



# Research on the Potentials and Countermeasures of the Utilization of Foreign Direct Investment in Tibet of China

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Received March 02, 2015; Revised March 22, 2015; Accepted March 30, 2015

**Abstract** Since the first introduction of foreign enterprise in 1988, foreign direct investment(FDI) in Tibet has been continuously increasing because of distinctive geographic location, great resource advantage, many featured industries and huge development potentials of Tibet. But there still exist some problems with the utilization of FDI in Tibet. Based on this, the paper analyzes the potentials of further utilization of FDI in Tibet and provides some countermeasures and suggestions for improving utilization of FDI and enhancing the harmonious development between FDI and Tibet's economy, resources and environment.

**Keywords:** Foreign Direct Investment (FDI), economic development, Tibet, China

**Cite This Article:** Zhu Ruixue, Xiao Yang, and Xie Ningyu, "Research on the Potentials and Countermeasures of the Utilization of Foreign Direct Investment in Tibet of China." *International Journal of Econometrics and Financial Management*, vol. 3, no. 3 (2015): 110-114. doi: 10.12691/ijefm-3-3-1.

## 1. Introduction

Since reform and opening up, with the rapid development of Tibet's economy, foreign enterprises began to set up in Tibet. Distinctive geographic location, great resource advantage, many featured industries and huge development potentials of Tibet have been constantly attracting foreign investors; and the FDI in Tibet has been increasing rapidly. In 2011, Tibet government issued the twelfth Five-Year Plan, which emphasized the strengthening of Tibet's opening-up policy and active utilization of foreign investment so as to promote the economic development of Tibet.

But compared either with the whole country or with other western neighboring minority provinces(regions), the amount of FDI and the roles that FDI has played in Tibet's economy is very limited. The paper analyzes the potentials of Tibet's further utilization of FDI, and found that it has huge potentials to further attract FDI. As long as Tibet takes effective countermeasures, it will improve the utilization of FDI and enhance the harmonious development between FDI and its economy, resources and environment.

## 2. The Situations of Tibet's Utilization of FDI

### 2.1. Utilization of FDI by Scale

Tibet brought in the first foreign-funded enterprise in 1988. Since then, as Tibet has been devoted to improving its investment environment and legal system concerning the protection of foreign investors, simplifying the formalities for examination and approval of the establishment of foreign enterprises, and actively encouraging foreign investors with capital, management skills and advanced technology, the amount of FDI in Tibet has been gradually increasing year by year. The investment amount of foreign-funded enterprises is shown in [Table 1](#).

According to [Table 1](#), both the investment amount and the number of foreign-funded enterprises have been growing rapidly in recent years in Tibet except in year 2010. With the easing of the regulations regarding foreign party's share in registered capital, the proportion of foreign registered capital to the whole registered capital of foreign-funded enterprises became higher and higher in the first decade of 2000s, and it was even more than 70 percent in year 2007 to year 2010, which indicates that the controlling power of foreign enterprises was getting stronger.

But judging from the absolute amount, the FDI amount and the number of foreign-funded enterprises are the smallest nationwide. Seeing from the relative number, the Inward FDI Performance Index (IND) can be used as an indication to benchmark success in attracting FDI. IND is the ratio of a region(i)'s share in the country's FDI flows to its share in the country(n)'s GDP. It can be shown in the following mathematical formula below:

$$IND_i = (FDI_i / FDI_n) / (GDP_i / GDP_n)$$

**Table 1. The Amount of FDI in Tibet, 2006-2013. (USD 10,000)**

Year	Number of Foreign-funded Enterprises*	Amount of FDI**	Year-on-year Growth Rate(%)	Proportion of Foreign Registered Capital to the Whole Registered Capital of Foreign-funded Enterprises (%)*
2006	115	3808	-	69.2
2007	129	2418	-36.50	71.8
2008	132	2320	-4.05	73.3
2009	243	5800	150.00	74.5
2010	264	2434	-58.03	86.8
2011	298	6459	165.37	67.0
2012	208	17402	169.42	43.0
2013	240	10111	-41.90	42.9

"-" stands for data not available.

