yunnan Province of China

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**Abstract** Since driven by “Going Global” campaign, Yunnan province took advantages of rich natural resources and favorable location adjacent to South Asia and Southeast Asia. Furthermore, the environment for foreign investment in Yunnan has improved a lot. As a result, the scale of FDI has increased significantly and many countries in the world especially Asian countries are attracted. However, there are still many problems with the utilization of FDI in Yunnan. This paper analyzes the development and problems of the utilization of FDI in Yunnan province and puts forward relevant countermeasures and suggestions for improving utilization of FDI in Yunnan province.

**Keywords:** *foreign direct investment, FDI, Yunnan, China*

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## 1. Introduction

Swept by the wave of trade liberalization, service liberalization and investment liberalization, Yunnan province, with unique location advantage, is playing an increasingly important role as a bridge between China and Southeast Asia. In 2011, China government brought the “twelfth five-year” plan to speed up the construction of Yunnan as “bridgehead” opening to the southwest China and ASEAN as well.

Considering the strategy upgrading from “channel” to “bridgehead”, traditional international trade cannot satisfy the strategic requirements of Yunnan any more. And it has been part of the topic to use foreign investment to stimulate economic growth, to inject vitality and ultimately to achieve leap development in Yunnan province. Nevertheless, the fact is that though foreign capital utilization in Yunnan province has been greatly improved, limitations still exist both internally and externally. During the new historical period, opportunities and challenges coexist in the utilization of FDI in Yunnan province.

## 2. The Situation of Utilization of FDI in Yunnan Province

### 2.1. Utilization of FDI by Scale

Since China's reform and opening up, Yunnan has increasingly integrated into the world economy along with the deepening of China openness. The utilization scale and quality of foreign direct investment in Yunnan province have been promoted and the stimulative function of FDI

has been strengthened. The actually utilized FDI in Yunnan increased from 1.56 million in 1985 to 2.18896 billion in 2012 (1400 times or so), a jump increase actually. In addition, the utilization of FDI in Yunnan province shows distinctive characteristics in different periods:

The first phase (1985-1991): Affected by macroeconomic and political environment of China, the economy of Yunnan province, located in the southwestern border, was blocked, and the level of economic development was extremely low. The total amount of utilization of foreign investment within this period was \$ 23.44 million (only \$ 2,930,000 annually).

The second phase (1992-1996): With the introduction to foreign capital utilization in Yunnan Province. The actual utilization of FDI in Yunnan exceeded one hundred million U.S. dollars, reaching \$ 203 million in 1994, as a remarkable result.

The third phase (1996-2005): With the deepening of reform and opening up in Yunnan Province, the amount of FDI actually used remained above one hundred million U.S. dollars, and the annual amount fluctuated between 100 million-200 million U.S. dollars.

The fourth phase (2006 - present): Since 2006, the scale of the utilization of foreign capital has reached a new level. Especially from 2010 to 2012 these three years, the startup of China - ASEAN Free Trade Area and the establishment of Lancang - Mekong Subregion promoted the rapid increase of FDI in Yunnan Province, nearly occupying the total foreign investment.

The scale of Yunnan FDI continues to improve, close to the national average level. This is shown according to the Performance Index of utilization of FDI in Yunnan.

$$INDi = (FDI_i / FDI_w) / (GDP_i / GDP_w)$$

**Table 1. The Amount of Utilization of FDI in Yunnan, 1979-2012. (USD10, 000)**

Year	Actually Used FDI	Year-on-year Growth Rate (%)	Actually Absorbed Foreign Capital	Proportion of Used FDI to Foreign Capital Absorbed (%)
1979-1983	-	-	-	
1984	-	-	-	
1985	156	-	163	95.71
1986	354	126.92	579	61.14
1987	480	35.59	633	75.83
1988	310	-35.42	827	37.48
1989	740	138.71	787	94.03
1990	260	-64.86	1096	23.72
1991	296	13.85	4922	6.01
1992	2313	681.42	5005	46.21
1993	9702	319.46	18795	51.62
1994	20300	109.24	31414	64.62
1995	22500	10.84	34479	65.26
1996	18000	-20.00	33800	53.25
1997	16500	-8.33	31334	52.66
1998	14568	-11.71	29786	48.91
1999	15385	5.61	23765	64.74
2000	12812	-16.72	22062	58.07
2001	6457	-49.60	20679	31.22
2002	11166	72.93	28362	39.37
2003	16752	50.03	29452	56.88
2004	14152	-15.52	21422	66.06
2005	17352	22.61	29247	59.33
2006	30234	74.24	42894	70.49
2007	39453	30.49	55233	71.43
2008	77688	96.91	93618	82.98
2009	91010	17.15	91010	100.00
2010	132902	46.03	132902	100.00
2011	173754	30.74	173754	100.00
2012	218896	25.98	218896	100.00

"-" stands for data not available.

