

Comparison Analysis of Foreign Capital Used in China's Northeast Three Provinces

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Abstract: After China Government implemented a strategy to develop China's western region, it decided to implement a strategy to revitalize the old industrial bases in China's northeast. But how about is the situation of China's northeast? This article analyses the situation and characteristic of foreign capital used in China's northeast three provinces—Heilongjiang province, Jilin province and Liaoning province to find the difference among the eastern parts. At the same time, we put forward the way to utilize foreign capital in China's northeast to participate in the reform of the old industrial bases, to improve economic development of three provinces in China's northeast. [Nature and Science. 2005;3(1):81-87].

Key words: foreign capital used; three provinces in China's northeast; old industrial bases

1 Introduction

According to UNTDO statistics, from 1980 to 2002, the whole world FDI increased constantly. Up to 2002, the accumulative total volume of global FDI was USD 7.1 trillion, and the country of absorbing FDI most was America, its total volume was USD 1351 billion. UK and Germany were in the second and the third places, the total volumes were USD 639 billion and USD 452 billion. As the country developed most rapidly in the developing countries, China was in the fourth place in 2002 from the 17th place in 1990, the total volume of FDI was 448 billion. In 2003, the amount of foreign capital actually used was USD 53.505 billion in China. (Appendix I). Foreign capital gets an increasingly important role of China economic development. At the

same time Chinese economy improved rapidly to create favorable conditions for utilization of foreign capital.

- Increasing employment opportunity;
- Increasing financial revenue;
- Improving foreign trade and foreign economic cooperation development.

But the regional distribution differs greatly from the utilization of foreign capital in China. Up to 2003, the east part of the country was 86.27%, the central region was 8.93% and western region was 4.8% in China total amount of foreign capital actually used. (Table 1, Table 2). So we will analyze the situation and characteristic of foreign capital used in three provinces—Heilongjiang province, Jilin province and Liaoning province of China central region to find the difference between them and east part.

Table 1. Up to 2003, China east, central and western region utilization of foreign capital (USD 100 million)

Region	Number of projects Ratio(%)	Amount of foreign capital specified in contracts Ratio(%)	Amount of foreign capital actually used Ratio(%)
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Total	100	100	100
East region	82.00	86.86	86.27
Central region	11.27	7.55	8.93
Western region	6.73	5.59	4.80

According to: <China Foreign Capital Utilization Report > 2004

Table 2. 2003 China east, central and western region utilization of foreign direct investment (USD 100 million)

Region	Number of projects	Ratio(%)	Amount of foreign capital specified in contracts		Amount of foreign capital actually used	
				Ratio(%)		Ratio(%)
Total	41081	100	1150.70	100	535.05	100
East region	36159	88.02	1005.30	87.36	459.51	85.88
Central region	3177	7.73	95.52	8.30	58.31	10.90
Western region	1745	4.25	49.88	4.33	17.23	3.22

According to: <China Foreign Capital Utilization Report > 2004

2 The general situation of the foreign capital utilized in China northeast three provinces

Heilongjiang Province: Up to the end of 2003, the accumulative number of foreign capital projects approved 6876, the amount of foreign capital specified in contracts was USD 7.102 billion, total amount of foreign capital actually used was USD 4.682 billion, and foreign funded enterprisers were 2980. And in 2003, the new foreign capital projects increased 239, the amount of foreign capital specified in contracts was USD 0.488 billion, the amount of foreign direct investment actually used was USD 0.322 billion.

Jilin Province: Up to the end of 2003, the accumulative number of foreign capital projects were 6986, accumulative total amount of foreign capital actually used was USD 3.659 billion, and in 2003, the new foreign capital projects increased 340, the amount of foreign direct investment actually used was USD 0.191 billion.

Liaoning Province: Up to the end of 2003, the

accumulative number of foreign capital projects were 12437, the amount of foreign capital specified in contracts was USD 32.928 billion, accumulative total amount of foreign capital actually used was USD 16.253 billion, and in 2003, the new foreign capital projects increased 2231, the amount of foreign direct investment actually used was USD 2.824 billion.

For the circumstances of foreign capital used in northeast three provinces, Liaoning Province was in the first place, which led Heilongjiang Province and Jinlin Province on matter what the number of foreign enterprisers, the amount of foreign capital actually used, or the increasing rate of foreign capital used. The main reasons of these were the favorable geographical position and good foundation of an open economy policy in Liaoning Province.

