

Research on Inviting Foreign Direct Investment to Guangxi Province of China

Li Shang, Bu Cuilan, Cai Li*

International Business School, Dalian Nationalities University, Dalian, China

*Corresponding author: caili@dlnu.edu.cn

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Abstract With the implementation of reform and opening-up policy of China, the economy in Guangxi province has made tremendous achievements. Foreign direct investment is extremely vital for stimulating economic growth for Guangxi. At the same time, foreign direct investment has created a large number of job opportunities and promoted the optimization and upgrading of industrial structure of Guangxi. This paper analyzed the development status of the utilization of foreign direct investment in Guangxi province and proposed the countermeasures and suggestions for improving the utilization of foreign direct investment in Guangxi province.

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

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1. Introduction

Since the implementation of thirty years of reform and opening up policy, Guangxi carried out going global policy by improving the government service system, optimizing the foreign investment environment, and made great achievements in expanding investment scale and improving foreign investment quality and effectiveness. Since the approval of first joint venture-Nanning Jones pineapple Co. Ltd. was established in Guangxi in December 1981, 24 of the world's top 500 enterprises from 79 countries and regions have invested in Guangxi. In the first half of 2014, the actually used foreign investment in Guangxi was USD 677 million achieving the best level of the same period during the current five years.

This paper analyzed the utilization of foreign direct investment (FDI) in Guangxi and discussed the countermeasures based on the situation of FDI used in Guangxi.

2. The Current Situation of Using FDI in Guangxi

2.1. Using FDI by Scale

Compared with the utilization of foreign direct investment of other parts of China, the level of utilization of foreign direct investment in Guangxi is lower. The foreign direct investment made very little contribution to the GDP growth of Guangxi.

In [Table 1](#), the economic expansion period (from 1992 to 1994) formed the first investment boom and the annual

actually utilized FDI was above 8 billion dollars. In the process of tightening inflation and following recession from 1995 to 1996, there was a sharp fall of FDI. In 1995, FDI fell by 17.9% year on year, only accounted for 6.7 billion dollars. In 1996, FDI again, fell by 0.5%. The second peak period of investment was from 1997 to 1998. The annual amount of FDI was also above 8 billion dollars during the second peak period, and in 1997 FDI increased by 32.1%. After 1998, due to the Asian financial crisis and the slow economic growth in America, the economic development of the whole world drove into the slow lane. And the economy of China was also in bad shape for a variety of reasons. Hence, all kinds of investors were cautious, and the amount of FDI in Guangxi was also declining. Actually utilized foreign investment decreased from 12.83 billion dollars in 1998 to 5.76 billion dollars in 2001. FDI declined from 8.86 billion dollars in 1998 to 3.84 billion dollars in 2001. After 2002, due to the establishment schedule of China and ASEAN free trade area, the actually utilized FDI started to rise again, and FDI ascended to 4.56 billion dollars in 2003. However, along with the launch of China and ASEAN Free Trade Area on 1st January, 2004, the enthusiasm of foreign investors was restrained by the substantial remove of tariff, resulting in the actually utilized FDI in 2004 decreasing by 35.2%, only 2.96 billion dollars the lowest record since 1993. With the fast economic growth in Guangxi province after 2005, FDI occurred another fast economic growth stage. Until 2009, the annual FDI growth rate reached 29.5%. Because of the international financial crisis, the FDI declined again in 2010 and fell 11.9% year on year. The stuck FDI scale influenced the establishment of new foreign enterprises and the development of industrial cluster in Guangxi province directly. In 2011, the new approved large projects of contractual foreign capital and actually

introduced capital increased a bit. At the end of 2011, among the new approved projects, the number of contractual projects above 10 million dollars was 25 and the projects over 20 million dollars was 22.

In 2013, contractual foreign investment increased in Guangxi, however, the actually used foreign capital declined. The amount of contractual foreign investment reached above USD 2 billion, and actually utilized foreign capital was 700 million US dollars.

According to Table 2, Guangxi's INDi (INDi = (FDI Guangxi / FDI China) / (GDP Guangxi / GDP China) was always lower than 1, and generally less than 0.5. Only in 2008 and 2009, it was higher than 0.5. This indicates that Guangxi's INDi is lower than the China national average level, and often less than 50% of the China national average level. This reveals that Guangxi has not yet become an attractive FDI hot spot compared with other regions of China.

