

To Promote the Utilization of FDI in the Minority Provinces of China by Cooperating with the Eastern Regions

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Abstract

The economic development of the minority provinces of China is inseparable from opening up, including opening to the domestic market and opening to the outside world. The minority provinces of China should strengthen their economic cooperation with China's eastern developed regions while attaching importance to the utilization of foreign direct investment(FDI). By undertaking industry transfer from the eastern regions, the industrial chains of the minority provinces can be extended, which is beneficial for the minority provinces to attract high quality FDI.

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1 Introduction

Opening to the outside world is China's long-term basic state policy. All-around opening-up is one of the most important part of Deng Xiaoping Theory. In today's opening up era, opening up is also indispensable to the economic development of the minority provinces and autonomous regions of China(hereinafter, minority provinces. They refer to Inner Mongolia, Xinjiang, Ningxia, Qinghai, Tibet, Guangxi, Guizhou and Yunnan), which includes opening to the domestic market and opening to the outside world. The all-around opening up of the minority

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provinces covers all fields of the modern society, such as economy, regional policies, culture, etc. Compared with China's more developed eastern coastal regions, the economic development of the minority provinces still lags behind. To narrow the gap, the minority provinces need to further open up internally and externally, thus to obtain more capital, technology, facilities and talents at home and abroad to develop high-tech industries, transform traditional industries, improve the technology and added value of their products, reduce the cost and enhance the market competitiveness of their products.

The minority provinces of China should strengthen their economic cooperation with China's eastern developed regions while attaching importance to the utilization of foreign direct investment(FDI). By undertaking industry transfer from the eastern regions, the industrial chains of the minority provinces can be extended, which is beneficial for the minority provinces to attract high quality FDI.

2 The Utilization of FDI in the Minority Provinces

The minority provinces of China have rich natural resources and great potentials for the development of featured industries, which can be advantages for attracting FDI. However, compared with China's eastern coastal provinces and regions, the minority provinces of China are located in western regions and used to be far away from capital exporting countries and international market, their economic development level was low, the evolution degree of their market organization and economic system was also low, these regions were not so open, and their accumulation of capital, human resource capital and social capital was not enough. All of these are the disadvantages for attracting FDI. Therefore, the utilization of FDI by the minority provinces had lagged far behind China's eastern regions, more over their utilization of FDI was imbalanced.

With the deepening of China's opening up and reform, minority provinces began to attract more FDI, but its speed was slower than the average level of the country(see table 1). Until 2001 the utilization of FDI by Inner Mongolia, Xinjiang, Ningxia, Qinghai, Tibet, Guangxi, Guizhou and Yunnan, was small and their total amount of FDI was only USD 678 million in 2001. Of the eight minority provinces, the FDI in Tibet was the least. There was even no record of its FDI before 2006. The FDI in Guangxi was the most before 2002, which accounted for over 60 percent. As shown in table 2, the sum of the FDI in Guangxi was USD 2576 million during 1991-1995, accounting for 64.5 percent of the eight minority provinces; the sum of the FDI in Guangxi was USD 4396 million during 1996-2002, accounting for 62.4 percent.

Table 1: The Amount of FDI in Minority Provinces (1991-2015)(USD10, 000)

Year	Inner Mongolia	Xinjiang	Guangxi	Ningxia	Tibet	Yunnan	Qinghai	Guizhou	Total	Year-on-year Growth Rate(%)
1990	1064	0713	3025	103	--	260	--	468	56333	--
1991	1100	4070	3871	105	--	296	13	734	91989	63.3
1992	6100	1021	18026	348	--	2313	191	1979	244868	166.2
1993	8093	5297	87203	1190	--	9702	900	4294	116679	376.5
1994	11602	4830	81506	4897	--	20300	965	6363	130463	11.8
1995	10605	6678	66952	3205	--	22500	1064	5703	116707	-10.5
1996	5424	6639	66618	2826	--	18000	1114	3138	103759	-11.1
1997	8433	2472	87986	1126	--	16500	2179	4977	123673	19.3
1998	9082	2419	88613	495	--	14568	5066	4535	124778	0.9
1999	9450	2167	63730	920	--	15385	2671	4090	98413	
2000	11236	1923	52466	1283	--	12812	5309	2501	87530	-11.1
2001	10876	2035	38415	1680	--	6457	5586	2829	67878	-22.4
2002	22801	4334	41726	2200	--	11166	11380	3700	97307	43.4
2003	36805	4005	45619	3170	--	16752	19167	5626	131144	34.8
2004	62743	4586	29579	6689	--	14152	22500	6533	146782	11.9
2005	118577	4749	37866	6712	--	17352	26600	10768	222624	51.7
2006	174066	10366	44740	3718	3808	30234	27500	9384	303816	36.5
2007	214889	12484	68396	5047	2418	39453	31000	12651	386338	27.2
2008	265074	18984	97119	6238	2320	77688	22000	14904	504327	30.5
2009	298385	21570	103533	6987	7641	91010	21500	13364	563990	11.8
2010	338456	23742	91200	8090	2435	132902	21930	29546	648301	14.9
2011	383827	33500	101381	20199	6460	173754	16893	51541	787555	21.5
2012	394319	40795	74853	21820	17402	218896	20578	49116	837779	6.4
2013	464500	48100	70008	14800	10111	251466	9400	57673	926058	10.5
2014	397748	41700	100119	9244	15855	270600	5010	46565	886841	-4.2
2015	337000	45300	172200	38100	9472	299000	5500	56902	963504	8.6

