Comments on Frederique Sachwald's Presentation: Impact of Changing Production Location on FDI: Global and European Dynamics

Lan Weiban
International Cooperation Department,
Development Research Center of the State Council of China
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Mrs. Schwald's presentation gives us a clear and comprehensive picture of the discussions from different perspectives about the industrial relocation and FDI movements and can be regarded as a good basis for further discussions on the trends in the development of FDI.

Every country has its own characteristics in attracting FDI. The most distinguished feature of China is its huge population and the related factors: the huge, potential and fast growing market, its abundant human resources and low labor cost. Since China is still at a lower stage of economic development and the regional and urban-rural disparities, China will maintain its comparative advantage of 'infinite' supply of low cost but hardworking labor force for decades to come. This is one of the basic reasons for the steady growth in FDI inflow in China. There have been many successful examples in horizontal and vertical FDI because the national conditions in China are apparently suitable for both types of FDI. A related issue is that, while maintaining its comparative advantage in labor and turning it into competitive advantage, China also faces immense pressure on employment. Therefore I believe that the motivation for the export promotion strategy that has been implemented in China is transferring from earning hard currency in exchange for needed foreign goods to job creation, which can be judged from the great proportion of labor-intensive products in China's export structure. Stimulating domestic demand is a hard and slow process due to the fact that majority of the population and much of the potential market is in rural areas where the per capita resident income is less than one-third of the urban population and the unemployment rate is high. Therefore, any readjustment measures in the export promotion strategy must be very cautious particularly at the time when no effective ways have been found to expand domestic demand.

FDI in China from EU countries has increased steadily particularly in recent years, represented by the strong momentum of FDI growth from major EU economies. FDI from EU countries is regarded in China with the following features: 1) the scale is larger; 2) higher rate of performed FDI funds; and 3) technologically more advanced. More and more FDI from EU have been directed to electrical equipment and other manufacturing sectors as well as to the transformation of the old industrial base in

Northeast China. All of these are in actual need of China. The increase in the EU FDI in China is demonstrating the strong complimentary economic relationship between China and EU nations.

With enlargement of EU, more and more FDI are flowing from the “old” members to the new member states. It is reported that about 80% of the FDI currently in the new member states (NMS) come from the old member states. The question now is whether this trend constitutes any competition for China to attract FDI from EU. Personally I think that generally no substantial competition will take place against China. The reasons would be: 1) the size of the new member economies is small; 2) China is basically at the low end of the value chain while NMS is generally at middle or lower middle section of the chain compared to China because of their better educated labor force on average. This could be regarded as a new pattern of international division of labor accompanying the globalization. Many EU FDI takes place in automobile industry in both the NMS and China for example. Due to the large potential production capacity in China for both assembled cars and parts, it could be envisaged that China provides auto parts at lower cost for NMS to assemble cars and then provide these cars to European and other markets.