Table 1. The Amount of Utilization of FDI in Guangxi, 1979-2013.(USD 10,000)

Year	Actually Used FDI	Year	Actually Used FDI
1979-1983	1226	2001	38415
1985	1251	2002	41726
1990	3025	2003	45619
1991	3871	2004	29579
1992	18026	2005	37866
1993	87203	2006	44740
1994	81506	2007	68396
1995	66952	2008	97119
1996	66618	2009	103533
1997	87986	2010	91200
1998	88613	2011	101381
1999	63730	2012	75853
2000	52466	2013	70008

Source: Guangxi Statistical Yearbook 2013

Table 2. The Performance Index of Utilization of FDI in Guangxi, 2005-2013 (USD100 mln)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Amount of Actually Used FDI in Guangxi	3.79	4.47	6.84	9.71	10.35	9.12	10.14	7.59	7.00
Amount of Actually Used FDI in China	724.1	694.7	826.6	924.0	900.3	1057.4	1160.1	1117.2	1175.9
FDI Guangxi / FDI China (%)	0.52	0.64	0.83	1.06	1.15	0.86	0.87	0.68	0.60
GDP Guangxi / GDP China (%)	2.19	2.27	2.36	2.34	2.31	2.39	2.51	2.51	2.48
Guangxi's INDi=(FDI Guangxi / FDI China) / (GDP Guangxi / GDP China)	0.24	0.28	0.35	0.45	0.58	0.36	0.35	0.27	0.24

Source: Guangxi Statistical Yearbook 2013

2.2. Using FDI by Country

In 2013, the absorption of foreign investment was mainly from Hong Kong, the British Virgin Islands, Indonesia, the Cayman Islands.

Table 3. Utilization of FDI in Guangxi by Country, 2013.(USD 10,000)

Country/ Region	Number of FDI Contracts (Unit)	Proportion(%)	Contractual FDI	Proportion(%)	Actually used FDI	Proportion(%)
Total	112	100	215771	100	70008	100
Hong Kong	54	48.21	83987	38.92	37047	52.92
Investment company	11	9.82	32760	15.18	15607	22.29
British Virgin Islands	1	0.89	8000	3.71	9659	13.8
Indonesia	0	0	-2030	-0.94	3425	4.89
Cayman Islands	0	0	0	0	1617	2.31
Thailand	1	0.89	153	0.07	790	1.13
Macao	3	2.68	2776	1.29	669	0.96
France	1	0.89	635	0.29	646	0.92
Seychelles	0	0	367	0.17	190	0.27
Taiwan	12	10.71	1152	0.53	186	0.27
Mauritius	0	0	1285	0.6	100	0.14
U.S.A	4	3.57	1045	0.48	18	0.03
Australia	0	0	260	0.12	17	0.02
Malaysia	1	0.89	-2506	-1.16	16	0.02
Japan	4	3.57	305	0.14	13	0.02
South Korea	1	0.89	17	0.01	5	0.01
India	1	0.89	3	0	3	0
Singapore	3	2.68	1105	0.51	0	0
Vietnam	0	0	-92	-0.04	0	0
Belgium	1	0.89	16	0.01	0	0
U.K.	1	0.89	-400	-0.19	0	0
Germany	2	1.79	13	0.01	0	0
Hungary	1	0.89	64	0.03	0	0
Iceland	0	0	-128	-0.06	0	0
Sweden	2	1.79	85966	39.84	0	0
Other Latin America countries	0	0	100	0.05	0	0
Canada	5	4.46	167	0.08	0	0
Samoa	3	2.68	751	0.35	0	0

Source: Guangxi Provincial Department of Commerce

In the first half of 2014, the foreign investment project from the Hong Kong was 26, accounting for 48.2% of Guangxi, and the actually used investment from Hong Kong was USD 358 million, accounting for 52.9% of Guangxi. The next were Sweden, investment company and the British Virgin Islands, and the actually used foreign capital was USD 117 million, 92 million and 59 million respectively, accounting for 17.4%, 13.6% and 8.8% of actually used foreign capital in Guangxi.

2.3. Using FDI by Form

In the first half of 2013, the number of newly registered foreign enterprise from Hong Kong and Macao in Guangxi reached 67 with a total investment of USD 0.4 billion.

In the first half of 2014, the number of newly registered wholly foreign-owned enterprises was 37 with a year-on-year growth rate of 37%, the actually used foreign capital was USD 448 million with a year-on-year growth rate of 85.8%. The number of newly registered equity joint ventures accounted for 15 with a year-on-year decline rate of 16.7%, the actually used foreign capital was USD 229 million with a year-on-year growth rate of 6.5%.

