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**FOREIGN DIRECT INVESTMENT IN CHINA AND ITS IMPACT ON CHINESE  
TRADE FLOWS**

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# Foreign direct investment in China and its impact on Chinese trade flows

Xiaoyue LIU <sup>1</sup>

## Summary

Since the openness and reform of Chinese economy, FDI has sharply increased in China. It has generated great impact on Chinese trade flows, especially on widening the scale of trade and optimizing the structure of international business. This essay reviews the development and changing track of FDI and Chinese international business. Based on introduction above, we discuss the impact of FDI on Chinese international trade flows by analyzing the growth rate of Chinese international trade, the structure of trade and the benefit of it.

Since openness and reform of Chinese economy, China has got great achievement in making use of foreign capital. Foreign investment enterprises have developed so well that they've filled gaps of capital and technique. These enterprises stimulate Chinese economy; increase export, taxation and employment. Foreign investment makes the structure of industries optimized and also promotes techniques. It has played a very important role in Chinese international trade, trade balance and the stabilization of exchange rate of RMB, which accelerates the speed of China's entering into the international world.

## I Review of development of foreign investment in China

Yr 1978- Yr 2005, FDI in China has been 27 years. Especially, since 1995, FDI in China has been ranked the top for consecutive more than 10 years among developing countries.

Generally, FDI in China has experienced five stages:

Yr 1979- Yr 1986 was the starting period. In this stage, FDI in China was mainly from HK, Macao and Taiwan. Most items were featured with labor intensive, spreading from processing industry, hotels and service, etc. Foreign enterprises mainly located in the provinces of Guangdong, Fujian and other seaside areas.

Yr 1987- Yr 1991 was the steady developing period. In this stage, the structure

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of FDI in China changed heavily. There were more productive items and exporting enterprises than before. Producing lines of electronic products displaced to east seaside areas. The proportion of service using foreign capital decreased. Foreign investment widened both in investing areas and in industries. Capital from Taiwan became more than before.

Yr 1992- Yr 1994 was the developing period with high speed. In this stage, FDI in China increased sharply. The average scale of projects was larger and the development of real estate was fast. More and more brand new investing fields had expanded. And FDI began to put capital into central and west part of China.

Yr 1995- Yr 2001 was the adjusting period. In this period, FDI in China slowed down its pace. FDI in manufacturing increased. Industries of assemble manufacturing such as IT industry gradually dispersed both in Zhu triangle economic area and Chang triangle economic area. The Tertiary Industry began to take advantage of FDI in certain fields. Economic climate of central and west areas had been improved. Also in this stage, China began to treat foreign enterprises by Principle of National Treatment.

Yr 2002- till now is transition period after entering WTO. FDI in China has changed so much. We pay much attention to the quality and optimize structure of foreign capital. More and more famous international companies invest in China. Resource of capital and structure of techniques are improved further. Investing fields are widened. Structures of industry are more reasonable. Especially since 2003, some heavy industry and equipping industry have landed in China. China has become one of making centers of high-tech products in the world. In service industry, R&D, software engine have developed very fast in China.

(i) Information of the usage of foreign capital in China

From table 1 below, the amount of foreign capital was US\$ 22.6 hundred million in 1983 and was US\$ 638.1 hundred million in 2005. It is 28.2 times more within 22 years' time. The average growth rate is 16.4% per year.

From table 2 below, see the structure of foreign capital, in 1980s; foreign capital mainly came from borrowing. In 1990s, especially after 1992, FDI became the main resource of foreign capital in China. In 2005, in the amount of foreign capital used by China, the proportion of FDI had reached to 94.5%.

Tab.1 Actually Used Foreign Investment in China

Unit: USD 100 million

Yr	Amount of Foreign Capital actually used	FDI	Foreign Loans	Other Investment
1979-2005	8091.3	6224.3	1471.6	395.6
1979-1982	130.6	17.7	106.9	6
1983	22.6	9.2	10.7	2.8
1984	28.7	14.2	12.9	1.6
1985	47.6	19.6	25.1	3
1986	76.3	22.4	50.1	3.7
1987	84.5	23.1	58.1	3.3
1988	102.3	31.9	64.9	5.5
1989	100.6	33.9	62.9	3.8
1990	102.9	34.9	65.3	2.7
1991	115.5	43.7	68.9	3
1992	192	110.1	79.1	2.8
1993	389.6	275.1	111.9	2.6
1994	432.1	337.7	92.6	1.8
1995	481.3	375.2	103.3	2.9
1996	548	417.3	126.7	4.1
1997	644.1	452.6	120.2	71.3
1998	585.6	454.6	110	20.9
1999	526.6	403.2	102.1	21.3
2000	593.6	407.2	100	86.4
2001	496.7	468.8		27.9
2002	550.1	527.4		22.7
2003	561.4	535.1		26.4
2004	640.7	606.3		34.4
2005	638.1	603.3		34.8

Tab. 2 Structure of Actually Used Foreign Investment in China

Unit: %

Yr	Amount of Foreign Capital actually used	FDI	Foreign Loans	Other Investment	FDI/GDP
1979-2005	100	76.93	18.19	4.89	
1979-1982	100	13.55	81.85	4.59	
1983	100	40.71	47.35	12.39	0.3
1984	100	49.48	44.95	5.57	0.5
1985	100	41.18	52.73	6.30	0.6
1986	100	29.36	65.66	4.85	0.8
1987	100	27.34	68.76	3.91	0.7
1988	100	31.18	63.44	5.38	0.8
1989	100	33.70	62.52	3.78	0.8
1990	100	33.92	63.46	2.62	0.9
1991	100	37.84	59.65	2.60	1.1
1992	100	57.34	41.20	1.46	2.3
1993	100	70.61	28.72	0.67	4.5
1994	100	78.15	21.43	0.42	6
1995	100	77.96	21.46	0.60	5.2
1996	100	76.15	23.12	0.75	4.9
1997	100	70.27	18.66	11.07	4.8
1998	100	77.63	18.78	3.57	4.5
1999	100	76.57	19.39	4.04	3.7
2000	100	68.60	16.85	14.56	3.4
2001	100	94.38		5.62	3.5
2002	100	95.87		4.13	3.6
2003	100	95.32		4.70	3.3
2004	100	94.63		5.37	3.1
2005	100	94.55		5.45	2.7

(ii) Industrial distribution of FDI in China

Since openness and reform of Chinese economy, FDI in China mainly focuses on the Secondary Industry, the proportion in which is about 70%. From 2000 till now, FDI in manufacture has increased greatly. In recent three years, proportion of FDI in manufacture has reached 70%. The proportion of FDI in Primary Industry keeps lower than 2%. The proportion of FDI in Tertiary Industry is between 20%-30%.

