

GROWTH IN CHINA'S FOREIGN DIRECT INVESTMENT DECELERATES

Sarah Y. TONG

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Executive Summary

1. China is among the most successful countries in attracting foreign direct investment (FDI) to facilitate its decades of rapid development. From an almost negligible amount before the early 1990s to an annual FDI of US\$108 billion in 2008 and to over US\$130 billion in 2015 and 2016, China's FDI has risen substantially since 2001 after the country joined the World Trade Organisation.
2. After the world economy suffered a serious crisis in 2008, China's inward FDI rebounded quickly and strongly. Nonetheless, growth in inward FDI has weakened in recent years. In fact, declines in annual inward FDI had been reported for 2012 and 2016 by China's Ministry of Commerce.
3. Various factors contributed to the changing momentum. First is continued weakness in the world economy and declines in global FDI flows. Second is China's relative decline of comparative advantages in attracting foreign investment.
4. Third is the uncertainties, such as the country's recent growth deceleration, problems of production overcapacity in certain sectors and rising debt levels, that China's changing economic prospects may bring to foreign investors.
5. While foreign investment is relatively awash in various manufacturing industries, many tertiary sectors remain less accessible to foreign investors. According to OECD, China is one of the least open countries for foreign investment, especially in the service sectors.
6. As FDI is still considered essential for China's economic development and transformation, the recent decline in foreign investment prompted the government to take three types of measures to reinvigorate inward FDI. The first includes introducing short-term policies to encourage inward investment.
7. The second is overhauling China's FDI management regimen, from a pre-entry approval system to one based on negative-list and pre-entry national treatment. The

third is accelerating negotiations for bilateral investment treaties with major economies.

8. The future remains promising as China is still hugely attractive to foreign investors. The potential for China's domestic consumption is immense. The country's large and diverse economy is suitable for a wide range of industries and for business innovation.
9. Challenges however abound as China is a developing country which is deeply integrated with the world economy; inward FDI is affected by both global economic trend and China's domestic prospects and restructuring. Despite the serious steps taken to reform FDI governance, the process will be a long and difficult one.