

# Policies for Investment In China

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Foreign investment policies (improving environment, access to domestic high-technology market encouraged)

It is well-known to our friends that since the end of the 1970s, when China adopted the policy of reform and opening up to the outside world, China's national economy has been growing constantly and rapidly. Remarkable achievements have been made in all sectors of the economy.

Foreign trade and economic cooperation, as the bridge between the Chinese and international economy have been playing a more and more prominent role in the Chinese economic development. Since 1979, China's import and export trade has been increasing progressively at an average annual rate of 10%, which is a higher rate than the growth rates of the national economy of China and world trade in the corresponding period.

In 1993, China's import and export trade volume expanded to US\$ 286.8 billion from 1979's US\$ 20.6 billion, an increase of 65 times.

China's rank among all trading nations and regions in the world rose to Number 11 in 1993 from 1979's Number 32. The percentage of trade volume in GDP grew to 27%.

According to the Customs's statistics, China's foreign trade in the first quarter of this year has been growing comparatively with the total import and export volume, hitting US\$ 26.5 billion, an increase of 28.6%, compared with the corresponding period last year. Exports rose US\$ 14.22 billion, up 31.7% and imports US\$ 12.29 billion, up 26.2%. For the first time, the export growth rate was higher than that of import after 21 months of being lower. It marks a good start in this

year for China's development of foreign trade and economic cooperation.

Import and export are developing in a direction of steady and balanced growth.

## Foreign Trade

Technology trade with foreign countries and regions is a part and parcel of China's foreign trade and economic cooperation. Since the implementation of the reform and opening up policy, China has strived to strengthen the relations with all countries in the world in the fields of economic, trade and technological cooperation.

We have introduced advanced technology and technical equipment from foreign countries. We have made great efforts to export China's technology. Remarkable achievements have been made in this respect.

During the 15 years from 1979 to 1993, China has signed 3,444 technology import contracts with the total contractual value of US\$ 41.78 billion. The number of contracts and contractual value are, respectively, 64 and 3.8 times the 30 years' total before the introduction of the policy of reform and opening up.

In 1993, 493 technology introduction contracts were signed with a contractual value of US\$ 6.13 billion. Since the reform and opening up, we have changed the situation of only importing technology (i.e. one-way technology exchange) and have begun to export technology developed in China.

The number of technology export contracts signed and the contractual value have increased year after year. In the 15 years after reform, 1,080 technology export contracts were signed. They had a total contractual value of US\$ 2.74 billion, among

which 41 were signed in 1993 with a contractual value of US\$ 3.17 billion.

Technology trade has stimulated the growth of the Chinese economy. In the field of foreign trade and economic cooperation, technology import is an important way of improving export commodity composition and expanding export. Meanwhile, technological progress and economic development are a solid material base for the export of technology. Exporting technology and participating in international technological cooperation are conducive to promoting technological progress and economic growth.

China always attaches importance to technology trade with other countries. It is a long-term policy of China concerning national economic development and international cooperation to actively import foreign advanced technology and promote technology export.

## Trade Policies

China's technology trade policies consist mainly of the following points:

1. To actively carry out and constantly expand the economic and technological cooperation with other countries on the basis of equality and mutual benefit. When doing technology trade, we shall follow the international norms and practices, protect the intellectual property rights according to law, and safeguard the legitimate rights and interests of all cooperative parties.

2. The advanced technology and importance of foreign countries will be imported and studied in an effort to

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promote the national economic development. We will also actively encourage the expansion of technology export market and participate in the international economic and technological cooperation.

2. To develop technology trade in various flexible ways. In terms of technology import, we will import and study foreign advanced technology in a package of ways, such as technological cooperation, scientific and technological exchanges, foreign investment utilization, licensing abroad and knowledge and equipment import.

We will shift from across-the-board import to selective import, making decisions on whether to import a complete set of machine assembling technology, or part, spare part or component technology.

Technology import will be based on direct investment in the international division of labor instead of 100% local content. This will integrate China's technology-intensive industry with the international technology industry while avoiding the phenomenon of "import — localization — backward — re-import." This means China will always be at the same distance behind foreign countries. With regard to technology export policy, export of mature industrial technology is encouraged.

#### ◆ Integration ◆

1. To expedite the integration of technology with industry and trade and establish a new scientific research and development system. In the middle and late 1980s, with the deepening of the economic and scientific and technological system reform, China will gradually accelerate the integration of technology with industry and trade. China will raise the R&D input to strengthen the capability of digesting the imported technology and creating new technology, gradually transform from state sponsored to enterprise sponsored R&D, set up an R&D system beneficial to imported technology upgrading and commercialization. This will enhance the efficiency of the imported technology, promote the technological advancement in

the mainstream industries, and raise China's economic and technological level.

2. To diversify technological trade. China's present technological trade is mainly technology import from the developed countries and export to the developing countries.

In the future, we will quickly develop market diversification in technology trade. While maintaining the existing good-cooperative relations in technology trade we will vigorously explore new markets.