**Tab. 3** Yr 1997–2004, Actual FDI by Sector Unit:%

	1997	1998	1999	2000	2001	2002	2003	2004
<b>Primary</b>	1.39	1.37	1.76	1.66	1.92	1.95	1.87	1.84
<b>Secondary</b>	71.97	68.91	68.90	72.64	74.23	74.83	73.23	74.98
<b>Manufacture</b>	62.13	56.27	56.06	63.48	65.93	69.77	69.03	70.95
<b>Tertiary</b>	26.65	29.72	29.34	25.70	23.85	23.23	24.90	23.18

(iii) FDI by regions

From 1997 to 2003, FDI in east was 85% of the total and 10% in the central area, 5% in the west.

**Tab. 4** Actual FDI by Regions Unit: %

	1997	1998	1999	2000	2001	2002	2003
<b>East</b>	83.92	85.25	86.18	86.50	87.01	86.63	85.73
<b>Central</b>	10.50	9.56	9.22	8.91	8.85	9.55	11.02
<b>West</b>	5.58	5.19	4.60	4.59	4.15	3.82	3.25

We can find that the distribution of FDI between the industries and regions were out of balance.

## II International Trade in China

(i) Scale of trade keeps expanding

Since openness and reform of Chinese economy, the scale of international trade in China keeps expanding. Especially from 1990 to 2005, i.e. 16 years, it was the period with highest developing speed of international business since 1949. The average growth rate of overall trade from 1990 to 2005 was 18.22% that was 6 more percentage than 1980s. In which, from 2000 to 2005, the overall trade grew at the rate of 24.56%.

**Tab. 5** Growth Rate of International Trade in China Unit: %

Periods	Total Value of Imports and Exports	Exports	Imports
1980–1989	12.68	12.56	12.79
1990–1999	13.49	13.56	13.42
2000–2005	24.56	25.05	24.00
1990–2005	18.22	18.19	18.26

In recent 10 years, growth speed of foreign trade in China is much faster than the average growing speed of 7-8% of trade in world. Imports and exports in total had been ranked the third in 2004 and 2005. The ranking was 27<sup>th</sup> in 1978, and 16<sup>th</sup> in 1990. Exports were 7.3% of world's export in 2005, coming up from 1.8% in 1990. Imports were 6.1% of world's total import in 2005, coming up from 1.5% in 1990. Since openness and reform of Chinese economy, Chinese dependence ratio of trade has risen up. It was 12.6% in 1980, 30% in 1990, 69.8% in 2004, and 64.13% in 2005. Obviously, growth speed of foreign trade in China is higher than that of GDP.

(ii) Structure of foreign trade is improved

Since openness and reform of Chinese economy, the scale of foreign trade keeps expanding. Meanwhile the structure of goods imported and exported is largely bettered than before.

1. Structure of exports

Since 1980s, structure of export in China has transited from primary goods to manufactured goods. The weight of primary goods was 6.4% in 2005, falling from 50.3% in 1980. Accordingly, the weight of manufactured goods was 93.6%, rising from 49.7% in 1980. In manufactured goods, machinery and transport equipment which have higher value-added have larger proportion of export, which was 49.4% in 2005 from 9.4% in 1980. Export of light and textile, rubber and minerals metallurgical products has fallen to 18.1% from 44.4%. Export of chemicals and related products was down to 5.0% from 12.4% also. Since 1996, the weight of machinery and transport equipment exported in total value of export has exceeded textile, becoming the leading exporting goods.

2. Structure of imports

Since the middle of 1980s, import of primary goods owns a rising trend. Import of manufactured goods decreased relatively. But the trend is not evident and often fluctuates. From 1985 to 2005, import of primary goods was 22.4% of the total import, up from 12.5%. Import of manufactured goods was 77.6%, down from 87.5%. Machinery and transport equipment is the leading import goods of which the weight keeps rising, from 39.2% in 1980 to 56.7% in 2005.

Through observing the scale and the structure of foreign trade in China, we can get that in recent years China does develop foreign trade with highly growth rate. Changing of trade structure in China is adapted to world market's need. China has contributed to the output of many vital products in the world. That's why China is able to keep such high growth rate of export and optimize structure of trade.

Before 1995, export in China concentrated on labor-intensive products, and imports were mainly secondary and high-tech products. After 10 years development, structure of export begins to focus on secondary and high-tech products. Even though labor-intensive products are still the 1/4 of the total export, its share has already had a downward trend. The share of high-tech products has the opposite trend. It is 18 percent more than that of 1995, becoming the leading products of export and substituting labor-intensive goods. For import, primary and high-tech products has bigger share. The share of resource products, labor-intensive products, low and medium-tech products have downward trend, especially the share of medium-tech products. Comparing with export of medium-tech products, it shows China's ability of producing medium-tech products has improved, meeting the demand of domestic and foreign countries.

### **III The impact of FDI on China's international trade**

How FDI impacts China's foreign trade is a key issue. FDI not only affects the speed and structure of foreign trade, but also affects the trade benefit of development model and persistence of development.