Source: Yunnan Provincial Bureau of Statistics, China National Bureau of Statistics Survey Office in Yunnan, Yunnan Statistical Yearbook, China Statistics Press, Beijing, 2012, 124-130.

FDI<sub>i</sub> refers actually used amount of FDI of this region (i), FDI<sub>w</sub> refers actually used amount of FDI of the whole country. GDP<sub>i</sub> refers the gross domestic product of this region (i), GDP<sub>w</sub> refers the gross domestic product of the whole country.

Although FDI Performance Index was always less than 1, it showed upward trend with 0.98 in 2012, a

record high. Through nearly a decade of construction in Yunnan Province, its total FDI share of China improved significantly. However, the total GDP proportion in Yunnan increased slowly. In 2012, for example, the GDP percentage of Yunnan Province was only 1.99%, while Shanghai, Guangdong and other regions above 20%.

**Table 2. The Performance Index of Utilization of FDI in Yunnan, 2000-2012. (USD100000000)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Amount of Actually Used FDI in Yunnan	1.28	0.65	1.12	1.68	1.42	1.74	3.02	3.95	7.77	9.1	13.29	17.38	21.89
Amount of Actually Used FDI in China	407.15	468.78	527.43	535.05	603.3	603.25	630.21	747.68	923.95	900.33	1057.35	1160.11	1117.16
Proportion of Yunnan's FDI Used in China's FDI Used (%)	0.31	0.14	0.21	0.31	0.24	0.29	0.48	0.53	0.84	1.01	1.26	1.5	1.96
Proportion of Yunnan's GDP in China's GDP (%)	2.03	1.95	1.92	1.88	1.93	1.87	1.84	1.8	1.81	1.81	1.8	1.88	1.99
Yunnan's INDI	0.15	0.07	0.11	0.16	0.12	0.16	0.26	0.29	0.46	0.56	0.7	0.8	0.98

Source: Yunnan Provincial Bureau of Statistics, China National Bureau of Statistics Survey Office in Yunnan, Yunnan Statistical Yearbook, China Statistics Press, Beijing, 2012, 124-130.

## 2.2. Utilization of FDI by Mode

In 2000, FDI absorbed by wholly foreign-owned enterprises accounted for just 25.1% of the total amount in Yunnan province, while the proportion was up to 68% in 2012. The trend of FDI in Yunnan is obvious,

which shows the enthusiasm of foreign investors in Yunnan. Meanwhile, the proportion of Yunnan foreign joint ventures is in a slight decline relatively. Nevertheless, both the level of development of utilization FDI in Yunnan remain below the national average.

**Table 3. Utilization of FDI in Yunnan Province by Mode, 2000-2012. (Unit: USD1000000)**

Year	Total Amount	Wholly Foreign-owned Enterprises		Equity Joint Venture		Contractual Joint Venture		Joint Stock Company		Wholly Foreign-owned Enterprises (China)
		Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Proportion (%)
2000	12872	3237	25.1	7204	56	2371	18.4	0	0	47.3
2001	6457	3004	46.5	2642	40.9	811	12.6	0	0	50.9
2002	11166	4502	40.3	5471	49	1193	10.7	0	0	60.2
2003	16752	5918	35.3	9821	58.6	793	4.7	220	1.3	62.4
2004	14152	5880	41.5	7227	51.1	1045	7.4	0	0	66.3
2005	17352	5856	33.7	9044	52.1	2452	14.1	0	0	71.2
2006	30234	6322	20.9	21809	72.1	1793	5.9	310	1	73.4
2007	39453	20087	50.9	17100	43.3	2266	5.7	0	0	76.6
2008	77688	45260	58.3	29493	38	2935	3.8	0	0	78.3
2009	91010	50763	55.8	36498	40.1	3643	4	106	0.1	76.3
2010	132902	69588	52.4	46842	35.2	6838	5.1	9634	7.2	80.08
2011	173754	101157	58.2	55782	32.1	6511	3.7	10304	5.9	78.6
2012	218896	148955	68	68240	31.2	700	0.3	1001	0.5	77.1

Source: Yunnan Provincial Bureau of Statistics, China National Bureau of Statistics Survey Office in Yunnan, Yunnan Statistical Yearbook, China Statistics Press, Beijing, 2012, 124-130.