3. To raise foreign exchange through various channels to back up the development of technology trade. In technology import, we shall actively try to use foreign governmental loans, rental credits, export credits, loans from the international financial institutions, and commercial loans. The state will give priority to arrange funds with preferential interest rates to safeguard the technology import for new priority projects urgently needed in the national economic development and for the technological renovation of the existing state-owned large- and medium-sized enterprises as well as for the improvement of the supporting projects with imported technology.

In technology export, the state will implement the internationally-practiced credit policy supporting technology export and is considering to introduce a certain amount of RMB loans and foreign exchange loan-easy plan in the foreign credit and buyer's credit for the export of technology and complete set of machines. The basic, according to the credit principles, give priority to arrange funds with preferential interest rates for technology export.

#### ◆ Preferential Taxation ◆

4. To practice preferential taxation policy for enterprises exporting technology. In technology import, we will practice the policy of taking account of technology content.

In the mid and late 1980s, China's strategic priority concerning technology import will be that while strengthening technology import, we will make great efforts to adjust the ways and structure of technology import, vigorously stimulate

the technological progress of the leading industries, facilitate the transformation from import substitution to export orientation in the dominant industries and strengthen their competitiveness in the international market.

We shall continue to expand the scale of technology import and appropriately raise the percentage of advanced technology and equipment import in the total import. Also, we will accelerate the implementation of the technology import strategy, giving priority to leading industries, and strengthen the technology import and scientific research and development, focusing on the leading industries like machinery, electronics, petrochemistry, some high-tech industries and supporting industries, such as new material industry and equipment industry.

In line with the technology content in the technology import contract, the range of import duty reduction or exemption shall be decided as follows. The higher the technology content is, the deeper customs duty reduction or exemption may be. Low technology content warrants less customs duty reduction.

Those who provide advanced technology in the key areas of industry, agriculture, forestry, fishery and animal raising will be treated with enterprise income tax reduction or exemption. In technology import, according to the provisions concerning imported materials, processing, petrochemical products, shall be given to the import of raw materials and parts for the export of technology, complete set of equipment and high-tech products.

5. To exercise macro-control by means of legal and economic instruments and maintain the sustained and coordinated development of technology trade. In order to adapt our country's trade in technology to the need of building a socialist market economy and bring it into conformity with international norms, we will continue expanding the autonomy of enterprises in importation and exportation of technology.

The state exercises macro-control mainly by means of legislative and

economic leverage and formulate lists of technical trade items that are either prohibited or restricted or permitted or encouraged. The state will apply guidance plans only to the key technology import projects that have a strong bearing on scientific development and technology export items involving the significant interest of the nation. In this way a relatively fair competitive environment has been created for enterprises, which should be conducive to facilitating the sustained and harmonious development of technology trade.

#### ◆ Trade and Investment ◆

8. To encourage the combination of technical trade and investment. Many areas of international investment warrant combination with technology trade. The laws of many countries allow equity investment in the form of technology to set up joint-venture companies and transfer technologies.

In China, there are a lot of successful stories of obtaining advanced technology through establishment of equity or contractual joint ventures. Overseas enterprises that invest in the territory of China and at the same time provide advanced technologies are eligible for a variety of incentives under the relevant Chinese laws and regulations.

Domestic investment and provision of appropriate technologies by China to recipient nations are still at the exploratory stage, since China is a developing country and faces a relative shortage of foreign exchange funds. It is unlikely we will mount a fairly big magnitude in the short run. However, along with the economic development of our country, there are broad prospects for us to develop technical trade by way of overseas investment.

#### ◆ Liberalized Environment ◆

9. To attach importance to conducting promotional activities, such as international seminars on trade in technology and exchange of information. Many countries have accumulated a lot of successful experiences in foreign technical trade, and it is worthwhile to learn and

benefit from each other.

China has benefited much from its participation in the study and information-exchange of international technology trade. For example, the United Nations information exchange systems on technology transfer and APIC workshops on investment and technology transfer have contributed to the development of China's foreign trade in technology. China is willing to host or participate in various activities of discussion and information exchange for the purpose of promoting mutual understanding and common development.

10. To strengthen the legislative effort, streamline the regulation of technical trade and create a better, more liberalized environment for the development of technical trade. China's laws and regulations on foreign trade in technology are undergoing improvement.

In order to make the state's laws and regulations more compatible with international practice and protect intellectual property rights, the Chinese authorities concerned are, in the spirit of opening wider to the outside world, amending the "Rules of the People's Republic of China on Administration of Technology Import Contracts." Regulations on technology export are also going to be drafted.

Technology trade is an emerging undertaking in the field of China's foreign economic relations and trade. We will sum up our experiences from time to time and improve the policies on technical trade in accordance with the state's industrial policies and the requirement of establishing the socialist market economic system, and by drawing on the successful experience of foreign countries, so as to constantly enlarge the exchange and cooperation with the rest of the world.

Utilization of foreign investment is a new cause that came into being with the adoption of reform and opening policies. The past 20 years saw remarkable achievements in attracting foreign investments. By the end of 1993, China had cumulatively approved more than 26,000 foreign investment projects with a total foreign commitment of US\$ 212 billion, and the realized

amount of foreign investment was over US\$ 60 billion.