Although the number and amount of foreign capital used in Northeast are increasing continuously, especially Liaoning Province, whose number of foreign enterprisers was near the coastal provinces and city, they fell behind comparing eastern coastal provinces and city (Table 3).

Table 3. Up to the end of 2003, the utilization of foreign direct investment in some east part in China -- five provinces and one city (USD 100 million)

Province or city	Numbers of foreign enterprises	Accumulative total amount of foreign capital specified in contracts (USD 100 million)	Total amount of foreign capital actually used (USD 100 million)
Shandong Province	19737	399.67	248.97
Jiangsu Province	25061	990.15	522.38
Zhejiang Province	14722	315.23	159.35
Fujian Province	12974	320.59	262.20
Guangdong Province	34507	737.77	777.58
Shanghai City	16510	487.81	278.56

According to: <China Foreign Capital Utilization Report > 2004

3 Analyzing the main Characteristics of foreign capital used in China Northeast three provinces

We know that attracting foreign capital actively is essential condition to speed economic development. The contributing effect and big or small has closed relations for coordinating level of local region factor and the government policy. China's middle region has a vast land where the situations of industrial development have differed greatly with eastern part.

Northeast three provinces were the base camp of China industrial economy in the period of planned economy. It was the most abundant region of industrial resources that almost concentrated all China heavy and chemical industry, such as Daqing oil field in Heilongjiang province, the chemical and automobile industry in Jilin province, iron and steel industry in Liaoning province, and some large mines. So we can say that China's northeast almost represent China industry. In the industrial basis field, it is the first for not only heavy and chemical industry, but also communication and transportation in China. In the human resources field, it is in the lead for the rate of technical staff in China. In the agriculture field, it is rich in natural resources – Heilongjiang and Jilin is the agricultural – produced base. But the people are only 100 million, just near Shandong province. So in the early days of China reform, northeast had more strength to compare with eastern coastal part.

But with the deepening of China reform, the development of northeast fell behind eastern coastal part. The main reasons were that it is didn't do its best at its economic transform. It has differed greatly with eastern part in the ownership structure. Up to the end of 2001, the rates of state-owned enterprises in northeast three provinces were 78.2% of Liaoning, 86.2% of Jilin, and 87.2% of Heilongjiang. These rates were higher than eastern coastal part, and also higher than all county's average level – 64.9% (Huang, 2003). And the more scales of state-owned enterprise, the more difficult it adjusted. On the other hand, northeast three provinces have some problems in the market opening, the government ideas and the whole investment environment fields. So it has characteristics of foreign capital used.

3.1 The function of government

In the course of utilization foreign capital, the government of northeast three provinces attaches great importance to organizing function of the government, combine government affairs with economy and trade closely. They help enterprises to build the platform to find the cooperating partner. On the other hand, the government which attracted investment can solved the contradictions of the high costs and low successful rate for enterprises that temper themselves in the market. For example, Heilongjiang government held the fourteenth economy and trade fairs, twentieth Harbin ice and snow festivals; Liaoning government held Dalian international fashion festival, Shenyang – China

international equipment manufacture fair, APEC Dalian conference. Through these activities, they extend China's northeast well-know measures and effects at home and abroad, promote foreign investors' understanding for prospect of economy and social development, improve foreign investors' confidence.

But in China's northeast three provinces, the whole investment environment is not perfect. For example, some laws and regulations didn't amplify; they stressed management environment to the neglect of law environment; there are more examination and approval systems; and sometimes happened charging and checking decision. All of these obstruct the reform of northeast three provinces.

3.2 The fields and region of absorbing foreign capital

The beginning of the reform, the fields for utilization of foreign capital centralized the processing industry of the second industry and real estate of the third industry. After over ten years developing, the field for utilization of foreign capital has changed greatly in northeast three provinces. In the field of the first industry, foreign capital is entering the projects of green food and deep process of agriculture products; in the second industry, it got actual effect for utilization of foreign capital to transform state-owned big and middle enterprises, now the step is speeding for foreign capital to enter the high technology industry field; in the third industry, the field of foreign capital is extending, such as the fields of finance, insurance and tourist. And the scale for utilization of foreign capital is extending in the field of basis facilities construction and education.