Source: \* Data from National Bureau of Statistics of China [Online]. Available:

<http://data.stats.gov.cn/workspace/index?jssessionid=7F85AA87D8BAA42278CB90A807197CE3?m=fsnd>. [Accessed Feb. 2, 2015].

\*\* Data from Statistical Bulletin of Tibet Autonomous Region for National Economic and Social Development(2006-2013).

Generally speaking, regions with an index value of one receive FDI exactly in line with their relative economic size. Regions with an index value greater than one is successful in attracting FDI, since they attract more FDI than may be expected on the basis of relative GDP. On the other hand, regions with index values below one is not

successful in attracting FDI, since they attract less FDI. The IND of Tibet is calculated from year 2006 to 2013 (Table 2). It can be seen that Tibet's IND was very small, and in most of the years it was below one(except in year 2012), which shows that the percentage of Tibet's FDI is very low.

**Table 2. IND of Tibet's FDI (2006-2013)**

Year	2006	2007	2008	2009	2010	2011	2012	2013
Ratio of FDI of Tibet to that of the country(%)	0.06	0.034	0.03	0.06	0.02	0.06	0.16	0.09
Ratio of GDP of Tibet to that of the country(%)	0.14	0.14	0.13	0.13	0.13	0.13	0.14	0.14
IND of Tibet's FDI	0.43	0.24	0.19	0.49	0.18	0.43	1.15	0.61

Source: Data from Statistical Bulletin of Tibet Autonomous Region for National Economic and Social Development(2006-2013), National Bureau of Statistics of China(2007-2014).

## 2.2. Utilization of FDI by Industry

With continuous increasing of foreign investors in Tibet, the industrial distribution of foreign investment have extended from wool washing industry, carpet industry, and catering and entertainment industry to national handicraft processing, characteristic industry and so on. At present, foreign investment industries are mainly in tourism service, hotel and catering, food processing, medicine and health care, development and production of national characteristic products, mineral exploration, commerce, wine brewing, machinery and equipment, transportation, post and telecommunication, real estate, social service and other industries. The industrial fields are expanding year by year.

## 2.3. FDI Sources and Investment Forms

Tibet's FDI is mainly from Nepal, Hong Kong, British Virgin Islands. A small part of it is from the U.S., Cayman Islands, Taiwan, Macao, Singapore, Denmark, England

and other countries and regions. The main form of foreign enterprises in Tibet is joint venture, the secondary form is exclusively foreign-owned enterprise; and the last is Chinese-foreign cooperative enterprises.

## 2.4. The Pulling Effects of FDI on Tibet's Import and Export

Compared either with the whole country or with western neighboring minority provinces(regions), the import & export value of Tibet's foreign-funded enterprises is very low; and its ratio to the whole region's import & export value is also very low, which is only less than 1 percent (Table 3). The ratio is only 0.004 percent in 2013, which is much lower than 0.91 percent of Sinkiang, 3.27 percent of Yunnan, and 6.27 percent of Qinghai, and 46.12 percent of the country. It can be seen that Tibet's foreign-funded enterprises haven't played an important role in promoting its external economic relations, and the pulling effects of FDI on Tibet's import and export are quite small.

**Table 3. Comparison of the Import and Export among Tibet and Neighboring Provinces(Regions) (USD 1 million)**

Province (Region)	2012			2013		
	Import & Export Amount of Foreign-funded Enterprises	Import & Export Amount of the Region	Ratio (%)	Import & Export Amount of Foreign-funded Enterprises	Import & Export Amount of the Region	Ratio (%)
Tibet	0.408	3424	0.01	0.143	3319	0.004
Sinkiang	274	25170	1.09	252	27562	0.91
Yunnan	624	21014	2.97	844	25794	3.27
Qinghai	49	1157	4.24	88	1403	6.27
Nationwide	1894120	3967119	47.75	1918402	4159693	46.12

Source: National Bureau of Statistics of China.