### 2.3. Utilization of FDI by Country or Region

The total amount of FDI from Hong Kong has always been at the top. From 2001 to 2011, the utilized FDI from Hong Kong amounted to 3.032 billion U.S. dollars, accounting for nearly half of the total and it turns out to be the major source of foreign direct investment in Yunnan. Until the end of 2011, there has been already 1500 HK-founded enterprises settled in Yunnan. In 2012, FDI from

Hong Kong was \$ 1,747,000,000, accounting for 79.8% of the total. Hong Kong investment in Yunnan can be traced back in 1984, and, until now, it has involved many industries, mainly in manufacturing, services, tourism, bio-pharmaceuticals, bio-resources development, energy, transportation, real estate, and urban infrastructure. Generally speaking, while FDI in Yunnan develops fast, risks and vulnerability exist, owing to the excessive concentration of FDI sources.

**Table 4. Utilization of FDI in Yunnan by Country or Region, 2001-2011**

Country/Region	2001 (USD10000)	2002 (USD10000)	2003 (USD10000)	2004 (USD10000)	2005 (USD10000)	2006 (USD10000)	2007 (USD10000)	2008 (USD10000)	2009 (USD10000)	2010 (USD10000)	2011 (USD100000000)	
Asia	Hong Kong	2309	4720	5077	5415	5945	8995	15827	30688	45441	73847	10.4
	Taiwan	346	698	168	368	492	687	174	848	2281	779	0.09
	Macao	93	42	—	379	138	304	—	1272	812	901	0.05
	Philippines	—	—	—	—	—	—	1	—	956	3952	0.25
	Thailand	127	357	286	252	737	675	305	53	310	115	0.01
	Singapore	672	—	1801	112	1094	460	777	169	3901	7739	0.32
	Malaysia	—	108	1628	16	—	30	9	154	141	131	—
	Japan	210	252	31	402	666	399	141	881	267	672	0.02
	Korean	4	241	38	66	83	421	87	1578	273	277	0.1
Burma	178	727	440	495	180	386	68	—	43	150	0.09	
Africa	—	—	2	53	382	994	2954	4691	10294	4851	—	—
Europe	German	—	21	—	—	8	—	1	474	1	8	—
	France	12	162	—	—	20	51	—	294	130	221	0.26
	Italy	—	48	—	151	—	1	—	8	49	—	—
	Netherlands	205	1467	24	386	390	296	16	158	739	49	0.05
	UK	14	1220	271	54	694	200	138	1387	1227	4	0.04
	Belgium	—	—	—	109	—	1017	1017	—	—	—	—
	Denmark	—	—	—	—	33	1	10	20	177	—	0.06
	Portugal	—	—	—	—	—	41	—	—	—	—	—
	Spain	—	—	—	—	27	—	95	226	57	—	0.23
	Switzerland	—	—	—	—	80	4	—	2	90	4096	0.08
Russia	—	—	—	—	—	10630	—	35	—	—	—	
North America	Canada	19	90	718	267	365	571	104	262	285	2857	0.1
	America	618	1493	756	1341	665	101	1864	3371	2783	5006	0.17
Latin America	Brazil	—	—	—	—	—	6826	3	—	—	—	—
	Virgin Islands	398	190	1988	2003	3545	1804	14538	18064	10173	20997	1.85
	Cayman Islands	38	120	2807	45	25	911	—	2470	2100	468	0.08
Oceania	Australia	251	70	8	123	47	—	214	26	167	26	—
	New Zealand	—	—	—	20	—	74	—	3	3	—	—

Source: Yunnan Provincial Bureau of Statistics, China National Bureau of Statistics Survey Office in Yunnan, Yunnan Statistical Yearbook, China Statistics Press, Beijing, 2012, 124-130.

In 2011, \$ 185 million of foreign capital from British Virgin Islands settled in place, accounting for 10.68% of the Yunnan's total; Barbados capital amounted to \$ 60,000,000, representing 3.45% of total capital of Yunnan province. In 2012, in the top 10 regions (Hong Kong, Barbados, British Virgin Islands, Mauritius, Singapore, Switzerland, Myanmar, Taiwan, Indonesia, France), the actual investment accounted for more than 85% of the total amount of foreign capital actually used of Yunnan.

## 2.4. Utilization of FDI by Industry

It can be seen a majority of foreign direct investment in Yunnan Province has long been concentrated in the secondary industry, accounting for more than 50% of FDI. However, utilization of FDI decreases gradually in secondary industry and shifts to tertiary industry. In 2012, total amount of FDI in Yunnan Province was up to \$ 2,188,960,000, with \$ 52,680,000 of animal husbandry and fishery, \$ 704.3 million of secondary industry and \$ 1,431,980,000 of tertiary industry, accounting for 2.41% ,32.18% ,65.42% respectively.