In the northeast, the regions for utilization of foreign capital were disequilibrium. In Liaoning province, the foreign capital centralized in Shenyang and Dalian city; in Jilin province, it centralized in Changchun and Jilin cities; and in Heilongjiang province, it centralized in Harbin. Except them, other area had a little amount of foreign capital. For example, during "the ninth -five years plan", the amount of foreign capital used was USD 2.2 billion annual, and USD 1.2 billion was invested in Dalian, other cities were invested a little in Liaoning province (Jiang, 2003).

3.3 The scale and quality for utilization of foreign capital

Now the large project is increasing evidently. In

Liaoning province, in 2001, the number of projects which invested above USD 5 million was 310, the amount of foreign capital utilized through the signed contracts was USD 4.18billion, increased by 54.2% and 66.5% over the preceding year. In Heilongjiang province, the number of the new projects approved 17 in 2001, which invested over USD 10 million each, the total amount was USD 0.37 billion. Every project was USD 15 million equally.

At the same time, northeast provinces attach importance to absorb the investments of the world top 500 company. Now there are many world-famous companies to invest here, such as Volkswagen, Wal-Mart, Samsung, and there were 15companies of the top 500 companies to invest in Jilin province, 16 companies invested in Heilongjiang province. And the invested scale and technology content are increasing continuously, the amount of investment are added obviously. For example, the amount of added investment was USD 0.86 billion, 28.6% of the total foreign investment in 2001 in Liaoning province.

But comparing with east part, northeast three provinces have not changed the comparative advantage to competitive advantage. The big projects which can improve the local economic development are not more. So there is a long way to compare with the east part, not only in the scale but project of foreign capital used. In 2001, the total amount of foreign capital used was USD 5.262 billion in northeast three provinces, just was 33.4% of Guangdong province(which total amount was USD 15.755 billion in 2001.), 71.6% of Jiangsu province (which total amount was USD 7.35 billion).

On the other hand, the successful rate of foreign projects is low. In Liaoning province from 1979 to 2001, accumulative amount for foreign capital specified in contracts was USD 53.81 billion, the amount of foreign capital actually used was USD 28.66 billion, just 52.5% of the one of foreign capital specified in contracts. Heilongjiang province was 73% at the same time. The main reason was that the project didn't have appeal. And the governments pay attention to formulate preferential policies to the neglect of the project demonstration. Others owing to the northeast three provinces in remote districts, they didn't have quick access to information, which led not to understand the detailed credit standing for foreign investors. So sometimes the enterprisers were deceived.

3.4 The ways for utilization of foreign capital

There are many ways for utilization of foreign capital in northeast provinces, such as, foreign direct investment, foreign government loans, international finance corp. loans, enterpriser stock in the abroad financial market. For example, Heilongjiang province, there were 27 projects of international finance corp. loan and foreign government loan in 2001, the amount was USD 0.29 billion, increased by 6.2% over the preceding year. Jilin province, the foreign loan was USD 0.18 billion in 2001, increased by 17.7% over the preceding year, such as Jilin Hada bay electric power factory (Japanese loan), the project of chemical fertilizer (Spain loan). All of these improved the economic development of Jilin province.

4 Developing course for utilization of foreign capital in northeast three provinces

Now the central government stress to reform the old industrial bases in China's northeast. It is the most important strategy after the strategies of opening China's coastal region and developing China's western region. Under these circumstances, the northeast three provinces should utilize foreign capital effectively to adjust their industrial structure, improve economic development according to their industrial condition and distribution condition.

4.1 Improve the whole investment environment

The whole investment environment is the sign of economy and culture level in one area, which is the main factor to effect foreign investment. The reforming and adjusting the old industrial bases in China's northeast will improve the investment environment of northeast three provinces. The government of northeast three provinces should take positive measures to promote foreign investment other than the national favorable policies.

Firstly, the local government should analyze and research distribution conditions of every region carefully, define industrial and styles of foreign investment clearly, and put forward implementation plan to avoid the competition blindly for foreign projects among enterprises. While government guides investment work, they should avoid more interventions, stress on long-term plan to invest foreign capital and the substance of foreign capital, guide the enterprises to stress on digest and absorb what they invest the

technology, and help them to form their own R&D ability. At the end, it will get common development between foreign and local enterprises which help each other to increase the local industrial level.

