

Evolution of Industrial Structure in China: In the View of Provision on Guiding Foreign Investment Direction

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This paper aims at studying the evolution of industrial structure in China after 2000 amid the new economic reform. In particular, the evolutionary amendment of Provision on Guiding Foreign Investment Direction from 2002 to 2004 and 2007, will be analyzed to evaluate the causal relationship between the new policy change to foreign direct investment and industrial structure development in China.

The 17th party congress and the 11th-5 year Economic Planning announced by the State Council of China in 2005 and 2007 aimed at optimizing regional development of industrial structure by adjusting the guide to foreign investment direction relying on four categories including encouraged, permitted, restricted and prohibited projects. There are unprecedented new policy amendments likely to be exercised, which would present significant challenges for foreign firms operating in China. Among the policy instruments, the Chinese government announced that the nation's future economic policy is likely to be based on firm-driven in lieu of traditional government-driven growth. Secondly, consumption-based economic development will take a greater priority over investment-oriented growth. In other words, the Chinese government intends to emerge itself from a planner and dictator to a facilitator in a market-driven economy.

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These policy goals were achieved by the evolutionary amendment of Provision on Guiding Foreign Investment Direction from 2002 to 2004 and 2007. The provision is formulated according to the related legal provisions on foreign investment and requirements of industrial policies in China in order to guide the direction of foreign investment, to make foreign investment in accordance with the plan of the national economy and social development and to serve the purpose of protecting legitimate rights and interests of investors. The foreign investment projects or industrial sectors regulated in this provision would be classified into four categories including encouraged, permitted, restricted and prohibited projects. The newest version of provision amended in 2007 lists 351 projects in encouraged investment (increases 94 projects than 2004), 87 projects in restricted investment (increases 9 projects than 2004), and 40 projects in prohibited investment (increases 5 projects than 2004).

These amendments reveal the change of investment guide planned by China government and the evolution of industrial structure during the economic growth stage. The result of research shows that the foreign investment projects under the circumstances of advanced technology, new agricultural technology, transportation, key raw materials; new equipment and material that domestic capacity is deficient, projects that meet market demands, new technology and equipment for saving energy, raw materials for comprehensive utilization of resources, projects for prevention environment pollution, and the projects that can make full use of manpower and resource advantage in inland region, will be strongly encouraged in the contemporary industrial structure in China. In addition, the further findings also depict that the foreign investment sectors under the circumstances of out-of-date technologies, and the projects unfavorable to resource-saving and ecological environment, may be listed as restricted projects amid the policy change of economic reform.

Finally, for upgrading the industrial development and sectoral structure, the foreign investment sectors under the circumstances of projects that occupy large amounts of arable land, and the projects that pollute environment, destroy natural resources or impair the health of human beings, will be taken as prohibited foreign investment projects after 2007, to achieve the strategic goal of "harmonious socialist society" in the aspects of economic works to balance urban and rural development, economic and social development, relations between man and nature, and domestic development and opening to the outside world. This result is of great academic and practical importance. Not only does it provide a regulatory understanding of foreign investment, it also allows strategic analysis for evolution of industrial structure in contemporary China.

Key words: Industrial Structure, Economic Reform, Provision on Guiding Foreign Investment Direction, Foreign Direct Investment,