The Scenario of Foreign Direct Investment (FDI) in China

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Abstract

China is the most populous country in the world and is ruled by the communist party. China opened its doors for investors in 1974 and has been the leading developing host country in the world for FDI since 1993. By the end of 2003, China had accrued more than $500 billion in FDI through cooperative enterprises, joint ventures and wholly foreign-owned enterprises. Hong Kong, in East Asia is the largest recipient of China's FDI amounting to $204.9 billion in 2002. This article looks into the reasons on how China attracted huge amounts of foreign investment in its market to become one of the most powerful economies of the world.

Key Words: *Communist Party, Cooperative enterprises, Joint ventures, Investment*

Introduction

China has been the leading developing nation to attract FDI since 1993 in the form of, cooperative businesses and exclusively foreign run firms because of which foreign funding in China crossed $500 billion by the end of 2003. Prior 2001, Companies that were exclusively foreign owned were not allowed to function in China with an exception of firms that used modern technology and machinery or sold their products overseas. Following the removal of this restriction after 2001 China substituted the foreign run firms by collaboratively owned enterprises which attracted more FDI. China and particularly Hong Kong attracts majority of its foreign funding from Japan, US and rich European countries.

Prominent companies of rich nations like Sony, Samsung, GE, GM, IBM and Motorola have invested heavily in massive projects that require enormous funding and technological expertise. These companies are important for China as they will attract more foreign funding in the future as well due to China's lower production costs and high potentiality for manufacturing subsidiary parts. As a result of this 80% funding in China

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