Secondly, they should strengthen the building of basis facilities. Now the central government is putting into effect for 100 projects to adjust and reform the old industrial bases in China's northeast. These projects will improve the northeast three provinces' basis facilities and revitalize the old industrial bases. At the same time, they also be perfecting some law and regulations, improving work efficiency of government, simplify the examination and approval system of foreign investment, and increase transparency of examination and approval.

4.2 Utilization of foreign capital according to the concrete industrial condition and distribution condition of northeast three provinces, and bring along the development of related industry

Northeast region is the bases of heavy and chemical industry. The industry is their economic mainstay which affects the social and economic development. But others estate didn't develop enough. As the case of Harbin, the ratio between the estates of agriculture, animal husbandry, fishery and processing as these raw material was 1: 0.38. If this ratio gets 1: 0.85 that is the average level of the whole nation, even if the scale estate of agriculture, animal husbandry and fishery doesn't enlarge, the output value will increase RMB 15 billion annually. The developing potentials are very huge, and the region of northeast three province is rich in natural resources. So the foreign capital should bring along the development of related industry. For example, absorbing foreign capital and using modern productive and processing technology to develop characteristic production of agriculture and animal husbandry, and actively expend follow-up processing to add to the additional value of products, accomplish the industry management of agriculture and animal husbandry.

Firstly, we should absorb the foreign capital to distinctive and superior resources' development and deep-processing. For example, we can choose some projects, such as the dairy products, green agriculture products and feed, which are high technology applicable. These products can replace import- products, and have large export- market. These projects don't need large money, so it is relatively easy to absorb foreign investment and will be high technology applicable. They can combine speedily with the local superior

conditions to improve the productive ability, adapt the demand of home and abroad markets, and improve the product's sales volume.

Secondly, we should absorb foreign capital to the superior industry to reduce its cost of production, improve its competitive power. So these industries should absorb foreign investments which have abundant funds and technology, such as transnational corporation, which has higher technology than domestic enterprises, and has large R&D capacity to make technology renewal and progress, also bring along the local middle and small enterprises development.

4.3 Encourage the foreign capital to invest the high and new technology industry

Three Northeast provinces had better science and technology capacity. Shenyang, Changchun, Harbin and Dalian have many universities and institutes and abundant human resources. They have formed some technology-intensive industries, such as oil and chemical, automobile, equipment manufacturing and biological industries. So we should give full play to the science and technology of three northeast provinces to combine with foreign capital and advanced R&D institutes, develop high and new technology industry to bring along local technology progressed in order to reduce the distinction between home and world advanced technology. On the other hand, because there is big risk to invest in high and new technology industry, we should absorb not only FDI, but also indirect investment, such as the capital of international capital market. It is an effective way to invest in high and new

technology industry which can adjust the industrial structure of old industry bases in China's northeast.

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Appendix 1. Total Amount of Foreign Capital Actually Used (USD 100 million)

Year	Total		Foreign Loan		Direct Foreign Investments		Other
							Foreign
	Number of projects	Value	Number of projects	Value	Number of projects	Value	Investments
1993	83595	389.60	158	111.89	83437	275.15	2.56
1994	47646	432.13	97	92.67	47549	337.67	1.79
1995	37184	481.33	173	103.27	37011	375.21	2.85
1996	24673	548.04	117	126.69	24556	417.25	4.10
1997	21138	644.08	137	120.21	21001	452.57	71.30
1998	19850	585.57	51	110.00	19799	454.63	20.94
1999	17022	526.59	104	102.12	16918	403.19	21.28
2000	22347	593.56		100.00	22347	407.15	86.41
2001	26140	496.72			26140	468.78	27.94
2002	34171	550.11			34171	527.43	22.68
2003	41081	561.40			41081	535.05	26.35

According to 2004China Statistical Yearbook

Appendix 2. Actually Used Foreign Direct and Other Investment by Region (USD 10000)

Region and Sector	2002		2003	
	Foreign Direct	Foreign Other	Foreign Direct	Foreign Other
	Investment	Investment	Investment	Investment
Liaoning	431168		282410	
Jilin	24468		19059	
Heilongjiang	35511		32180	
Shandong	473404	6606	601617	
Jiangsu	1018960		1056365	
Shanghai	427229		546849	
Zhejiang	307610		498055	
Fujian	383837		259903	
Guangdong	1133400	197732	782294	227041

According to 2004China Statistical Yearbook