

REGIONAL STRUCTURE OF CAPITAL MARKET OF FOREIGN DIRECT INVESTMENT IN CHINA' S MAINLAND

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ABSTRACT: Since China's reform and open door, the countries and regions of direct investment in China's mainland have been increasing. In 1995, the amount of foreign direct investment (FDI) in China was US\$ 37.81 billion that was from more than 170 countries and regions. The regional structure of capital market of FDI in China has three characteristics: (1) The most of FDI was from the near countries or regions, Hong Kong Macao, Taiwan, Japan, South Korea, Thailand and Malaysia provided 80.3% of the amount of FDI in 1995. (2) Only several countries and regions provided most of FDI in China. (3) According to the contributory rate, the main capital market of FDI in China could be divided into four classes, including the guiding market, subsidiary market, new and development market, opportunity market. Most of FDI in China was from the developing countries and regions, which had a negative effect on the size and technical level of foreign capital enterprises. The author puts forward the countermeasures to improve the regional structure of capital market: (1) to keep the guiding market stable, (2) to open up chiefly the subsidiary market, (3) to guide actively the new and developing market, (4) to try hard to start the opportunity market.

KEY WORDS: foreign direct investment (FDI), capital market, regional structure

1 INTRODUCTION

In 1995, the amount of FDI in China (mainland) was US\$ 37.81 billion that was from more than 170 countries and regions. The near regions such as Hong Kong-Macao and Taiwan, provided 73% of the amount of FDI in 1995. The difference in ties of geography, consanguinity and culture between Hong Kong-Macao, Taiwan and various provinces of mainland has resulted in the uneven distribution of FDI in China's mainland (SSG, 1996). Besides, enterprise size, industrial structure and technical level of capital source regions have a negative effect on the size benefit and the increase of technical level of foreign capital enterprises in China's mainland. Our government have put much attention to increasing the level of utilizing foreign capital.

2 BASIC SITUATION OF DIRECT INVESTMENT IN THE WORLD IN THE 1990S

2.1 Direct Investment Begins to Rise Again in the Developed Countries

In the developed countries, the amount of investment decreased constantly from 1991 to 1992, but began to rise again after 1993 (Table 1).

2.2 Direct Investment Increases Rapidly in the Developing Countries and Regions

The economy and the direct investment in the developing countries and regions, especially in East Asia and Southeast Asia, have still kept an rapid and constant growth since the 1960s. In 1994, the

Table 1 Change of direct investment of primary developed countries

	1989		1990		1991		1992		1993		1994	
	10 ⁹ \$	%	10 ⁹ \$	%	10 ⁹ \$	%	10 ⁹ \$	%	10 ⁹ \$	%	10 ⁹ \$	%
USA	26	11.9	27	11.1	33	16.6	39	20.4	69	31.1	46	20.7
Britain	35	16.1	19	7.8	16	8.0	19	9.9	26	11.7	25	11.3
France	20	9.2	35	14.4	24	12.1	31	16.2	21	9.5	23	10.4
Germany	18	8.3	29	11.9	23	11.6	16	8.4	17	7.7	21	9.5
Japan	44	20.2	48	19.8	31	15.6	17	8.9	14	6.3	18	8.1
Five countries	143	65.6	157	64.6	127	63.8	123	64.4	146	65.8	132	59.5
World	218	100.0	243	100.0	199	100.0	191	100.0	222	100.0	222	100.0

Sources: United Nations Conference on Trade and Development, World Investment Report, 1995.

amount of direct investment was US\$ 32.91 billion. The yearly rate of increase was 18.1% from 1991 to 1994.

2.3 Mutual Investment Was Brisk in the Asia Pacific Region

Setting up of the organization of APEC (Asia and Pacific Economic Cooperation) promoted forcefully the freedom of trade and investment within this region. The United States and Japan, which are both member nations of APEC and large direct investment countries, have put the stress of their investment on inside the Asia Pacific region. The recovery of its economy has resulted in a constant increase of direct investment of the United States that has become the largest foreign direct investment country in the world. In order to take the Asia Pacific region as foothold and starting point to carry out the global strategy (Lian *et al.*, 1996), the United States of USA must enhance trade and investment to participate in the economy cooperation with the Asia Pacific region. In the meantime there was also a increase of the sum of foreign direct investment in Japan and some newly industrialized countries and regions in Asia. In 1994, the amount of FDI in the Asia Pacific region itself was US\$ 98.2 billion, accounting for 44.2% of total investment in the world, which was from member nations and regions of APEC (Liu *et al.*, 1996). China's mainland has received most investment from member nations in APEC.