Table 4. The Amount of Utilization of FDI in Guangxi by Form in Main Years (USD10,000)

	1995	2000	2006	2010	2011	2012
Total	66952	52466	44740	91200	101381	74853
Wholly foreign-owned enterprise	15163	18476	25150	65377	78103	43660
Equity joint venture	41367	16413	18120	25770	22698	21298
Contractual Joint Venture	10422	15477	1470	53	0	6

Source: Guangxi Provincial Department of Commerce

2.4. Using FDI by Industry

In 2013, foreign investors invested mostly in manufacturing, Transport, Storage and Post, Mining and Quarrying, Electric power, Gas and Water Production and Supply, accounting for 59.87%, 8.33%, 7.05% and 6.69% of Guangxi respectively.

In the first half of 2014, actually utilized foreign investment mainly concentrated on manufacturing and real estate with USD 534 million totally, accounting for 78.9% of Guangxi. The actually utilized foreign capital in manufacturing sector was USD 271 million, accounting for 40.1% of Guangxi, and the actually utilized foreign capital in real estate was USD 262 million, accounting for 38.8% of Guangxi.

Table 5. Utilization of FDI in Guangxi by Sector, 2013 (USD10,000)

Sector	Number of FDI Contracts (Unit)	Proportion (%)	Contractual FDI	Proportion (%)	Actually Used FDI	Proportion(%)
Total	109	100	215771	100	70008	100
Farming, Forestry, Animal Husbandry and Fishery	10	9.17	36921	17.11	625	0.89
Mining and Quarrying	1	0.92	1269	0.59	4937	7.05
Manufacturing	29	26.61	134387	62.28	41911	59.87
Electric power, Gas and Water Production and Supply	3	2.75	4232	1.96	4685	6.69
Construction	1	0.92	-323	-0.15	0	0
Transport, Storage and Post	2	1.83	2324	1.08	5830	8.33
Information Transmission, Computer Services and Software	4	3.67	-220	-0.1	600	0.86
Wholesale & Retail Trade and Catering Services	28	25.69	12575	5.83	3836	5.48
Quarter and Catering Services	6	5.5	-1708	0.79	180	0.26
Financial Intermediation	3	2.75	3072	1.42	1598	2.28
Real Estate	2	1.83	9936	4.6	3794	5.42
Leasing and Business Services	12	11.01	-272	-0.13	571	0.82
Scientific Research, Technic Services and Geological Prospecting	4	3.67	543	0.25	415	0.59
Water Conservancy, Environment and Public Facilities Services	3	2.75	3949	1.83	0	0
Services to Households and Other Services	0	0	7077	3.28	1021	1.46
Culture, Sports and Entertainment	1	0.92	2009	0.93	5	0.01

Source: Guangxi Provincial Department of Commerce.

2.5. Using FDI by Region

Concerning the utilization of foreign capital, regional differences of each cities in Guangxi is still very obvious. In 2013, the actually used foreign capital of the following six cities, Fangchenggang, Nanning, Beihai, Hezhou,

Guilin, Chongzuo, reached USD 0.56 billion totally, accounting for 80% of Guangxi.

In the first half of 2014, the number of actually used foreign capital of Nanning City was USD 226 million with a year-on-year growth rate of 122%, following by Beihai, Qinzhou, Guilin and Chongzuo City with the actually used

foreign capital of USD 130 million, 93 million, 80 million and 50 million respectively. The total actually used foreign investment of above five cities accounted for 85.8% of Guangxi.

2.6. Operating Performance of Foreign-funded Enterprises

In Guangxi, exports of 2012 amounted to 15 billion US dollars, while imports were 14 billion US dollars with surplus of 1.4 billion US dollars. While exports of foreign-invested enterprises in Guangxi reached 3.5 billion US dollars, accounting for 43.4% of Guangxi. Imports of foreign-invested enterprises reached 6 billion US dollars, accounting for 22.9% of Guangxi imports.

Table 6. Utilization of FDI in Guangxi by Region, 2013.(USD 10,000)

Region	Number of FDI Contracts (Unit)	Contractual FDI	Actually Used FDI
Nanning	49	23053	15608
Liuzhou	11	3388	970
Guilin	9	17335	5047
Wuzhou	5	1240	3029
Beihai	6	93666	8515
Fangchenggang	1	6953	2220
Qinzhou	11	28415	16114
Guigang	3	14020	2035
Chongzuo	1	4337	4577
Laibin	3	3687	2260
Hezhou	2	4368	6739
Yulin	6	2457	2702
Baise	1	45	192
Hechi	1	12807	0
Total	109	215771	70008

Source: Guangxi Provincial Department of Commerce.