China's foreign trade owns high-speed development, so does the structure of the trade. It has strong relation with foreign investment. Since 1980s, China has begun to open manufactured industry step by step. Scale of foreign investment is becoming larger and larger, the share of which in GDP was up to 2.7% in 2005, from 0.3% in 1983, especially in 1994, reaching 6%. Foreign investment increases in quantity and involves different industries, from labor-intensive industry and low-tech industry to middle and high-tech industry, resulting in great change of structure of China's foreign trade.

(i) The impact of FDI on developing speed of foreign trade

1. The trade increasing speed of foreign investment enterprises is higher than domestic ones.

In 2005, imports increased 12.37 times more than that of 1990, and 12.27 times for exports, with annually increasing speeds of 18.26% for import and 18.19% for export respectively. The increment of import of foreign investment enterprises was about 61.85%, and 62.35% for increment of export of them. Yearly growth rates of import and export of foreign increment enterprises are 25.86% and 30.91%, which are 12.41 and 18.41 higher percentages than those of domestic enterprises. Obviously, during this period, growth rate of foreign and domestic enterprises are very different.

Difference of growth rate between foreign and domestic enterprises comes from:

Firstly, difference of base number. In 1990, most foreign funded enterprises had larger scale of export than that of native enterprises. Import was in the opposite situation. Commodities with smaller base number can easily have higher growth rate.

Secondly, difference of ability to meet standards of allowing to enter foreign market. Foreign countries have serious standards for entering of some commodities, which restricts expanding of export of native enterprises. Therefore foreign investment enterprises keep high growth rate of export by more advanced producing and processing technology and more restricted and regulated management. A good example is food. Foreign investment enterprises has different export growth rate of food, comparing with native enterprises. The growth rate is 20% per year for foreign investment enterprises, yet it is 2.6% per year for native enterprises in recent 10 years. Drinking and tobacco is another extreme example. During recent 10 years, export of drinking and tobacco in foreign investment enterprises grows at 23% yearly, yet that of native enterprises goes down at 47% per year. Export of native enterprises is substituted by foreign investment enterprises in those sectors gradually.

Thirdly, effects of international producing network. Producing ability built by foreign capital in China is part of international producing network. It nearly can be recognized as export oriented. Even though some native enterprises expand their export by processing trade and some are even included in the international producing line of foreign multinational companies, the scale is not big enough to

compare with foreign investment enterprises in China. Commodities of this kind are: Computers, office equipment, telecommunication equipment, semiconductor, and aero craft, etc which are all high tech-products.

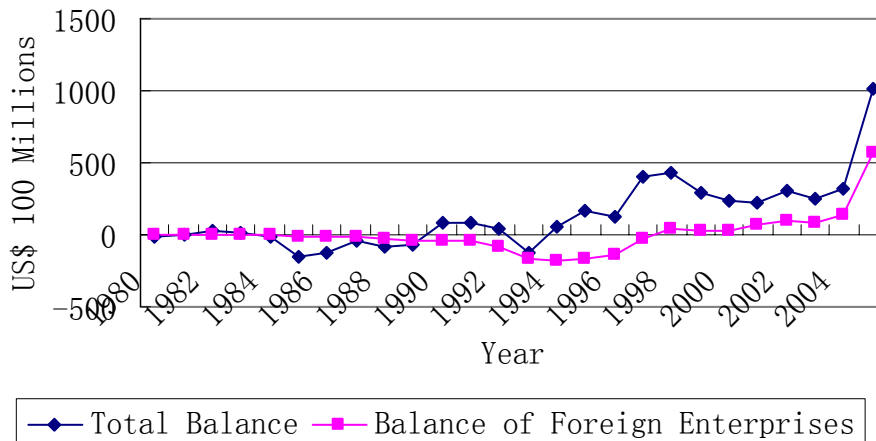
2. For foreign capital enterprises, its growth rate of export is higher than that of import. But domestic enterprises has the opposite style, its growth rate of export (10.7%) is lower than that of import (14.7%).

From 1990–2005, yearly growth rates of import and export in foreign investment enterprises were 25.9% and 30.9%, which is obvious that growth speed of export was higher than that of import. In the same period, yearly growth rates of import and export in native enterprises were 13.5% and 12.5%, which shows growth speed of export was lower than that of import.

There are many differences by sorts of commodity of trade between foreign investment enterprises and domestic ones. Of all categories of products, growth rate of export of foreign investment enterprises is higher than imports. But for domestic enterprises, export of primary goods and high-tech goods is lower than imports, noting that export of primary goods is 14 percentages lower than import.

Growth rate of export of foreign investment enterprises is higher than imports. The reason maybe lies in the time interval selected, and also in industry chains built by foreign investment enterprises and domestic enterprises. In the first period of foreign capital's entering China, China built producing ability mainly by taking advantage of foreign advanced technology and machines, and also by importing critical intermediate products and doing processing work, therefore demands of import is bigger than export. Following producing ability built strongly, demand for machines slows down. The same thing happens for those intermediate products because of the substitute of local products, which actually is an effective way to optimize Chinese internal technology and structure of industry.

### Net Exports



Graph 1 Balance of Total & Foreign Investment Enterprises

Net export of foreign investment enterprises affects trade surplus after 1999.

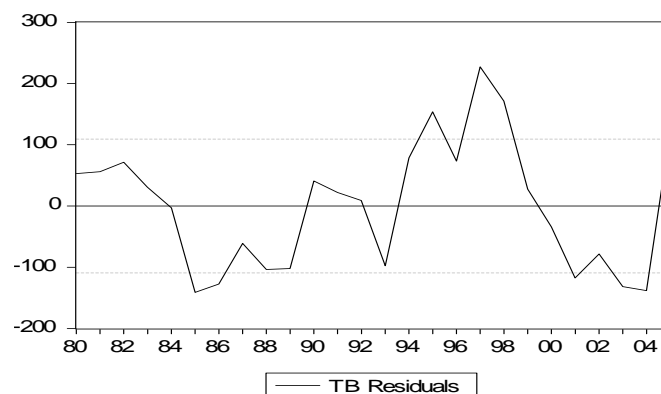
How big the trade surplus is in a great degree depending on the trade surplus of foreign investment enterprises and degree of openness in China.