"--" stands for data not available.

Source: Bureau of Statistics of Minority provinces and autonomous regions, China National Bureau of Statistics, Statistical Yearbook of China, China Statistics Press, Beijing, 2015.

In 1990s, China's central government proposed the "Development of the Western Regions", and in 2000, the State Council founded the leading group for the development of the western regions. Since then the western regions' economy developed faster than before and the utilization of FDI by the minority provinces began to accelerate since 2002. The amount of the FDI in minority provinces increased by 43.4 percent in 2002, in contrast to minus 22.4 percent in 2001. The growth of the FDI in Inner Mongolia was the fastest and its actual utilization of FDI increased from USD 108 million in 2001 to USD 228 million in 2002, which was more than doubled. And from 2004 to 2005, its FDI grew from USD 627 million to USD 1186 million, which was also almost doubled. During the period of 2001-2005, the total FDI utilized by Inner Mongolia was up to USD 2518 million, accounting for 37.8 percent of the minority provinces, while at the same time, the total FDI in Guangxi was only 29 percent. During the period of 2006-2010, the sum of the FDI in Inner Mongolia was USD 12910 million, taking up 53.6 percent of the minority provinces, which was more than half of it.

Since 2011, the FDI in Yunnan province increased very fast. Its FDI increased from USD 1329 million in 2010 to USD 2990 million in 2015. The sum of its actual utilization of FDI from 2011 to 2015 was up to USD 10537 million, accounting for 23.9 percent of the minority provinces. While at the same time, the sum of the FDI in Guangxi province was USD 5186 million, accounting for 11.8 percent, which was less than half of Yunnan.

It can be seen from table 1 that although the total amount of FDI of the minority provinces has been on the increase, rising from USD 563 million in 1990 to USD 9635 million in 2015, its proportion in the country only rose from 2.16 percent from 1991 to 1995 to 7.16 percent from 2011 to 2015(see table 2). The highest proportion was only 7.86 percent in 2013. So the proportion of the FDI of the minority provinces are still very low.

Table 2: The Five-Year Sum of FDI of the Minority Provinces(1991-2015) (USD10, 000)

Period	1991-1995	1996-2000	2001-2005	2006-2010	2011-2015
Inner Mongolia	31020	43625	251802	1290870	1977400
Xinjiang	21896	15620	19709	87146	200940
Guangxi	257558	359413	193205	404988	518561
Ningxia	9745	6650	20451	30080	104560
Tibet	--	--	--	18622	59300
Yunnan	55111	77265	65879	371287	1053720
Qinghai	3133	16331	85233	123930	57381
Guizhou	19073	19241	29456	79849	261800
Total	347936	538145	665735	2406772	4233662
Nationwide	16106300	28978500	31870000	43820700	59124300
Proportion of the minority provinces in the country	2.16	1.86	2.09	5.49	7.16

--" stands for data not available.

Source: Bureau of Statistics of Minority provinces and autonomous regions, China National Bureau of Statistics, Statistical Yearbook of China, China Statistics Press, Beijing, 2016.

