

Australia-China Free Trade Agreement:

Econometric Modeling and Policy in Trade, Investment and Economic Integration

The Industrial Structure and Foreign Investment Introduction Policy in Shanghai and Its Adjacency

Authors: ZHAO Yanyun, LI Guirong,
CHEN Xuanxuan

Speaker: XIE Yihui

Paper Outline

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1. The Industrial Structure and Foreign Investment Overview

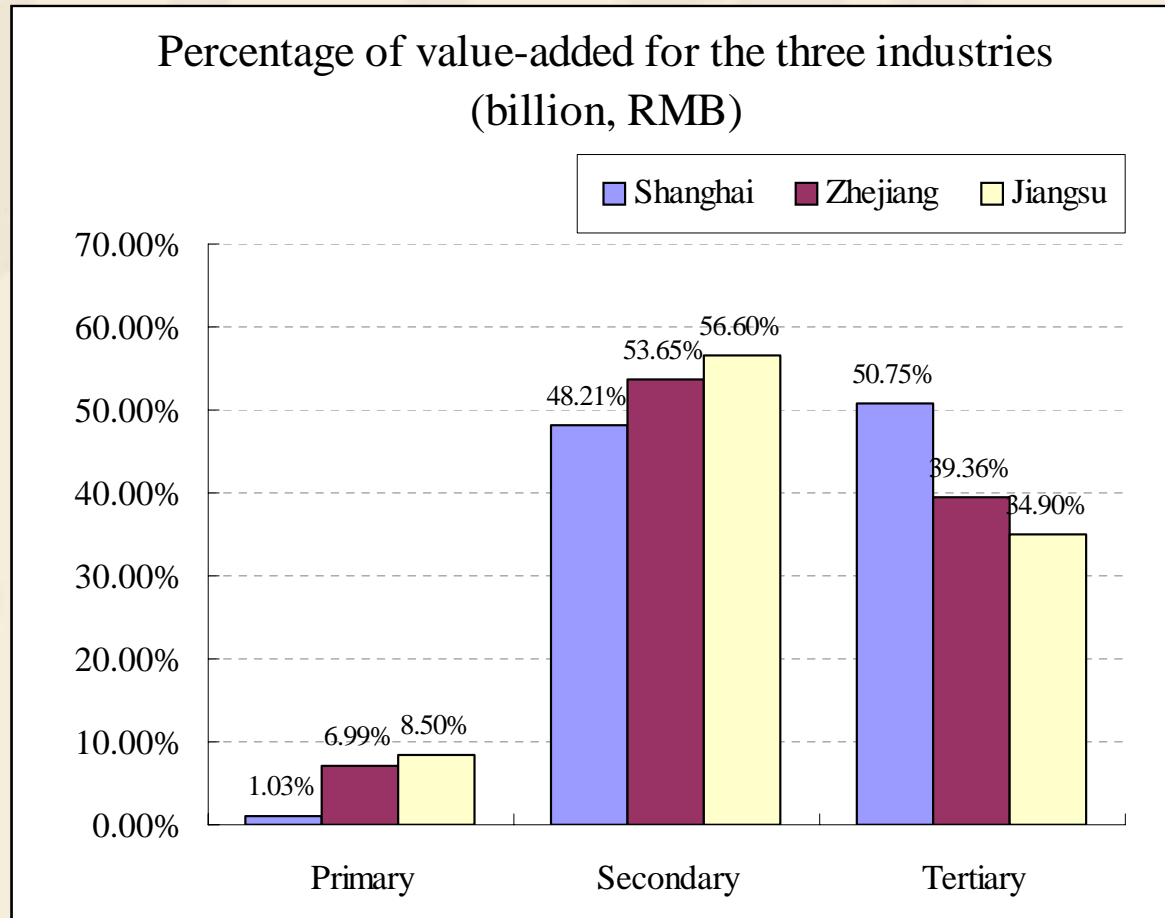


Table 1: Distribution of employees in different industries, 2004

	Employees (thousands)	Percentage (%)	
Total	9110	100.0	
The secondary industry	4445	48.8	45.44%
manufacture	3513	38.6	
construction	932	10.2	
The tertiary industry	4665	51.2	47.68%
Transport, Post and Telecommunication Services	454	5.0	
Information communication, computer service and software	149	1.6	
Wholesale and retail trade	1466	16.1	
Hotel and restaurant	287	3.2	
Finance	135	1.5	
Real estate	332	3.7	
Leasing and Business services	530	5.8	
Scientific research, technical service and geological survey	239	2.6	
water conservancy, environment and public equipment management	74	0.8	
Civil service and other services	195	2.1	
Education	320	3.5	
Sports, Public Health and Social Welfare	157	1.7	
Culture, sports and entertainment	77	0.9	
Public administration and social organization	250	2.7	

(Source: 2004 economic census of Shanghai)

The Industrial Structure and Foreign Investment Overview (Cont.)

- ❖ Shanghai -- six prioritized manufacturing industries: electronic information produce, automobile, petrochemical industry and fine chemical industry, elaborate steel, complete equipment, and biology and pharmacy.
- ❖ Jiangsu -- six pivot manufacturing industries: electronic and telecommunication equipment, chemical raw material and chemical produce, textile, transport equipment, conventional machinery and black metal metallurgy and calendaring
- ❖ Zhejiang -- plans to accelerate the development of chemical industry and equipment manufacture (in the past: textile, clothing, leather etc...)

The Industrial Structure and Foreign Investment Overview (Cont.)

- ❖ Annual growth rate of **service industry**:
 - ❧ Shanghai -- 9.7%
 - ❧ Jiangsu -- 11.3%
 - ❧ Zhejiang -- 12.6%
 - ❧ Average in China – about 8%