## 2.5. The Contributions of FDI to Tibet's Fixed-asset Investment

In Tibet, the ratio of foreign-funded enterprises' fixed-asset investment to the whole social fixed-asset investment is very low, as shown in Table 4. In 2013, the ratio of foreign-funded enterprises' fixed-asset investment to the whole social fixed-asset investment is 5.0 percent

nationwide; while in Tibet it's only 0.23 percent. The ratio is not only much lower than national average level, but also is lower than other western neighboring minority provinces(regions). Thus, the contribution of foreign-funded enterprises to Tibet's fixed-asset investment is very low. From above analysis we can see that roles of FDI plays in Tibet's economic development are limited.

**Table 4. The Ratio of Foreign-funded Enterprises' Fixed-asset Investment to the Whole Social Fixed-asset Investment in Tibet(RMB 1 million)**

Year	Foreign-funded Enterprises' Fixed-asset Investment (1)	Whole Social Fixed-asset Investment (2)	Ratio (%,(1)/ (2))
2006	21	23235	0.09
2007	56	27118	0.21
2008	218	30993	0.70
2009	28	37942	0.07
2010	263	46326	0.57
2011	225	51631	0.44
2012	481	67052	0.72
2013	201	87600	0.23

Source: Data are calculated according to Tibet Statistical Yearbook (2007-2014, China Statistics Press).

## 3. Analysis of the Potentials of Tibet's Further Utilization of FDI

### 3.1 Rapid Development of Tibet's Economy

Since Tibet autonomous region was founded more than 60 years ago, its economy has developed rapidly. From 1959 to 2013, Tibet's GDP has grown from 174 million Yuan to 80,767 million Yuan, and its average annual growth rate is 12.28 percent calculated at comparable prices. At the same time, its GDP per capita has increased from 142 Yuan to 26,068 Yuan. Tibet's modern industry started from scratch, and now has preliminarily formed its industrial production system with Tibetan characteristics. Modern business, tourism, posts and telecommunications, accommodation and catering, culture and entertainment, IT industry and other newly emerging industries have risen rapidly. The fast growth of Tibet's economy has established the production and market foundation for attracting foreign investment.

### 3.2. Newly-built Three-dimensional Traffic and Communication Network

By now Tibet has basically built up three-dimensional traffic network with the integration of air transportation, railway, and highway. Five out of Tibet's seven prefectures have air transportation, and have opened 21 domestic and international airlines from Lhasa to Beijing, Chengdu, Hong Kong, and Nepal. The building of the railway from Qinghai to Tibet ended the history of no railway in Tibet Autonomous Region, and it solved the traffic bottleneck restricting Tibet's development for a long time. Qinghai-Tibet highway, Chengdu-Lhasa highway, China-Nepal highway and other 2 national highways run through Lhasa. All the towns and more than 80 percent villages in Tibet access highway, and the total highway mileage reached 58,000 kilometers. After optical fiber cable and telephone were installed in every town in 2004, fax was installed in every town in 2007, and telephone was installed in every village in 2010, broadband was installed in every town in 2011.

Convenient traffic and communication network improved the efficiency of logistics, which offers convenient conditions for foreign-funded enterprises to set up their business and for their products to enter the inland and international markets.

### 3.3. Featured Advantageous Industries

Being strongly supported by the government, six featured pillar industries are now being formed in Tibet, which are tourism, Tibetan medicine, bio-industries with plateau characteristics, green food (drink) industry, etc. As the pillar industries of Tibet that need to be urgently developed, they contain huge business opportunities and are very attractive for foreign investment.

#### 3.3.1. Tourism Industry

Tibet has distinctive cultural landscape and is richly endowed with natural plateau scenery, so its tourism industry has huge potential. But at present, the development and utilization of cultural resources and natural resources, the development of scenic areas, the construction of the supporting facilities and other aspects still need more funds, so foreign investment can play a big role in these aspects.

#### 3.3.2. Tibetan Medicine Industry

Owing to its systematic and integrated medical theories, unique medicine resources, and safe and effective prescription, Tibetan medicine occupies an important position in the traditional medicine of the world. In recent years, Tibetan medicine has achieved substantial development, and has gradually become an important new source of economic growth.

#### 3.3.3. Bio-industry with Plateau Characteristics and Green Food (Drink) Industry

Tibet has wide varieties of wildlife resources; and this biological resource advantages can be converted into economic advantages. Tibet has large reserves of drinking water resources with abundant trace elements, so mineral water, beer, plant health care products, etc. can be vigorously developed. Tibetan bio-industry with plateau characteristics and green food(drink) industries have huge potential.