From the view of fund supply, the basic situation of foreign direct investment in the world favors

China's economy. Viewed from fund demand, however, China encounters the challenge and competition that is mainly from the Asia Pacific region itself. On the one hand, a rapid increase of Asia Pacific's economy has resulted in the shortage of fund. On the other hand, near countries and regions have instituted many preferential policies in order to attract foreign direct investment, especially, Viet Nam, Laos, Indonesia, India and Pakistan.

3 FEATURES OF REGIONAL STRUCTURE OF CAPITAL MARKET OF FDI IN CHINA'S MAINLAND

The capital market system that was composed of the capital market of different region, scope, economic development level and technical gradation has formed (Table 2). The market system has three notable regional characteristics.

3.1 Most of FDI Was from the Near Countries and Regions

In 1995, Hong Kong-Macao, Taiwan, Japan, Singapore, South Korea, Thailand and Malaysia provided 80.7% of the amount of FDI in China. This feature was mainly resulted from the following factors. Firstly, since the late of the 1980s, the relationship between near countries and regions and China's mainland has been increasingly improved and the Chinese government has instituted a series of policies and laws that encourage foreign direct

Table 2 The regional structure of capital market of direct investment in China

1983				1987			
Rank	Countries or regions	Amount (10 ⁴ \$)	Percent (%)	Rank	Countries or regions	Amount (10 ⁴ \$)	Percent (%)
1	Hong Kong Macao	47254	51.6	1	Hong Kong Macao	180905	68.4
2	Japan	18644	20.4	2	U S A	27129	10.3
3	U A S	8313	9.1	3	Japan	26664	10.1
4	France	3543	3.9	4	Singapore	2163	0.8
5	Belgian	1857	2.0	5	Italy	2154	0.8
6	Germany	1672	1.8	6	Poland	2130	0.8
7	Italy	1241	1.4	7	Switzerland	1763	0.7
8	Britain	1058	1.2	8	France	1726	0.7
9	Sweden	1014	1.1	9	Germany	1641	0.6
10	Australia	556	0.6	10	Britain	1381	0.5
11	Canada	371	0.4	11	Canada	1126	0.4
12	Denmark	377	0.4	12	Thailand	1124	0.4
	Others	5096	6.2		Others	14755	5.6

1991				1995			
Rank	Countries or regions	Amount (10 ⁴ \$)	Percent (%)	Rank	Countries or regions	Amount (10 ⁴ \$)	Percent (%)
1	Hong Kong Macao	266181	57.0	1	Hong Kong Macao	2145788	50.9
2	Japan	60952	13.1	2	Japan	369214	8.8
3	USA	33066	7.1	3	Taiwan	348202	8.3
4	Germany	16127	3.5	4	U S A	344417	8.2
5	Singapore	5821	1.2	5	Singapore	224716	5.3
6	Italy	4130	0.9	6	South Korea	150416	3.6
7	Britain	3788	0.8	7	Britain	130193	3.1
8	Thailand	1973	0.4	8	Germany	51887	1.2
9	Australia	1491	0.3	9	Malaysia	45995	1.1
10	Switzerland	1231	0.3	10	France	42465	1.0
11	France	1170	0.3	11	Canada	33797	0.8
12	Canada	1140	0.3	12	Switzerland	21441	0.5
	Others	69591	14.8		Others	304985	7.2

Sources: A Complete Volume on China Foreign Economic Statistics, 1979–1991. China Statistics Yearbook 1996

investment. Secondly, their market itself and natural resource are so limited that “Four Little Dragons” in Asia have to adjust their industrial structures only based on international market. Thirdly, with the rising of labor cost and monetary, the comparative superiority of labor intensive industry in near countries and regions has lost compared with China.

3.2 The Main Capital Markets of FDI Could Be Divided into Various Classes

According to the contributory rate (Table 3), the main capital markets of FDI in China could be divided into four class: The first class—the guiding

market consists of Hong Kong and Macao's funds, of which contributory rate is 60.1%, and has a decisive effect on the situation of introducing foreign capital. The second class—the subsidiary market includes the USA and Japan's capital, of which contributory rate is only lower than that of the guiding market. The third class—the new and developing market is composed of Taiwan, Singapore, South Korea, Thailand and Malaysia's capital, of which contributory rate was the lowest before 1992 but rose rapidly after 1992 (Fig. 1). The fourth class—the opportunity market comprises Britain, Germany, Canada, Italy, France, Australia's capital, of which contributory rate is the lowest with smooth fluctuation.