In 1993, the realized amount of foreign direct investment began to surpass the actual disbursement of external borrowings, and foreign direct investment became the most important source of foreign capital utilized by China.

The capital content of foreign direct investment projects has risen significantly. In 1993, the average contractual value of each project reached US\$ 1.35 million, up 45% over the average level of 940,000 for the four years of 1988 to 1991.

#### ◆ New Era ◆

Now, China's reform, opening-up and modernization drive have entered a new era. The 14th Congress of the Communist Party of China called for "further opening to the outside world and faster utilization of state foreign capital, resources, technology and managerial experience." Under this new circumstance, I believe that China's potential for absorption of foreign investment will be tapped in a wider and more effective manner. China has an answering policy on absorbing foreign investment. This undertaking has a very promising future.

In March this year, the State Council sponsored a national conference on utilization of foreign investment, which gave a comprehensive review of the state of foreign investment and mapped out future moves.

The meeting stressed the importance of upholding the principle of active and effective utilization of foreign capital and pointed out that while efforts should continue to expand the utilization of foreign investment, especially foreign direct investment, so as to make up domestic fund shortages, more attention should be directed to the quality of foreign fund utilization.

Foreign investment should play a greater role in promoting technological progress of the leading industries, in strengthening international competitiveness, in participating in international division of labor at higher levels and in enhancing the development of such weak

sector in basic industries, infrastructure and services industry.

Foreign investment should also serve the modernization of China's industrial structure as well as acceleration of upgrading the export-oriented industries and alleviate the bottleneck constraints of the economic development. Besides, midwestern parts of China should raise the degree of foreign investment presence, and let it play a star role in promoting regional economic development.

#### ← Foreign Investment →

We are further perfecting the foreign investment policies and are improving the investment environment. The policy of making market for technology should be implemented more rigorously. For those high technology-intensive or high-tech projects that are encouraged by the state, appropriate access to domestic markets should be provided and the requirements on the sale of local sales to exports should be eased so that China can obtain such technologies, which supply on domestic markets, raise the local content of the products made by foreign-invested enterprises and promote the development of strategic industries and industrial modernization.

Efforts are required to speed up the shifting of investment priority from geographic preferences to sectoral preferences as the mainstay. Based on China's industrial policies, both positive and negative lists of foreign investments will be formulated under four major headings — encouraged, permitted, restricted and prohibited. Such lists shall be published on a timely basis.

Industries in which foreign investment is banned are mainly strategic defense industries related to national security, central control systems of communications, aviation, railways and ports as well as

smoking and gambling industries that damage people's physical and mental health.

Industries subject to restrictions are mainly banking, foreign trade financing, the reform of our national economy, key mining industries, and projects that may give rise to regional inequality etc.

Industries in which investment is encouraged are mainly those weak links of the national economy that urgently need development, such as agri-technology development projects and energy development projects in the primary industry, low chemical production projects and technologically advanced projects in the secondary industry. To ensure the full implementation of the industrial guidelines, the approval procedure for foreign investment should be rationalized step by step.

Given the diversity of China's industries and the good foundation in steps in developing technology-intensive industries, in light of global trends in the evolution of industrial structure, China takes the structure of investment from transitional dependence as its strategic goal in its investment promotion. Micro-investments by large multinationals will help China's participation in international division of labor of higher levels and the quicker development of its leading industries and their faster entry into the world markets as well.

To raise the international competitiveness of Chinese industries, it is also imperative to gradually broaden the areas of foreign investment according to the needs of developing foreign trade and economic relations. In particular, new steps should be taken to open the service industry.

We are willing to exchange experience, in various ways and through different channels, with friends from both home and abroad on absorption of foreign investment. We cordially hope that foreign friends

and people of all circles will express their views on China's absorption of foreign investment and put forward positive suggestions.

At present, China is stepping up the establishment of its socialist market economic system. As of January 1, 1994, we have launched measures to further reform the systems of finance, taxation, banking, investment, foreign exchange and foreign trade.

These reforms will forcefully push China's economic system closer to international norms. China will eventually become a contracting party state in the General Agreement on Trade and Tariffs. Once it returns to GATT, China will further coordinate domestic legislation and policies in line with GATT principle and requirements, so as to enable itself to take part in international economic competition within a broader arena and at a deeper level.

I am sure this will also do good to the faster and better tapping of China's huge market potential, and will also contribute to the growth of world economy and trade.

China's economy and that of the rest of the world is becoming increasingly dependent on each other. It is our nation's steadfast policy to pursue reform, opening and international cooperation with all countries on the basis of equality and mutual benefit.

We are ready to use every opportunity to carry out exchange and cooperation with friends and international organizations from all over the world, promote mutual understanding and economic development. This meeting is a very good opportunity for exchange. I hope that our friends will make good use of the limited time and travel to and stay at many places in China as possible to deepen your understanding of this nation, which I think will be very useful for your communication and cooperation with us.