### **3.3.4. Agricultural and Livestock Products Processing Industry and Ethnic Handcrafts Industry**

Tibet's unique livestock product resources, such as barley, cashmere, yak, Tibetan sheep, have great development prospects. The market prospects of ethnic handcrafts with unique Tibetan characteristics, such as carpets, thangka (Tibetan art of scroll painting), Tibetan incense, aprons, etc. are broad.

### **3.3.5. Mining Industry**

Tibet is rich in mineral resources. Among proven mineral resources, 18 kinds of reserves in Tibet rank within top 10 national wide; 12 of them rank within top 5; and chromium and copper rank first in the country. Mining industry has become one of the important pillar industries in Tibetan economy. Since the development of mining industry demands for large capital, more domestic and foreign investment is needed. Tibetan mining industry is very promising as long as it is in coordination with environmental protection.

### **3.3.6. Construction and Building Materials Industry**

Construction and building materials industry in Tibetan economy plays an important role. During the period of 11th "Five-year Plan", Tibet's construction industry maintained an average annual growth rate of 20% and promoted the development of building materials industry and related industries. In the future, with the acceleration of Tibet's economy, the construction and building materials industry will step into a period of great development. Therefore, Tibet's local economy and foreign enterprises will both have huge economic gains by investing in this field.

## **3.4. Unique Geographical Advantage in Connection with South Asia**

Tibet borders upon five countries and one region in South Asia and the border is up to nearly 4,000 kilometers with 312 roads connecting foreign countries (regions). Tibet is becoming an important part of the land bridge connecting East and South Asia. As the Qinghai-Tibet railway was put into full operations, East Asia and South Asia land routes become the most economical and efficient trade routes. It can be expected in the near future that Tibet will become an important distribution center and commercial center of logistics and trade among China, India, East Asia and South Asia. With the increase of trade between China and South Asian countries, their economic ties including investment will gradually be boosted. Now Nepalese investors in Tibet are getting more and more; and the investment from India also starts to enter Tibet. As the bordering region with these countries, Tibet has great potential to attract more foreign investment.

## **4. Countermeasures for Strengthening the Utilization of FDI in Tibet**

In the long run, FDI will play positive role in promoting Tibet's economic development, improving its technical level and participating in regional economic cooperation. Thus to further strengthen attracting and utilizing foreign

investment will be one of the important ways to realize Tibet's economic development in the future.

### **4.1. To Strengthen Publicity both at Home and Abroad**

At present Tibet's publicity efforts are not enough; and its communication mechanisms with foreign countries and regions still need to be strengthened. Tibet can participate in all kinds of advertising and promotion activities both at home and abroad, hold economic and trade fairs, product (project) promotional activities, festival celebration activities, etc. to introduce its preferential policies and good investment environment for foreign investment. It should try to show its rich natural resources and broad development prospects, widely associate with business people all over the world, improve its economic and trade interaction with other regions, promote Tibet's excellent and featured products as well as its outstanding arts and culture and magnificent natural sceneries, and let the world learn more about Tibet, so as to attract more investors to invest in Tibet.

### **4.2. To Promote Coordinated Development between FDI and Tibet's Economy and Resources**

Based on the current foundation and features of Tibet's economic development and its resource characteristics, Tibet has formulated and now is actively implementing its economic development strategy of "improving the level of primary industry, focusing on key areas in the secondary industry; and vigorously developing the tertiary industry", which means to speed up the development of modern agriculture and animal husbandry, to focus on developing key industries in the secondary industry to enhance industrial strength, and to speed up the structure optimization and upgrading of service industry. Thus, for primary industry, Tibet should actively utilize FDI to bring in advanced biotechnology, planting and breeding technology to improve the level of the primary industry. For the secondary industry, Tibet should actively guide FDI into key areas, such as agricultural and livestock processing industry, bio-industry with plateau characteristics, green food (drink) industries, Tibetan medicine industry, mining industry, etc. in order to build its own brand and competitiveness and enhance its industrial development strength. For the tertiary industry, Tibet should actively use FDI to improve its tourism industry system and deeply develop cultural experience and ecological tourism; meanwhile it should actively attract foreign logistics enterprises to develop modern logistics industry in Tibet.