If use variable “time” to express the degree of openness in China, variable TB means **Total balance of the trade in China** and variable BFE means **the balance of foreign enterprises**, therefore

$$TB = -71.55 + 0.99 \cdot BFE + 16.27 \cdot TIME$$

(-1.60) (5.75) (5.17)

Adj. R<sup>2</sup>=0.80, D.W=0.86



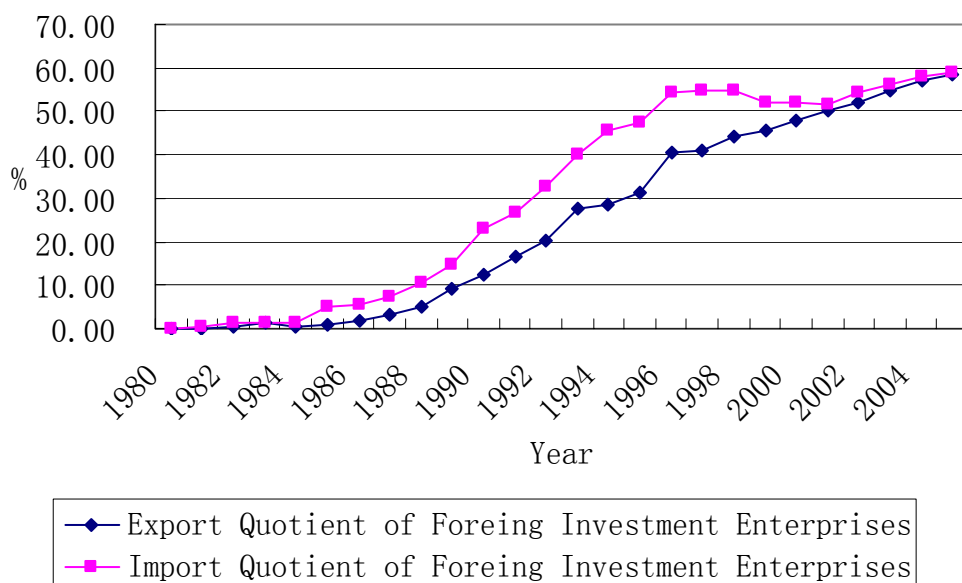
Graph 2 Residuals of TB

(ii) Affection of FDI on structure of foreign trade

1. Imports and exports of foreign investment enterprises has great share of trade in China.

In 1995, imports of foreign investment enterprises were 47.65% of total imports (23.07% in 1990), and exports were 31.51% of total exports (12.58% in 1990). But the share rose up to 58.72% and 58.30% in 2005, which all exceeded 50% of total foreign trade in China.

Export & Import Quotient of Foreign Investment Firms



Graph 3 Percentages of export and import of foreign investment enterprises

2. Trading structure of foreign investment enterprises has great impact on structure of trade.

Look at classified products, export of primary goods and 5 kinds of manufactured goods of foreign investment enterprises within these 10 years has bigger proportion, but to different extent: export of labor intensive products has risen 6 percentages, export of high-tech products has risen 35 percentages. Now in China, there is more than 1/3 export of primary products, labor-intensive products and low-tech products coming from foreign investment enterprises. More than 50% of China's export of resource intensive products, medium-tech products and high-tech products comes from foreign investment enterprises. It should be noted that foreign investment enterprises have 80% of China's total export of high-tech products. It's no doubt that the structure of export in China can never divert to high-tech products if it were not exports of foreign investment enterprises (See Table 6).

**Tab.6 The proportion of exports of foreign capital enterprises in China' s exports of classified products (%)**

	Exports		Imports	
	1995	2004	1995	2004
Primary products	14	33	26	24
Manufactured products				
Resource intensive products	28	51	53	64
Labor intensive products	33	39	66	69
Low-tech products	22	38	45	52
Medium-tech products	39	58	58	67
High-tech products	45	80	45	71

Resource: China Customs Statistics

## 2. Export structure of foreign investment enterprises and domestic ones

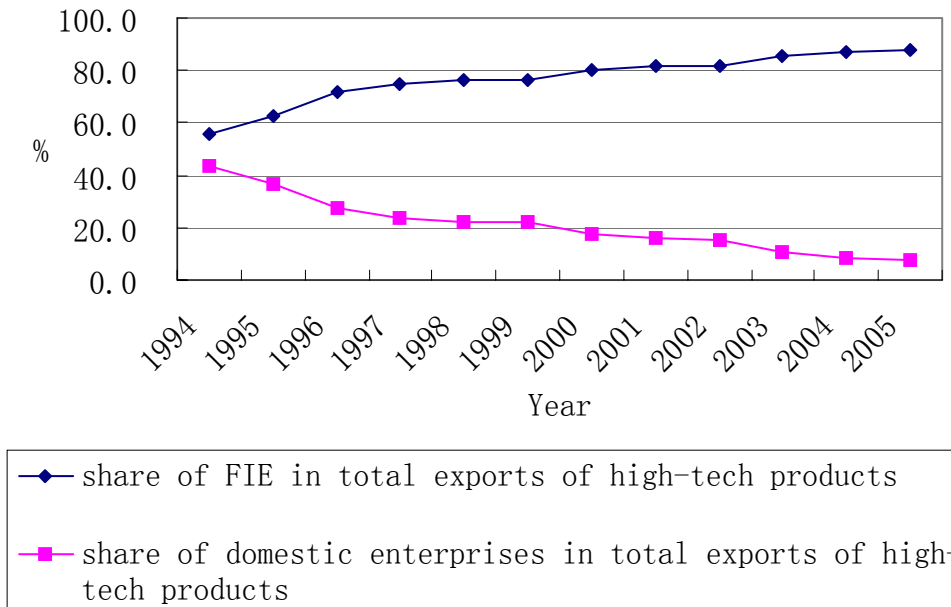
10 years ago, labor-intensive products are the main products that domestic enterprises exported and foreign enterprises. Look at the proportion of exports; foreign investment enterprises exported more labor-intensive products than domestic ones did. 10 years later, labor-intensive products still has the highest proportion of export in domestic enterprises, even though export of high-tech products has risen up 3 percentages. Comparatively, high-products have been the most important exporting products in foreign capital enterprises; meanwhile export of labor-intensive products has fallen 23 percentages and has lost dominant position. It's obviously that exports of domestic enterprises do divert to tech intensive products, especially medium-tech products, even though the speed is slow (See Table 7).

