



Analysis of Using FDI in Ningxia Hui Autonomous Region of China

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Abstract

Improving the use of FDI is an important strategy for the further development of Ningxia economic society. This paper analyzes the use of FDI in Ningxia and points out that the use of FDI in Ningxia still has great potential. The paper proposes that Ningxia should improve the investment environment for further improvement of using FDI.

Keywords: Ningxia; FDI; Foreign Direct Investment; China.

1. Introduction

With implementation of the Western China development strategy, the State Council OF China promulgated the plan of test zone of inland open economy in Ningxia in 2012 and established a comprehensive bonded area in Yinchuan. All of these brought Ningxia a perfect opportunity to optimize the industrial structure and improve industrial competitiveness which is an important and effective way to promote economic development of Ningxia. This paper analyzes the use of FDI in Ningxia and points out that the use of FDI in Ningxia still has great potential. The paper proposes that Ningxia should improve the investment environment for further improvement of using FDI.

2. Using FDI by Scale in Ningxia

It started from 1984 that Ningxia utilized foreign direct investment (FDI). Then gradual increase of foreign investment and constant growth and development of foreign-invested enterprises have become an important force which promotes economic development in Ningxia. By the end of 2012, there have been 833 foreign investment projects approved. Contractual foreign investment totaled US\$ 2.668 billion. The amount of actually used FDI was \$1.092 billion.

As can be seen from Table 1, except the beginning of countries' opening-up, in a long-term, the majority of foreign investment agreement projects was about FDI. It accounted for 61.1% in 2012, but in the term of actual foreign investment, before 2010, foreign loans accounted for the largest proportion. Since 2011, the largest proportion has become FDI. In 2011, actual FDI accounted for 59%. It shows foreign direct investment has gradually become a major force of using foreign capital in Ningxia, which is of important significance for economic and industrial development in Ningxia.

Table 1: Utilization of Foreign Capital by Scale in Ningxia

Item	1985	1995	2000	2005	2010	2011	2012	2012 Proportion (%)
New Signed Agreements on Foreign Capital to be Utilized (Unit)	3	53	42	41	37	19	18	100
Foreign Loans		11	4	4	1		2	11.1
Foreign Direct Investment	1	42	32	32	25	15	11	61.1
Other Foreign Investment	2		6	5	11	4	5	27.8
Total Amount of Agreements and Contracts (USD 10000)	344	5202	11067	20182	55210	38687	43601	100
Foreign Loans		2324	815	1030	25000		2512	5.8
Foreign Direct Investment	150	2878	9927	19053	28405	38355	40300	92.4
Other Foreign Investment	194		325	99	1805	332	789	1.8
Total Amount of Foreign Capital Actually Utilized (USD 10000)	99	6715	9091	14107	23175	34226	34809	100
Foreign Loans	74	3510	7497	7296	14819	13845	12200	35.0
Foreign Direct Investment	25	3250	1283	6712	8090	20199	21820	62.7
Other Foreign Investment			311	99	266	182	789	2.3

Source: *Ningxia Statistical Yearbook 2013*

3. Development Process of Using FDI in Ningxia

(1) Initial stage (1984-1991). On November 20, 1984, the first joint venture enterprise of Ningxia-- Sino-US Agricultural Environmental Equipment Manufacturing Co., Ltd. was officially opened. In 1984, the First Ningxia International Economic Cooperation Fair was held in Yinchuan where 14 technology import projects and 4 foreign investment projects were signed. It marked the beginning of utilization of foreign investment and technology import of Ningxia Autonomous Region.

In 1985, Ningxia held the Islamic International Economic and Technical Fair which attracted 19 countries. This was China's first economic and trade fair activity for the Muslim countries and regions. During the past eight years, a total of 28 FDI agreements have been signed. The amount of FDI agreement reached \$ 12.3 million, the actual FDI amount was \$ 3,710,000.

(2) Development stage (1992-2009). Affected by further economic reform policy and accompanied by the continuous improvement of utilization of foreign investment laws and regulations of China, the amount of utilization of FDI dramatically increased. In 1992, the amount of FDI agreement was US \$ 28.15 million. Actual used FDI reached \$ 3.48 million. In 1993, the amount of FDI agreement increased by 242%, to \$119 million. The actual utilization of FDI was \$ 11.9 million. Afterwards, the amount of actual FDI affected by Asian financial crisis in 1998 and 1999 was less than \$ 10 million, and has been stable over millions of dollars. And in 2004, the amount reached the highest at this stage. The actual FDI was \$ 66.89 million. Although international capital flows were affected by the international financial crisis, the utilization of FDI in Ningxia was relatively stable.

(3) Rapid development stage (2010 till now). In 2010, the amount of actual FDI inflow was \$ 80.90 million. In 2011, it rapidly increased to \$202 million. It was the first time that it exceeded \$ 200 million. Since 2012, despite of the sluggish world economic growth, downturn of global capital flows and other factors affected, and the absorbed

foreign direct investment continued to decline, utilization of FDI of Ningxia annually achieved steady growth. This was because of the contribution work from China - Arab Expo continuously held by Ningxia since 2010.

"China - Arab States Expo" approved by the State Council of China was an international economic and trade exhibition activity hosted by Department of Commerce of China, International Trade Promotion Committee of China and the Ningxia Hui Autonomous Region Government. The predecessor was China (Ningxia) International Investment and Trade Fair and the China-Arab States Economic and Trade Forum, short for CITIF and China-Arab Economic Forum. From 2010 to 2012, CITIF and China-Arab Economic Forum have been successfully held three sessions, and gradually developed into an important platform which attracted Arab countries and other Islamic countries. For 3 years, a total of 76 regional and international institutions, more than 5,000 domestic and foreign enterprises, more than 30,000 merchants participated in the fair. A total of 478 project agreements were signed. The contract investment reached 250 billion Yuan.