- ❖ The six industries -- **finance, trade, logistics, real estate, tourism and information** (80% of total value-added of Shanghai service industry)

The Industrial Structure and Foreign Investment Overview (Cont.)

- ❖ Past advantage: low cost of producing
- ❖ Now: conflicts among **land, power, intellectual and service** are sharpened gradually, besides, producing cost also rising
- ❖ **International** competitiveness should be strengthened!

Table 2: Changjiang Delta important industries' foreign investment utilization in proportion to the whole nation's, 2004

Industry	Jiangsu	Shanghai	Zhejiang	Total
Manufacturing: automobile	33	5	7	45
Electronic and telecommunication equipment	38	10	10	58
Mobile phone	23	5	6	34
integrated circuit	35	22	12	69
steel	22	14	6	42
non-ferrous metal	30	2	7	39
pharmacy	21	4	13	38
Electric power	9	2	4	15
Petrochemistry	32	4	7	43
Textile	28	3	19	50
drinks	14	2	11	27
Cleansing products	38	0.0	0.0	38
tyre	28	—	6	34
Service: medicine	25	37	19	81
construction	21	8	9	38
highway and railway transport	14	—	22	36
shipping	6	—	11	17
civil aviation		42		
tourism	18		14	32
Real estate	23		7	30
business	10	17	4	31
Mineral resource exploration	7		10	17

Source: "Report on Chinese Utilization of Foreign Capital in 2005" (Department of Foreign Capital, China Ministry of Commerce)

2. The Industrial Competitiveness

- ❖ Domestic Competitiveness
- ❖ International Competitiveness

2.1 Domestic Competitiveness

Table 3: Competitiveness indices of seven key factors in regional manufacturing industries and their rankings, 2003

Province		Synthesis Compt.	Competitive Strength	Growth Compt.	Market Compt.	Cost Compt.	Innovation Compt.	Investment Compt.	Management Compt.
Shanghai	rank	1	1	4	3	25	2	4	1
	indices		81.92	66.26	86.63	45.04	73.63	66.88	90.48
Jiangsu	rank	5	2	7	5	10	6	8	3
	indices		76.09	62.54	82.09	56.12	60.8	53.53	76.57
Zhejiang	rank	3	5	5	2	6	3	6	5
	indices		73.76	63.01	87.36	59.15	70.55	55.83	74.61
Shandong	rank	2	3	2	4	5	4	11	4
	indices		75.88	70.95	85.36	60.47	70.28	58.58	74.74
Guangdong	rank	4	4	6	1	8	1	17	2
	indices		74.66	62.97	89.28	57.39	74.6	53.53	77.79

Source: Zhao Yanyun etc. (2005) *The Evaluation and Analysis of China's Manufacturing Industrial Competitiveness*. Standard Press of China.