**Tab.7 Structure of exports in domestic & foreign capital enterprises (%)**

	Export structure of foreign investment enterprises		Export structure of domestic enterprises	
	1995	2004	1995	2004
Primary products	7	5	20	13
Manufactured products				
Resource intensive products	4	5	5	6
Labor intensive products	39	16	37	33
Low-tech products	7	6	11	14
Medium-tech products	14	16	10	16
High-tech products	28	52	15	18

Resource: China Customs Statistics

Share of domestic enterprises and foreign investment  
enterprises  
in exporting high-tech products



Graph 4 Share of domestic enterprises and foreign investment enterprises  
in exporting high-tech products

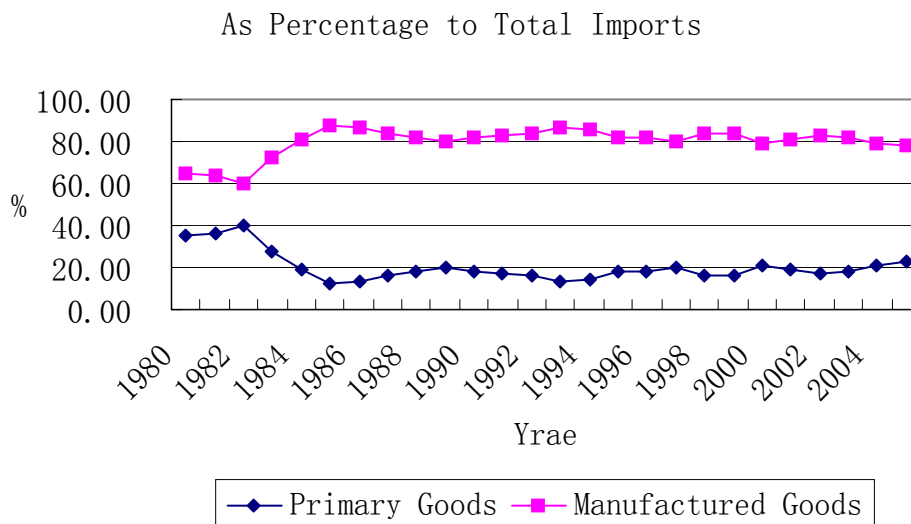
### 3. Structure of China's foreign trade

See export commodities by category, since 1986 export of manufactured goods has had a larger proportion than that of primary goods. In 2005, share of manufactured goods and primary goods in total export were 93.6% and 6.4%, which were 30 percentages higher and lower than those of 1986 respectively (Graph 5).

See import commodities by category, manufactured goods has larger share than primary goods in total imports. After 1990's, import proportion of these two goods is very steady; share of manufactured goods goes down slightly, while primary goods goes up (Graph 6).



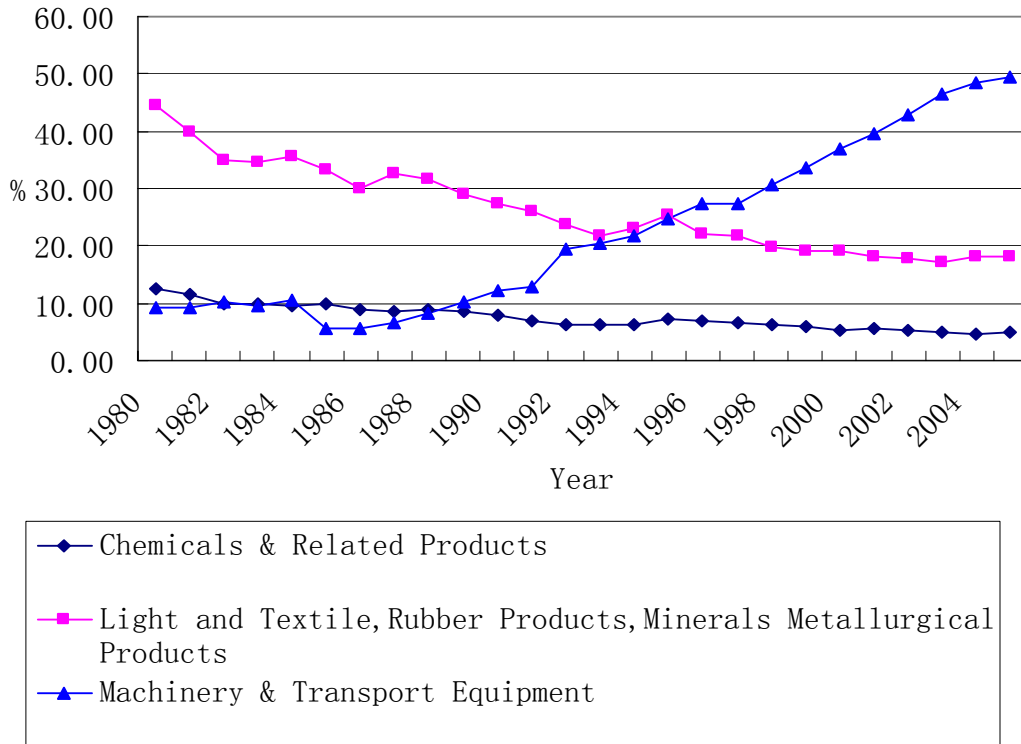
Graph 5 Exports of Classified Products, China Customs



Graph 6 Imports of Classified Products, China Customs

See export of manufactured goods by classification, export of chemical products is steady. Export of light and textile industrial products, rubber and mining products goes down. Export of machinery and transport equipment goes up. Export of machinery and transport equipment was not larger than that of light and textile industrial products, rubber and mining products until 1996. Since 1996, structure of export has changed; export of machinery and transport equipment has increased sharply and has had a higher proportion in total import (Graph 7).