Table 3 The contributory rate of accumulated capital of main capital market in 1983- 1995

Countries or regions	HK-Macao	Japan	USA	Taiwan	Singapore	South Korea	Britain	Germany	Thailand	France	Italy	Australia	Canada	Malaysia
AIA* (10 ⁸ \$)	817.6	108.0	107.8	107.5	39.4	22.7	22.3	12.5	9.2	9.0	8.2	7.6	7.6	5.8
CA** (%)	60.1	8.0	7.9	7.9	2.9	1.7	1.6	0.9	0.7	0.7	0.6	0.5	0.5	0.4

Sources: A Complete Volume on China Foreign Economic Statistics, 1979- 1991; China Statistics Yearbook.

Note: * Accumulated investment amount; ** Contributory rate.

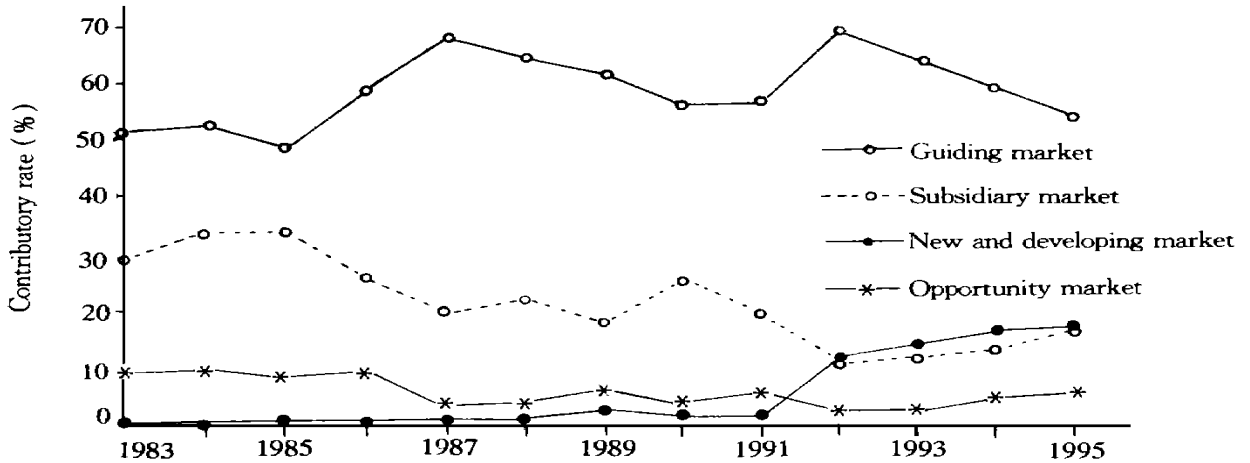


Fig. 1 The dynamic trends of contributory rate of main capital markets

Fig. 1 shows that the contributory rate of the guiding market is stable and that of the new and developing market surpass those of the opportunity and the subsidiary markets in 1992. Since 1992, the contributory rate of the guiding market has kept on decreasing constantly but those of other markets have continually increased.

3.3 Most of FDI Is Mainly Provided by Only Several Countries and Regions

In order to measure the concentration degree of the regional structure of capital market in China's mainland, author calculates geographic concentration index of capital market. Geographic concentration index (G) of capital market is written:

$$G = 100 \times \sqrt{\sum_{i=1}^n \left(\frac{X_i}{T}\right)^2} \quad (i = 1, 2, 3, \dots, n)$$

where X_i is the amount of capital provided by i countries or regions, T is the total sum of investment in China, n is the numbers of countries or regions

that provide fund for China. In 1995, G of FDI in China's mainland was 55.7, which is apparently high.

Fig. 2 shows that the fluctuation of G value is "M" in shape from 1983 to 1995. Cause of the fluctuation is that the contributory rate of various capital markets change with time. The higher, the contributory rate of capital market is, the more important the capital market effects on G value. Regression analysis shows that regression coefficient is 0.832 between contributory rate and G value. So when the contributory rate of the guiding market drops, G value decrease, too.