Yunnan FDI is mainly concentrated in manufacturing, real estate, as well as a small amount of wholesale and retail services. In particular, real estate is becoming a dominant force in attracting foreign investment. Real estate actually attracted 294 million U.S. dollars, accounting for 16.92 percent of the province's total foreign capital actually utilized in 2011 and the actual utilization of foreign capital amounted to 65,766 million U.S. dollars in 2012, accounting for 30.04 percent of the province's total. From the perspective of industry sector, in tobacco, pharmaceutical, real estate and urban development, tourism high-end market, energy development, mineral exploitation and processing, financial and some other supporting fields, foreign intervention is more concentrated.

**Table 5. The Accumulated Amount and Project of FDI in Yunnan by Industry, 1999-2011. (Unit: USD100000000)**

	FDI Project		Contracted FDI		Actually Used FDI	
	Number	Share (%)	Amount	Share (%)	Amount	Share (%)
Primary Industry	289	13.52	7.63	6.71	3.66	5.11
Second Industry	892	41.72	59.17	52.06	40.98	57.18
Tertiary Industry	957	44.76	46.85	41.23	27.02	37.71
Total	2138	100	113.65	100	71.66	100

Source: Yunnan Provincial Bureau of Statistics, China National Bureau of Statistics Survey Office in Yunnan, Yunnan Statistical Yearbook, China Statistics Press, Beijing, 2012, 124-130.

## 2.5. Geographical Distribution of FDI in Yunnan

Foreign direct investment involves nearly all the cities in Yunnan Province, but is seriously imbalanced. The province's FDI is clearly centralized in the capital city, Kunming, which plays a leading role in the utilization of foreign capital. FDI absorbed by Kunming itself has occupied more than 70% of the total. Over \$ 1.2 billion of foreign investment flew into Kunming in 2011, and more than that, the amount increased further in 2012, up to

nearly \$ 1.6 billion. Dehong, Pu'er, Baoshan, Diqing and some other cities come after Kunming, although with a big gap. The ability to invite and utilize FDI in some cities such as Pu'er, Lijiang, Xishuangbanna and Zhaotong, has improved a lot at an alarming rate, with gross amount basically doubling. By virtue of their superior resources (e.g.: tourism resources in Lijiang) these places are getting more popular among foreign investors.

**Table 6. Regional Distribution of FDI in Yunnan, 2011- 2012. (USD 10,000)**

Region	2011		2012	
	Actual Utilization Amount of FDI	Share (%)	Actual Utilization Amount of FDI	Share (%)
Kunming	127443	73.35%	158979	72.63%
Pu'er	4164	2.40%	10122	4.62%
Dehong	5241	3.02%	8900	4.07%
Baoshan	5232	3.01%	7300	3.33%
Diqing	10266	5.91%	5794	2.65%
Yuxi	3796	2.18%	4610	2.11%
Lincang	2958	1.70%	4105	1.88%
Dali	2976	1.71%	3892	1.78%
Chuxiong	2505	1.44%	3598	1.64%
Qujing	2801	1.61%	3471	1.59%
Honghe	2248	1.29%	2871	1.31%
Lijiang	873	0.50%	1871	0.85%
Xishuangbanna	542	0.31%	1406	0.64%
Wenshan	769	0.44%	946	0.43%
Zhaotong	400	0.23%	900	0.41%
Nujiang	1538	0.89%	101	0.05%
Total	173754	100%	218896	100.00%

Source: Yunnan Provincial Bureau of Statistics, China National Bureau of Statistics Survey Office in Yunnan, Yunnan Statistical Yearbook, China Statistics Press, Beijing, 2012, 124-130.

## 2.6. Operating Performance of Foreign-funded Enterprises

There were 174 foreign-funded designated size industrial enterprises in Yunnan province in 2011, with the annually average number of employees of 48400, the industrial added value of RMB 1,449.1 billion, the industrial total output value of RMB 41.056 billion, the industrial sales output value of RMB 40.643 billion, the total enterprise assets amounted of RMB 40.891 billion, the revenue of principal business of RMB 43.19 billion, the total profits and taxes of RMB 7.504 billion, and the total profits of RMB 4.989 billion. The nine indicators for all designated size enterprises in Yunnan accounted for 6.27%, 5.34%, 5.26%, 5.34%, 5.4%, 3.7%, 5.67%, 4.51% and 7.8% respectively. The small proportion declared the restrictions on FDI's contribution to Yunnan local economy.