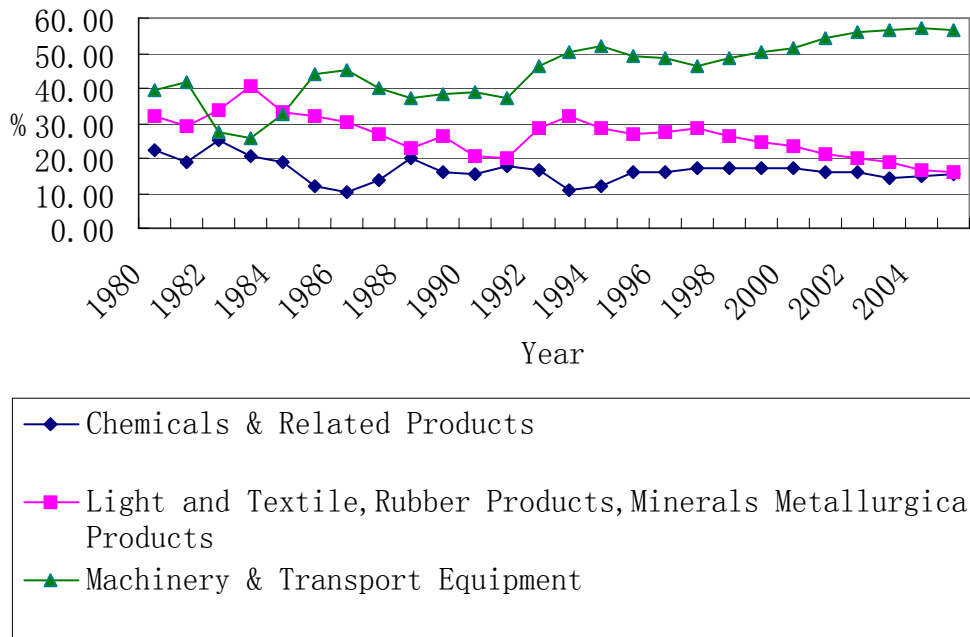
As Percentage to Total Exports of Manufactured Goods



Graph 7

See import of manufactured goods by classification, imports of all kinds of goods haven't changed too much since 1985. Imports of machinery and transport equipment have the largest share. Imports share of light and textile industrial products, rubber and mining products are larger than that of chemical products. During this period, importing proportion of machinery and transport equipment goes up slightly, and import of light and textile industrial products, rubber and mining products drops a little. Import proportion of chemical products is steady comparatively (Graph 8).

As Percentage to Total Imports of Manufactured Goods

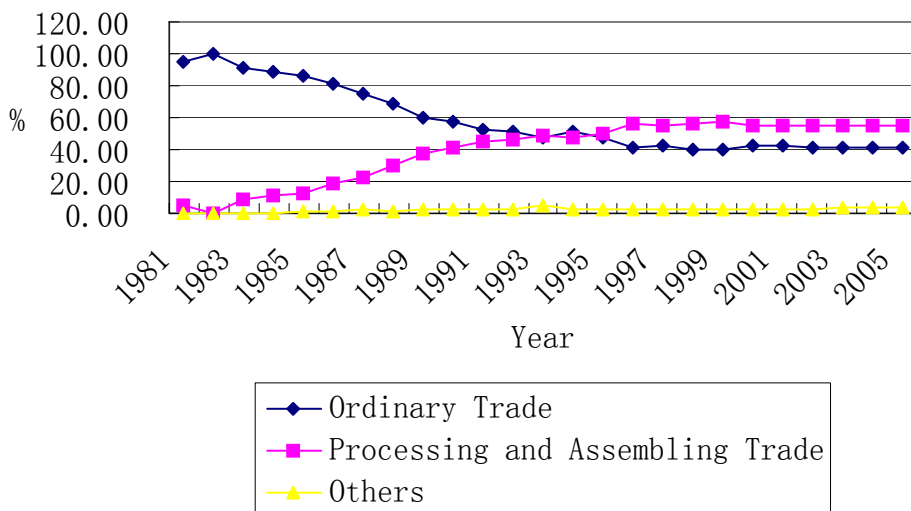


Graph 8

#### 4. Modes of China's foreign trade

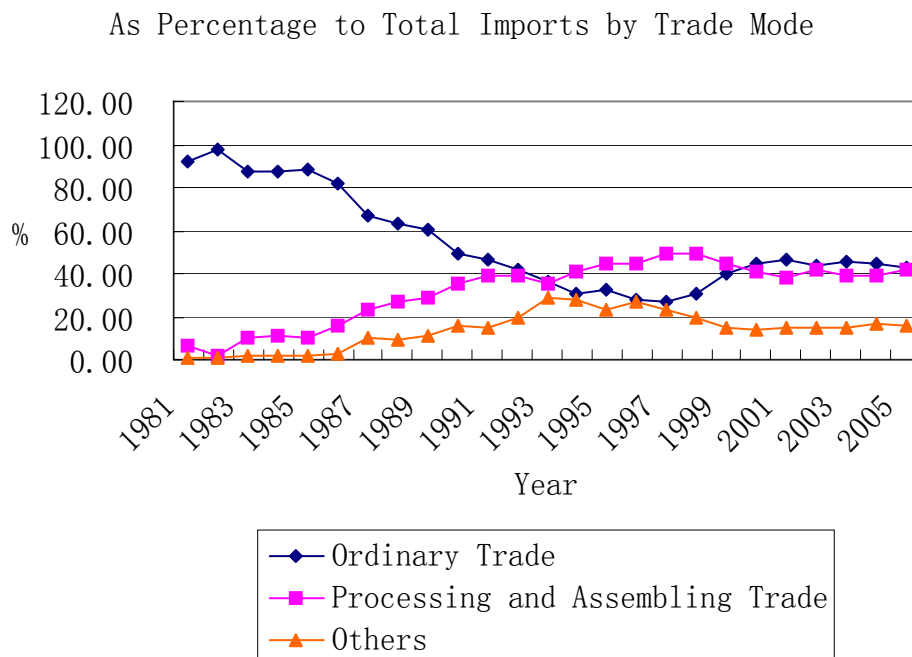
See export by trade modes, from 1981 to 2005, export of ordinary trade had a trend of going down. Export of processing trade rose up, and export of other trade didn't change much. From the graph, time of middle of 1990s was a transiting point. Before this point, export of ordinary trade was larger than that of processing trade. Things went to the opposite after 1996 (Graph 9).

