

Table 2: FDI inflow by sector, 2000

Sector	Approved Projects		Implemented projects		*
	Number	Value (US\$ million)	Value (US\$ million)	Share (percent)	
Agriculture, forestry, stock raising, fishery	821	1,483	676	1.3%	*
Mining industry	162	506	583	1.1%	*
Manufacturing industry	15988	46,048	27,516	53.0%	*
textile industry	801	2,015	1,392	5.1%	**
chemical materials and products industry	986	2,596	1,796	6.5%	**
pharmaceuticals manufacturing	268	912	523	1.9%	**
general machine manufacturing	613	1,634	1,047	3.8%	**
special equipment manufacturing	689	1,068	528	1.9%	**
electronic and telecommunication equipment	1,529	11,379	4,627	16.8%	**
Electric power, coal gas and water utilities	107	2,015	1,392	2.7%	*
Construction industry	233	2,596	1,796	3.5%	*
Geology survey and management of water resources	7	912	523	1.0%	*
Transportation, warehousing, post and telecom services	306	1,634	1,047	2.0%	*
Wholesale, retail and restaurants	852	1,068	528	1.0%	*
Finance and insurance	5	11,379	4,627	8.9%	*
Real estate	684	1,227	2,242	4.3%	*
Society services	2679	15	5	0.0%	*
Hotel	72	1,440	1,045	2.0%	*
Health, sports and social welfare	31	1,435	858	1.7%	*
Education, culture and art, broadcasting and film	19	79	76	0.1%	*
Science, research and technology services	100	5,232	4,658	9.0%	*
Others (unallocated)	353	5,049	4,357	8.4%	*

* share of the value of implemented projects, 2000

** share of the value of implemented projects in the Manufacturing sector

Source: Ministry of Commerce of the People's Republic of China -MOFCOM (www.fdi.gov.cn)

FDI between 1983 to 1998, despite accounting for only 29% of China's GDP. On the other hand, the central region (which accounts for 29 % of GDP) attracted a mere 9% of FDI and the western region (accounting for 23% of GDP) only attracted 2% of FDI³.

FDI inflows by sector

FDI into China is heavily concentrated in the manufacturing sector (Table 2). In 2000, manufacturing accounted for over half of FDI inflows, followed by science, research and technology services (9.0%), finance and insurance (8.9%), and real estate (4.3%). Within the manufacturing sector – of those industries for which we have data - electronic and telecommunication equipment accounted for 16.8% of inward investment followed by chemicals (6.5%), and textiles (5.1%).

FDI by type

The leading form of FDI into foreign investment enterprises in China is equity joint ventures, which accounted for 42.9% of inward FDI stock in 2002 (Table 3). Wholly foreign-owned enterprises (37.0%) and contractual joint ventures (18.5%) account for the bulk of the remainder of FDI in China.

Major source countries for FDI into China

The top sources for FDI inflows into China in 2002 are listed in Table 4. For this year, Hong Kong provided

3 "Foreign Direct Investment in China: Some Lessons for Other Countries", W. Tseng and H. Zegreb, IMF Policy Discussion Paper, PDP/02/3, 2002

Table 3: Inward FDI Stock in China, by type, 2002

Type of FDI	No.	Share (percent)	Approved Projects		Implemented Projects	
			Value		US\$ million	Share (percent)
			US\$ million	Share (percent)		
Total (all types)	424,196	100.0%	828,059	100.0%	447,966	100.0%
Equity Joint Venture	225,883	53.2%	327,548	39.6%	192,204	42.9%
Contractual Joint Venture	52,965	12.5%	163,319	19.7%	82,783	18.5%
Wholly Foreign -owned Enterprise	145,165	34.2%	332,538	40.2%	165,616	37.0%
Joint Exploration	183	0.0%	4,654	0.6%	7,364	1.6%

* share of the value of implemented projects, 2002

Source: Ministry of Commerce of the People's Republic of China -MOFCOM (www.fdi.gov.cn)

Table 4: FDI Inflows into China; Major Sources Countries, 2002

Country/Region	Unit: US\$ million					
	Number of projects		Approved projects		Implemented projects	
	Number	Source country share (percent)	Value (US\$ million)	Source country share (percent)	Value (US\$ million)	Source country share (percent)
Total	34,171	100.0%	82,768	100.0%	52,743	100.0%
Hong Kong	10,845	31.7%	25,202	30.4%	17,861	33.9%
Virgin Islands	1,959	5.7%	12,650	15.3%	6,117	11.6%
USA	3,363	9.8%	8,156	9.9%	5,424	10.3%
Japan	2,745	8.0%	5,298	6.4%	4,190	7.9%
Taiwan	4,853	14.2%	6,740	8.1%	3,971	7.5%
Korea, Rep.	4,008	11.7%	5,282	6.4%	2,721	5.2%
Singapore	930	2.7%	2,785	3.4%	2,337	4.4%
Cayman Islands	199	0.6%	2,258	2.7%	1,180	2.2%
Germany	352	1.0%	915	1.1%	928	1.8%
UK	334	1.0%	1,142	1.4%	896	1.7%
West Samoa	533	1.6%	1,878	2.3%	879	1.7%
Canada	708	2.1%	1,148	1.4%	588	1.1%
France	162	0.5%	879	1.1%	576	1.1%
Netherlands	127	0.4%	516	0.6%	572	1.1%
Mauritius	245	0.7%	705	0.9%	484	0.9%

Source: Ministry of Commerce of the People's Republic of China -MOFCOM (www.fdi.gov.cn)

4 See "Doing business in China – fools rush in", The Economist, August 7, 2004, p.50, for a sample of obstacles encountered by foreign investors in China.

more than one third of FDI inflows (down from about 50% during the 1990s), followed by Virgin Islands (11.6%), USA (10.3%), Japan (7.9%), Taiwan (7.5%), and the EU (7.0%).

Although China offers many seemingly lucrative investment opportunities to foreign investors, there are a number of structural impediments that investors need to take into account. These include such hurdles as a complex incentive and tax system, the possibility of political intervention in investment decisions, and a weak legal structure to implement regulations safeguarding the interests of foreign investors. For these reasons, a certain portion of foreign investment projects approved by the Chinese authorities may never come to fruition, or may be severely delayed.⁴

China's share of outward FDI from major OECD countries

China's share of total outward FDI stocks in select OECD countries over 1990-2001 is presented in Table 5. In 2001, only four OECD countries registered FDI holdings in China exceeding one percent of total their FDI stock – Korea (17.0%), Japan (3.1%), Germany (1.1%) and Poland (13.6%). Among these, Korea and Poland have distinctly focussed on enhancing their respective FDI holdings in China, while Japan and Germany have been increasing their FDI holdings in China at a slower pace.