2.2 International Competitiveness

Table 4: The proportion of three industries in foreign areas

Area	Proportion of the primary industry	Proportion of the secondary industry	Proportion of the tertiary industry
Bavaria, Germany	1	30	69
Catalonia, Spain	2	36	62
Hong Kong, China	0	12	88
Ile-de-France, France	0	17	83
Lombard, Italy	2	34	65
Maharashtra, India	15	28	57
Rhône-Alpes, France	1	30	68
Sao Paulo, Brazil	4	47	50
Scotland, Britain	2	22	76
Singapore	0	33	67
Taiwan, China	2	30	68
Shanghai, China	1.0	48.2	50.8
Jiangsu, China	8.5	56.6	34.9
Zhejiang, China	7.0	53.6	39.4

2.2 International Competitiveness (Cont.)

- ❖ Overview of China: **relatively high productivity** (just for some areas) & **absolutely low labor cost** (almost anywhere)
- ❖ Comparison between main developing countries/areas: only possess more advantages than India; still weaker than those developed countries/areas

Source: IMD (2005) "World Competitiveness Yearbook"

3. The Tendency and Problems of Foreign Investment (FI)

- ❖ The speed of the FI utilization has been slowed down in Shanghai and its adjacency, but this area still has a strong attraction to FI. Why & How?
 - ∞ Stable status as an important **center of manufacturing industries** (still being strengthened)
 - ∞ A modern **service industry system** being built & improved (supporting the manufacturing industries)

3. The Tendency and Problems of FI (Cont.)

❖ Growth rate of FI in 2004:

- ❧ General equipment manufacturing -- 39.1%
- ❧ Special-purpose equipment manufacturing -- 54.9%
- ❧ Electronic devices -- 63.1%

3. The Tendency and Problems of FI (Cont.)

- ❖ Multi-National Companies are increasing the direct investment and setting up R&D centers in China
 - ⌘ 50/50 joint venture between General Motor Cooperation (GM) and Shanghai Automotive Industry (Group) Cooperation (SAIC) -- Pan Asia Technical Automotive Center
 - ⌘ They will not miss the opportunities: Panasonic (Japan), Samsung (Korea), Philips (Holland), Sony (Japan), LG (Korea), Seiko-Epson (Japan), Toshiba (Japan), Sanyo (Japan), Cannon (Japan) and IBM (US) -- top 10 cooperative enterprises

4. Advice for the FI Utilization Policy

- ❖ Reinforce the importation, absorption and re-innovation of technology; Emphasize on the industry's ability for innovation
- ❖ Attract FDI and domestic investment harmoniously
- ❖ Employ positive policies for inner-industry trade, and promote the quality of FI utilization

4.1 Emphasis on technology & innovation

❖ “Three Gorges Mode”

- ❧ Hydroelectrical equipment technology and self-innovation; put more emphasis on technology than on equipment
- ❧ Policy: “combining technology with trade, transferring technology, united designing, cooperative production”
- ❧ Re-innovation: Harbin Power Equipment Corporation and Dongfang Electrical Machinery Corporation

4.2 Harmonious introduction of investment

❖ Money will always be Money:

- ❧ Optimum domestic resource could not be ignored!
- ❧ On January 12, 2005, Zhejiang came to Beijing to invite businessmen to open companies there with 387 introductive and contracting projects whose investment reaches 103.1billion. Their strategy is to fasten the adjustment of Zhejiang's industrial structure actively.

4.3 Rational distribution for investment

- ❖ Through the way of inner-industry trade, the fierce competition resulting in overlapped structures and development might be eliminated, and the consequent more communication between industries will lead to effective upgrading of industrial structures.



THE END

Thanks!