As Percentage to Total Exports by Trade Mode



Graph 9

See import by trade mode, from 1981 to 2005, proportion of ordinary trade had a trend of going down, while processing trade had a trend of going up. Share of other trade rose up slightly. By phase, before 1994, ordinary trade had the largest share in total imports, processing trade was the second and the other trade was the third. Yet after 1995, shares of ordinary trade and processing trade in total imports are all big enough to the top trade (Graph 10).



Graph 10

(iii) Influence of FDI on China’s foreign trade

Trade surplus is a target of one nation’s foreign trade policy. Income and expense of trade is still a key index to gauge one nation’s benefit of trade. Especially when doing research about influence of foreign capital on the economy, balance of trade of foreign investment enterprises is still a sensitive issue.

When analyzing whether foreign investment enterprises have improved one nation’s trade balance, there are at least three questions to be considered. The first factor is time. The second is orientation of foreign investment enterprises and the third one is correlating extent of domestic and foreign enterprises. During the first period of foreign capital enterprises’ entering China, to build up necessary producing ability, import of capital goods was urgent. Imports were

intensive. After that, even though imports of capital goods kept going, its scale and speed slowed down. Raw materials and semi-finished products for producing and processing were the substitution. Therefore it was deficit in first period of foreign investment enterprises. In medium term and longer time, whether trade balance of foreign investment enterprises could transfer to surplus depends on two factors, one is direction of foreign investment, and the other is correlating extent of foreign investment enterprises and domestic enterprises. Direction of foreign investment could be classified as export oriented and markets of nations oriented by seeing how it affects trade balance. If foreign investment of one nation is export oriented, it is great possible that surplus of trade appears. Contrarily, surplus is hard to happen if it is markets of nations oriented. Under these two circumstances, whether there's surplus also depends on correlating extent of foreign investment enterprises and domestic enterprises. If it is highly correlated, foreign investment enterprises have more input coming from one native country, which could probably get surplus. On the other hand, if it is highly depending on the technical products supplied by invest-country or other foreign suppliers will result in imbalance of trade even if it is export oriented.

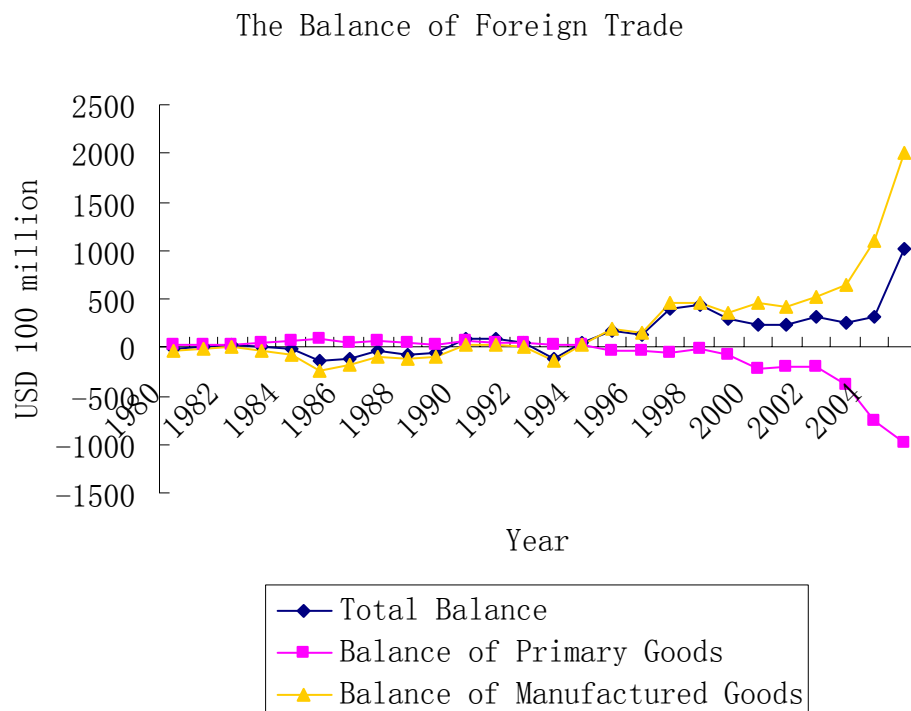
There are several points included by watching trade balance of foreign investment enterprises in recent 10 years.

First, from 1995 to 2004 the balance of trade was not big. The amount of surplus reached to 320 hundred million dollars, from 167 hundred millions. Net increasing was 153 hundred million dollars, with yearly growth rate of 7.5% which was lower than the growth rate of trade. In 2005, surplus of trade increased and reached to 1026 hundred million.