Since 2010, China-Arab Economic Forum was upgraded as China - Arab States Expo which is held annually. China - Arab States Expo adheres to "heritage of friendship, deepening cooperation and common development" as a purpose. It becomes an important platform that strengthens the cooperation among China, Arab countries and other Islamic countries. It covers the topics of energy, finance, agriculture, culture, tourism and other key areas, including merchandise trade, service trade, finance investment, technical cooperation, and culture, education and tourism between China and Arab, and other Islamic countries.

4. Characteristics of Using FDI in Ningxia

4.1 Ningxia Mainly Absorbs FDI in Secondary Industry with Expanding Trend

As can be seen from Table 2, in 2011, the amount of FDI agreement in the industrial sectors amounted to \$137 million. In 2012, the amount of FDI agreement of the industrial sectors was increased to \$284 million, accounting for 70.4 % of the amount of FDI agreement in Ningxia. That increased nearly 35 percent over the previous year. It is worth mentioning that in 2012 an agreement investment was introduced in Ningxia, which was 18.67 million dollars of water conservancy, environmental protection and public service infrastructure projects. It provided new financial and technical channels for regional environmental governance.

Year	Total Amount	Agriculture, Forestry, Animal Husbandry and Fishery	Industrial	Wholesale and Retail Trade	Real Estate	Financial Intermediation	Others
2011	38355	1243	13679	56	4144	19230	3
Proportion (%)	100	3.2	35.7	0.1	10.8	50.1	0.08
2012	40300	159	28358	3296	4998	0	3489
Proportion (%)	100	0.4	70.4	8.2	12.4	0	8.6

Source: *Ningxia Statistical Yearbook 2013*

4.2 Contribution of Foreign-Invested Enterprises in Ningxia is Limited

By the end of 2012 foreign-invested enterprises operating in Ningxia provided limited contribution to economic development in Ningxia. Import and export of foreign-invested enterprises accounted for 14.8% of Ningxia. It played a leading role in foreign trade of Ningxia. However, other economic indicators are not satisfactory. The employees of foreign-invested enterprises were only 14000 people, accounting for only 1.4% of Ningxia; the added value of above-scale enterprises with foreign investment accounted for only 2.33% of Ningxia.

4.3 The Use of FDI in Ningxia Still has Great Potential

Ratio of actual used FDI to all investment in fixed assets can demonstrate the potential of using FDI in Ningxia. As can be seen from Table 3 that the proportion of actual FDI to the fixed assets investment was less than 1% in most years. The largest ratio was 1.45% in 2004. It can be seen that the influence of investment for Ningxia was limited,

and the above ratio was far below the national average which is about 20%. Therefore, Ningxia is still in the primary stage of the absorption of foreign direct investment with great potential in using FDI.

Table 3: Ratio Of FDI to Fixed Assets Investment in Ningxia, 2003—2012 (USD 100 Million)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
F	0.32	0.67	0.67	0.37	0.50	0.62	0.70	0.81	2.02	2.18
G	318.21	380.85	444.82	515.28	621.81	858.84	1119.14	1464.70	1654.15	2109.52
F/G	0.82	1.45	1.22	0.56	0.56	0.50	0.43	0.37	0.77	0.64

Source: *Ningxia Statistical Yearbook 2013*, F: stand for actual FDI, G: stand for fixed assets investment in Ningxia

5. Recommended Policy for Improving the Utilization of FDI in Ningxia

5.1 Adjusting the Energy Structure, Strengthening Ecological and Environmental Construction

Ningxia needs to continue to adjust the energy consumption structure and further improve the industrial structure, improve electric power base construction, accelerate the development of clean coal production, develop alternative oil resources and optimize the development of thermal power and hydropower. Ningxia should strengthen the construction of the main grid interconnection project, chemical plant and Yinchuan chemical fertilizer plant. These measures aim to make Ningxia become important Chinese natural gas chemical industry base. Environmental protection should be valued highly, and civil natural gas should be vigorously promoted, and the coal-fired boiler should be replaced by gas boiler gradually. According to the requirement of the gas use in Ningxia, the second gas transmission pipeline from Shanganning gas field to Yinchuan should be built in time.

Ningxia should focus on the development of the urban environmental pollution control actively, and try to restrain the trend of the natural ecological environment worsening. The protection of the ecological environment and environmental infrastructure construction should be enhanced with more attention to attract FDI to environmental protection and environmental friendly industries.

5.2 Further Improving the Transportation Infrastructure

Ningxia needs to develop the highway network. The construction of highway in countryside should be enhanced. it is very important for Ningxia to improve the quality of transportation. The advantages of railway, highway, civil aviation and pipeline transportation should be highly recommended. Ningxia also needs to enhance the modern construction of high-speed rail. Remolding existing railway infrastructure and developing container transportation, refrigerated shipment and multimodal transport should be highly recommended. In the aspect of civil aviation transportation, Ningxia should try to build a safe, efficient, high quality traffic control system. At the same time Ningxia should increase the foreign capital utilization in the transportation sector.

5.3 Improving Research and Development Policies

High quality of FDI attaches great importance to scientific and technological environment of investment. Ningxia needs to form a good perfect environment to retain and attract talents, and create perfect environment for scientific and technological innovation. Ningxia should pay more attention to the role of technology in national economic development, and increase the investment in science and technology. Ningxia needs to formulate preferential policies for local talents, systematically introduce the middle and senior professional talents who will do great contribution work for economy construction in Ningxia.

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