4 PROBLEMS RESULTED FROM THE REGIONAL STRUCTURE OF CAPITAL MARKET AND COUNTERMEASURES TO IMPROVE IT

4.1 Problems Resulted from the Regional Structure of Capital Market of FDI in China

Firstly, geographic concentration index of capital

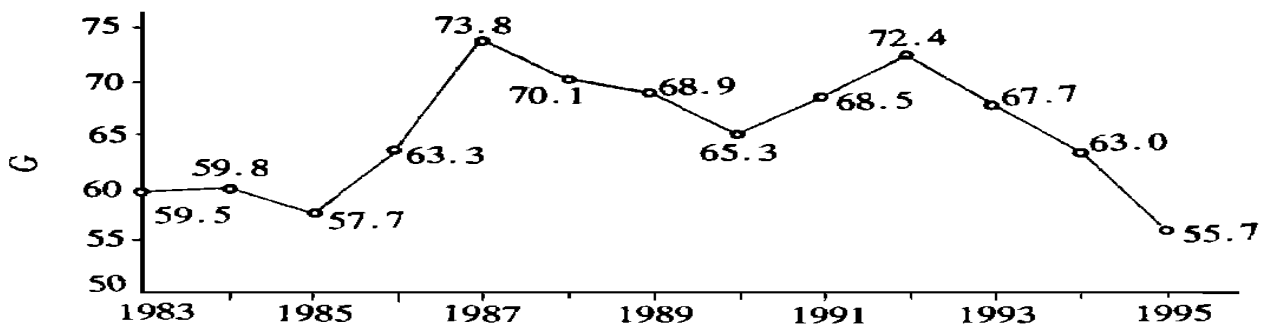


Fig. 2 The change of geographic concentration index of FDI's capital market

market in China is so high that stability of fund supply drops. Once the economy itself, policies or the favoritism of investment of those markets change, serious fluctuation of capital supply will happen. For there is spatial, geographical, historic and cultural relation between Hong Kong-Macao, Taiwan and the southeast coast in China, most of investment mainly concentrates on Guangdong, Fujian, Jiangsu and Shanghai etc. In 1995, the amount of FDI in the southeast accounted for 86.3% of the total.

Secondly, since near countries and regions which provided most investment in China have some limitation of economic and technical level and industrial structure themselves, the technical level of introduced capital is lower than that should be. For example, the investment of South Korea and Taiwan in China mainly concentrates on labour intensive industry (Bai, 1996; Huang, 1996).

Thirdly, the size of investment enterprises of Hong Kong, Macao and Taiwan is so small, which is unfavorable to forming large scale enterprises receiving capital and hard to form the stronger international competitive force that is the most important one of the index to judge the effect of FDI (John, 1994).

4.2 Countermeasures to Improve the Regional Structure of Capital Market

4.2.1 Stabilizing the guiding market

In the future, Hong Kong-Macao will still be main capital source region of China's mainland. Encouraging the direct investment of Hong Kong-

Macao's merchants and stabilizing the guiding market will be favorable to rising of the amount of introducing foreign capital in China. The return of Hong Kong will result in a increase of absolute amount of Hong Kong's capital and a rising of the size and technical level of investment enterprises in Hong Kong.

4.2.2 Opening the subsidiary market

It is very important to open the market of the United States of USA and Japan that have enough fund, the first class technique and management, many transnational corporations. As member nations of APEC, USA and Japan have put the stress of their investment on the Asiapacific region. Their investment structure, which transforms from labour intensive industry to capital and technology-intensive industry (Bai, 1996), just conforms with the need of economic development and policies of introducing foreign capital of China.

4.2.3 Guiding the new and developing market

Viewed from promoting growth of total amount of foreign capital in China, it is significant to open new and developing market. But the size structure and the technical level of investment enterprises should be guided and chosen in order to improve the regional structure of capital markets and to raise the level of using foreign capital.

4.2.4 Developing the opportunity market

The capital of the opportunity market, which comprises Britain, France, Germany, Canada, Italy and Australia etc. and is an important direct investment market in the world, is fewer than it should be in China now. The size and technology of capital er-

terprises from the opportunity market are superior to those of near market (Table 4). So we should open

the opportunity market by means of improving investment environment and strengthening propaganda etc.

Table 4 Comparison of the size of capital enterprise among countries and regions (10^4 \$)

Countries or regions	The amount of enterprises in 1995	The average scale of investment	The average foreign registered capital of every enterprise
HK-Macao	141351	285.74	113.59
Taiwan	28714	132.11	67.33
USA	17978	255.67	94.20
Japan	12447	271.64	109.31
Singapore	5586	438.19	188.16
South Korea	6080	164.07	73.78
Britain	1647	935.05	361.38
Germany	1215	687.33	211.85
Thailand	1930	312.44	134.93
Canada	2509	228.60	92.10
Italy	720	388.12	106.28
Malaysia	1048	335.52	145.68
France	850	399.28	150.09
Australia	2136	305.71	105.71

Sources: China Statistics Yearbook, 1996.

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