Analyzing China's Performance in Attracting Foreign Direct Investment

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In the backdrop of the US-China trade war and the COVID-19 pandemic, significant structural changes have occurred in the operations of multinational corporations in China. To circumvent the high US Section 301 tariffs on China, foreign companies engaged in China are actively reconfiguring their investment strategies. They are diversifying their production capabilities to other regions, such as Southeast Asia, and there have been reports of foreign companies divesting from mainland China.

According to data released by China's State Administration of Foreign Exchange, foreign direct investment (FDI) inflows to China amounted to a mere $4.9 billion in the second quarter of 2023. This reflects a 76% decline from the first quarter and an 87% reduction compared to the same period the previous year. This marks the lowest quarterly FDI inflow into China since 1998. Nevertheless, when scrutinizing the actual FDI utilization figures provided by the Ministry of Commerce, the decline is approximately 10%, underscoring a significant discrepancy between the two data sources.

According to figures published by the Ministry of Commerce, China has consistently increased its annual FDI inflow since 2016, with a more pronounced surge following the US-China trade war and the pandemic. In 2022, China attracted $189.1 billion in FDI, accounting for 14.6% of the global total and ranking second globally, only behind the United States. A closer look at the sectors garnering the most foreign investment reveals that China's inward FDI in the manufacturing sector has been receding since 2011, owing to escalating production costs, more stringent environmental regulations, labor shortages, and other factors. In recent years, foreign investment in China has primarily been directed towards service industries, the automotive sector, and other industries catering to domestic demand.

This article underscores the substantial disparities between the statistics of the Ministry of Commerce and the State Administration of Foreign Exchange, which has become evident since the second quarter of 2022. This is primarily due to the distinct statistical recording principles employed by these two authorities, giving rise to the data mismatches.

By investigating the differences in foreign direct investment statistics between the State Administration of Foreign Exchange and the Ministry of Commerce, it is found that the recent sharp decline in foreign investment inflow into China can primarily be attributed to China's recent interest rate cuts and depreciation of the RMB. Investment opportunities have dwindled, prompting Chinese capital to seek higher returns abroad. Additionally, China's ongoing economic slowdown has reduced foreign investment profitability and reinvestment, elucidating the overall downturn. Consequently, while China's performance in attracting foreign investment in 2023 has not been ideal, it predominantly mirrors the prevailing economic challenges and diminished investment opportunities, rather than multinational companies disinvesting from China due to supply chain realignments.

For Taiwanese enterprises, considering the prolonged US-China tensions and the accelerated global supply chain restructuring, diversified investment strategies have become the emerging trend. Taiwanese enterprises operating in China will need to shift towards a more "Local Production, Local Sales" model. The advantages of manufacturing-focused Taiwanese businesses investing in China will diminish, and only enterprises with highly advanced technological capabilities can sustain operations in mainland China. Taiwanese enterprises must reinforce the application and management of technology to prevent technology leakage and maintain a competitive edge in the Chinese market for sustained long-term operations.

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