In 2012, the utilization of foreign capital in Yunnan was no more than \$2.189 billion, accounting for 1.3% of total provincial GDP. At the same time, foreign companies achieved a large volume of import and export trade with \$6.2 billion and about 3% of the whole province import and export value. Confined to foreign capital scale, the effect on the import and export of foreign enterprises was not as obvious.

**Table 7. Major Economic Indicators of Foreign-funded Designated Size Industrial Enterprises in Yunnan, 2011. (RMB 100 million)**

Item	Foreign-invested Designated Size Industrial Enterprises	All Designated Size Industrial Enterprises in Yunnan	Percent of(%)
Number of Enterprises (Unit)	174	2773	6.27
Annual Average of All Employees (10 Thousand Persons)	4.84	90.62	5.34
Value Added of Industry	144.91	2753.64	5.26
Total Output Value of Industry	410.56	7780.83	5.28
Industrial Sales Output Value	406.43	7527.74	5.4
Total Assets	408.91	11053.93	3.7
Revenue from Principal Business	431.9	7621.91	5.67
Total Profits and Taxes	75.04	1664.48	4.51
Total Profits	49.89	639.7	7.80

Source: Yunnan Provincial Bureau of Statistics, China National Bureau of Statistics Survey Office in Yunnan, Yunnan Statistical Yearbook, China Statistics Press, Beijing, 2012, 124-130.

### 3. Recommended Policy for Improving the Utilization of FDI in Yunnan

#### 3.1. Accelerating Infrastructure Constructions Development Further

Yunnan lags behind compared with the rest regions of China. Even compared with another four southeast provinces-Chongqing, Sichuan, Guangxi and Guizhou, Yunnan, the level of economic development of Yunnan is ranking forth, narrowly higher than that of Guizhou, and this situation has seriously affected the inflow of foreign capital. Yunnan government should actively further expand the transportation network involving road, railway, airline and water transport, rely on energy advantages, provide highly modern and information-based infrastructure services, and ultimately enhance the attractiveness to foreign investment. Above all, it is important to accelerate the development of supporting infrastructure of towns, and to complement and coordinate city and county economy, so that an overall and favorable environment for foreign investment can be created.

#### 3.2. Optimizing the Industrial Structure of Yunnan

With its unique geographical advantages, Yunnan is likely to create new and distinctive industrial clusters, enhance industrial cluster effect, improve industrial competitiveness, and further strengthen the driving forces of competitive industries and pillar industries in utilization of foreign investment.

Since the industrial distribution of FDI is unbalanced, it is necessary for Yunnan to broaden the field of foreign investment, focus on emerging industries, gradually open up health education and cultural industries, widen and deepen foreign investment, increase competition between foreign and state-owned enterprises as well as private enterprises, and optimize the province's economic structure and industrial structure. In addition, Yunnan can actively guide foreign capital to flow into tech industry and high-tech equipment manufacturing industry, enhance the province's economic capability of independent innovation with the help of capital and technological advantages, impose strict restrictions on foreign

investment projects of high pollution or high energy consuming, and adhere to sustainable development.

#### 3.3. Improving Government Efficiency

As a consequence of education backwardness, it is hard for most employees to meet the needs of some ordinary foreign-funded enterprises in Yunnan, let alone enterprises of emerging industry, which requires more technical and management skills. Yunnan government should increase input in education, strengthen professional training for workers, and implement targeted personnel training programs. In terms of government's policy, some incentive policies to reward talents should be drafted and carried out in order to build positive social atmosphere of innovation.

Yunnan government is supposed to deepen administrative reform on the principle of fairness, openness, efficiency, and sincerity, simplify procedures of approval for foreign-funded enterprises, increase administrative efficiency, deepen economic reform with the help of political reform aimed to provide effective guidance and supervision and improve the market operation efficiency. Furthermore, Yunnan should perfect foreign-related legal systems, which can improve legal environment.

### 4. Conclusion

In general, when the utilization of FDI in Yunnan Province expands constantly, geographical distribution is getting more balanced and the structure and quality of using foreign capital is gradually optimized. Foreign-funded enterprises have been leading local enterprises to an international advanced level and have made an outstanding contribution to Yunnan GDP. With the promotion of regional economic cooperation, Yunnan Province is going to fully perform leading function in open economic zones along the border. Foreign direct investment in Yunnan is predicted to become an important support for economy development in Yunnan Province. Through the combination of introduction of foreign capital, advanced technology and high level of management skills, the market and industrial structure of Yunnan economy will be adjusted greatly, Yunnan endogenous economic power will be strengthened, and most importantly, the province's social welfare will be surely improved.

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