### **4.3. To Promote Harmonious Development between FDI and Tibet's Ecological Environment**

Due to the fragile ecological environment, Tibet should stick to sustainable development. In terms of utilization of FDI, Tibet should maintain a strict standard for ecological protection and resource consumption, and implement "one-vote veto system" for environmental protection. Tibet should encourage foreign enterprises to promote the

use of clean energy and renewable energy, promote new products and new technology like photothermal, photovoltaics, wind energy, geothermy, etc. which suits plateau environment. Tibet should strictly limit high energy-consuming enterprises and encourage foreign enterprises to promote the application of new process, new technology, new equipment and new materials which are energy-saving and environmentally friendly. Advanced foreign technology should also be introduced in Tibet to improve the comprehensive utilization of paragenetic and associated mineral resources of ferrous and non-ferrous metals. In addition, Tibet can also guide FDI to develop ecological industries and environmental industries, so as to eliminate the negative effects of economic activities on resources and eco-environment, ensure the ecological sustainability of economic system and promote harmonious development between FDI and Tibet's ecological environment.

#### 4.4. To Use Development Zones (Industrial Parks) as Important Carriers for Attracting FDI

From the regional distribution of FDI nationwide, development zones(industrial parks) are the place where foreign enterprises are most concentrated. For example, in 2010, actual inflow of FDI of the 90 national economic and technological development zones(industrial parks) accounted for 28.9% of the inflow FDI of the country. Although many of Tibet's development zones(industrial parks) are still in their early stages, they have their own advantages in environment, policies, location, etc. and will surely be the concentrated area for FDI in the future. Therefore, Tibet should use development zones(industrial parks) as important carriers for attracting FDI, actively promote the construction of development zones(industrial parks), firmly seize the opportunities, open up more investment fields, lower investment threshold, optimize industry structures, strengthen the attraction of FDI, and bring in more foreign fund, thus to enhance Tibet's industry intensification and form complete industrial chains.

#### 4.5. To improve Infrastructure Construction

Although Tibet has achieved great accomplishment in infrastructure construction, many things still need to be improved. For example, currently there is only one high-grade highway being built in Tibet, and Tibet's road network density is only 1/10 of the country's average level. It's very difficult for road building and the roads are easily to be damaged by natural disasters because of special geological structures and harsh climatic conditions, which is not good for Tibet's economic development and attraction of FDI. Therefore, Tibet should put more effort to improve infrastructure construction, speed up the construction of transport hubs along Qinghai-Tibet railway and Yarlung Zangbo River, Lhasa River, Nianchu

River and Nyang River, strengthen the coordination and connection of all transportation modes, promote the construction of 4-hour economic circle from Lhasa to Xigaze, Shannan, Nagpur and Nyingchi, and achieve transportation accessibility and convenience in Tibet. In addition, Tibet also needs to accelerate the construction of fast transportation accessing all major cities of the country and actively build land routes for trade with Southern Asia, creating good external conditions for Tibet's economic development and attraction of FDI.

## 5. Conclusion

Although there exist some problems with the utilization of FDI in Tibet, such as the scale of FDI is still small, the pulling effect of FDI to Tibet's economy is limited, and the contributions of foreign enterprises to the local economy are small, etc., Tibet still have great potentials of further utilization of FDI. Through analysis, it can be seen that Tibet has advantages in rapid economic development, newly-built three-dimensional traffic and communication network, featured advantageous industries, unique geographical location in connection with South Asia, etc., which will be very attractive to foreign investors. But Tibet still have to take effective countermeasures to strengthen its utilization of FDI and to promote its economic development, e.g. to strengthen publicity both at home and abroad, to promote coordinated development between FDI and Tibet's economy and resources, to promote harmonious development between FDI and Tibet's ecological environment, to use development zones(industrial parks) as important carriers for attracting FDI, and to improve infrastructure construction, etc.

## Acknowledgement

This research is supported by the Fundamental Research Funds for the Central Universities of China (20150425), and National Social Science Foundation of China.

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