Table 7. Exports and Imports of Foreign-funded Enterprises of China, 2012 (USD 10000)

Foreign-funded Enterprises	Value of Exports	Percent of China Exports(%)	Value of Imports	Percent of China Imports(%)
Equity Joint Venture	12950890	60.7	10448317	19.1
Contractual Joint Venture	82758	0.4	49496	0.8
Wholly Foreign-owned Enterprises	8316558	38.9	42621182	80.1
Total	21350207	35.8	53118996	15.3

Source: China Trade and External Economic Statistical Yearbook 2013.

Table 8. Exports and Imports of Foreign-funded Enterprises of Guangxi, 2012 (USD 10000)

Foreign-funded Enterprises	Value of Exports	Percent of Guangxi Exports(%)	Value of Imports	Percent of Guangxi Imports(%)
Equity Joint Venture	156513	44.2	282467	46.4
Contractual Joint Venture	2036	0.6	344	0.1
Wholly Foreign-owned Enterprises	195687	55.2	325640	53.5
Total	354236	22.9	608451	43.4

Source: China Trade and External Economic Statistical Yearbook 2013.

3. Recommendation Analysis of the Utilization of FDI in Guangxi

3.1. Strengthening Infrastructure Construction

Highway system, perfect communication service and abundant supply of water and electricity will help to cut down the cost of FDI significantly. As to western China, especially Guangxi province, the main reason for the poor situation of FDI is due to the faultiness of investment environment. Therefore, Guangxi should take advantage of the fiscal support and preferential policy from the central government of China. Additionally, Guangxi is located in the joint point of south east China and is the China's important portal to south-east Asian nations. In order to expand the economic and trade activities with neighboring countries of Guangxi, Guangxi government should introduce policy to support the investment and construction of key projects, and encourage private capital to invest in the infrastructure sectors. Infrastructure facilities are helpful to build continuous and complete industrial chain and enhance the attractiveness to FDI. Unique and proper development orientation and constantly improving investment environment are conducive to transform the disadvantages into advantages, and finally to improve the level of the utilization of foreign capital.

3.2. Improving Market Economy System

In market economy, the comprehensive economic strength and development level of one region depend on the development level of market. Cultivating market is the

crucial measures to promote economic development in Guangxi. Particularly, it is necessary to strengthen the infrastructure construction in Guangxi, especially the construction of transportation and communication. Thus, it is more convenient for Guangxi to exchange market information with other regions in China to transmit factors of production, reinforce the construction of public facilities, provide a good market environment for Guangxi and enhance the attractiveness to FDI.

3.3. Promoting the Upgrading of Investment Industries

Generally speaking, foreign investors prefer to invest service industry with a higher rate of return. To some extent, preferable service industry could optimize the distribution of local resources, provide better upstream products and services for the foreign merchants in Guangxi. At present, FDI mainly focuses on wholesale and retail industry, hotels and catering industry and commercial services. Whereas, modern services with high value use less FDI, such as finance and insurance, telecommunication industry, logistics industry, accounting, computer and engineering supervision. Hence, on one hand, Guangxi government should take advantage of the preferential tax policy given by central authorities, playing the regional advantages to upgrade industrial structure, and attract foreign capitals and guide them to invest on commerce, tourist industry, social service industry and catering services. On the other hand, in order to promote the development of service industry and sustainable development in Guangxi, Guangxi government should deepen the openness of financial service industry,

encourage transnational corporation to participate in the reform of nationalized banks, state-owned insurance firms, and pay more attention to emerging industries, such as culture and sports, recreation, scientific research and information consultancy.

3.4. Innovating Approaches to Attract Foreign Capital

It is obvious that FDI is a kind of long-term economic activity. The investment behavior from one foreign investor has the demonstration effect to other investors, owing to the transmission of information among foreign investors, other foreign investors intend to comprehend local policies and investment environment more easily. Therefore, Guangxi should make use of the late-mover advantage to innovate new ways to attract foreign capitals. Guangxi should make the best of its geographical advantages to develop the import and export trade and accelerate the communication between Guangxi and the outside world. It is more beneficial to introduce the investment projects with high-level technical contents so as to improve the technical level of enterprises in Guangxi and upgrade the industrial structures.

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