3 Strategic Significance of Undertaking Industry Transfer from the Eastern Regions by the Minority Provinces

Industry transfer originates from the product life cycle theory of industrial production proposed by the American economist Vernon and the labor-intensive industry transfer theory put forward by Lewis. Industry transfer theory proposed that developed areas should speed up its economic development first and then transfer its industries and factors to less developed areas, thus to promote the economic development of the whole region. The theory puts economic efficiency in the first place in the regional development and distribution of productive forces, focusing on the priority of efficiency and giving consideration to equality, which is significant to the setting of regional development strategies. Based on objective reality and imbalanced development laws, industry transfer theory admits the reality of the imbalance among different regions and holds that regions with better conditions should develop faster and drive the economic development of the regions with poor conditions through transfer of industries and factors from high-gradient region to low-gradient region. This accords with general laws of

economic development and is beneficial for raising economic development efficiency. Specifically, the significance of undertaking industry transfer from the eastern regions by the minority provinces is embodied in the following three aspects.

3.1 To Promote the Integrated Utilization of Production Factors of the Minority Provinces and Make Full Use of Late-Mover Advantage

Minority provinces have rich natural resources and labor force. Its production cost is low, market space is large, the late-mover advantage of industry development is distinct, but their technology and knowledge factors are not adequate. Undertaking industry transfer from the eastern regions of China can bring large amount of capital, technology and high-level management to the minority provinces. Based on its own resource advantages and the advanced management and technology brought from the eastern regions, the minority provinces are able to develop high added-value products and improve product quality and grade, thus to improve the market competitiveness of its medium and high grade manufactured goods. Undertaking industry transfer from the eastern regions is beneficial for the minority provinces to give full play to its geographical advantage and late-mover advantage, accelerate its economic development, improve its attraction to FDI, and obtain more benefits from regional specialization.

3.2 To Facilitate Industrial Structure Optimization of the Minority Provinces

Irrational industrial structures have restrained the healthy development of the minority provinces' economy for a long time. By undertaking industry transfer from the eastern regions, related industries of the minority provinces can be boosted through industrial correlation.

3.3 To Motivate the Renewal of Ideas of the Minority Provinces

The industry transfer from the eastern regions can help the minority provinces to get to know more about new cultures and advanced management adaptable to market economy, such as the concept of market economy, advanced management ideas, entrepreneurship and new lifestyles, etc., which will contribute to the improvement of the minority provinces' investment environment and attraction of FDI.

4 The Path Choice of Undertaking Industry Transfer from the Eastern Regions

With the improvement of China's market economic system, the economic cooperation between the minority provinces and the eastern regions has transformed from providing assistance and poverty alleviation aid by the eastern regions to the minority provinces to all-around, multi-level and wide-ranging

economic and technical cooperation. In the new era, minority provinces should take enterprises as the main body, factor market as the basis, mutual benefit and win-win result as principle to realize orderly industry transfer from the eastern regions and effective acceptance by the minority provinces on the basis of their own comparative advantages.

4.1 Undertaking Industry Transfer by Fostering Complete Industrial Chains First

Inter-regional industry transfer is not only the transfer and agglomeration process of production factors, but also the dynamic adjustment process of industrial chains. Minority provinces should take its own industrial structures and industry advantages into consideration and undertake industry transfer from the aspect of contributing to industrial chain integration. Centering upon their strategic industries, the development plan of industry agglomeration area and their industry orientations, minority provinces should bring in the missing links of their industrial chains, strengthen the weak links of their industrial chains, and improve the driving force and extension capacity of the pillar industrial chains. Private enterprises should be strengthened, and small and medium enterprises should be encouraged. Relying on certain technology advantage and low cost advantage, these enterprises can be imbedded in the industrial chains transferred to the minority provinces and gain certain industrial divisions of the value chain of manufacturing industries.

4.2 Taking Industrial Parks as Agglomeration Area and Gradually Forming Advantageous Industrial Chains

Through industrial planning and policies, similar enterprises or related enterprises of the same industry are encouraged to agglomerate in industrial parks to actively build industrial matching environment for the transferred industries. Minority provinces should attract big enterprises of the eastern coastal regions to move to their industrial parks, let them be the leading enterprises and form advantageous industry clusters.

4.3 Building Industrial Parks Jointly by the Eastern Regions and the Minority Provinces

Building industrial parks jointly by the eastern regions and the minority provinces through certain interest allocation mechanism can not only encourage the investors of the eastern regions, but effectively solve the problems of the minority provinces, such as difficulties in capital attraction, lack of development momentum, etc., meanwhile it will be beneficial for speeding up the industry transfer from the eastern regions to the minority provinces. Development corporations, established by the eastern regions, will be responsible for the running of the industrial parks in accordance with the minority provinces' development and management mode, and responsible for the compensation for land acquisition and introduction of development funds and projects.

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