Second, trade balance's framework of enterprises has great change. In 1995, there was a surplus of 327 hundred million dollars for trading of Chinese domestic enterprises, and it was a deficit of 161 hundred million dollars for foreign capital enterprises. Ten years later, the surplus of native enterprises has fallen sharply, the scale of which is only 54.7% of that of 1995, i.e. 179 hundred million dollars. Meanwhile trade of foreign investment enterprises has begun to appear surplus. In 2004, foreign investment enterprises had a surplus of 140 hundred million dollars which was still lower than surplus amount of domestic enterprises. Yet native and foreign enterprises have different developing trend. In 2005, surplus of native and foreign enterprises were 453 hundred million and 567 hundred million separately. Maybe we could have the

assumption that for some periods in the future trade surplus of China may main come from foreign investment enterprises.

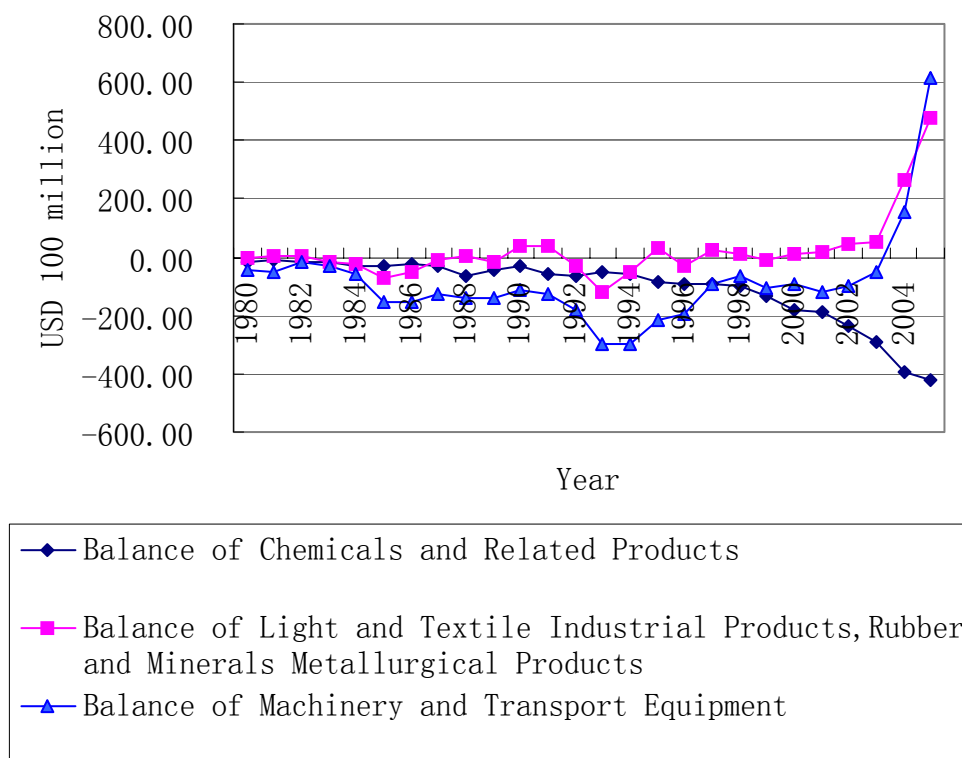
Third, balance of trade of main products hasn't changed too much. But products' contribution to trade balance has changed a lot (See graph 11, classified as primary goods and manufactured goods).



Graph 11

From 1980 to 1995, total surplus of trade was around 0. Trade of manufactured products was deficit, and surplus of trade of primary goods was more than manufactured goods. After 1995, surplus of trade has the upping trend, and manufactured goods are the main factor leading to the trade surplus.

Balance of Manufactured Goods



Graph 12

By analyzing manufactured goods, it was deficit for trade of medium and high-tech products, while it was surplus for labor-intensive products, low-tech products and resource intensive products before 1995. Things didn't change after 1995. In 1995, trade surplus of domestic enterprises mainly came from labor-intensive products (which is 77% of all trade surpluses). Surplus also came from low-tech products, resource intensive products and primary goods, their deficit products were medium and high technical goods; In the same year, trade of foreign investment enterprises was deficit except for trading of labor-intensive products and the deficit mainly came from medium-tech products (60% of all deficits). In 2004, trade of medium-tech products in native enterprises was surplus with small amount, while trade of high-tech products was still deficit. The main item resulting in deficit was primary goods, which was 72% of all deficits in domestic enterprises. Deficit of high-tech products was 28% of all deficits. The most important change was that resource intensive goods, low-tech products and high-tech products in foreign investment enterprises become surplus. But the deficit of medium-tech products and primary goods was enlarged, especially primary goods, with yearly growing speed of deficit of 17%. In total deficit, deficit of medium-tech goods had bigger

proportion that was 66%, and deficit of primary goods was 34% of the total. (See table 7 below)

**Tab.7** Balance of China's trade (\$ million)

Year	1995			2004		
	Nation	Foreign capital	Domestic units	Nation	Foreign capital	Domestic units
Primary goods	-2203	-3379	1176	79986	-14095	-65890
Manufactured goods						
Resource intensive products	2630	-371	3002	19236	8253	10983
Labor intensive products	39228	7803	31425	113925	38172	75752
Low-tech products	3661	-1617	5279	23256	4305	18950
Medium products	-19566	-14596	-4970	-27451	-27698	247
High-tech products	-9264	-4197	-5066	-22995	2603	-25599

Resource: China Customs Statistics

Through the contrast above, we can find,

First, ten years ago foreign investment enterprises worsened China's trade balance. Ten years later, it improves trade balance. With stronger ability of producing and exporting of FDI, foreign capital will help improve trade balance more conspicuously. At the same time, surplus coming from domestic enterprises are less than before.

Second, labor-intensive products are still the main reason why there's surplus. Domestic enterprises are the main units that export labor intensive products, but increasing speed of exporting labor intensive products of foreign enterprises is higher than that of domestic enterprises, which states that foreign capital in labor intensive industries is export oriented.

Third, about medium-tech products, the scale of trade deficit and its increasing extent of foreign capital enterprises are exceeding than that of domestic units, which indicates that foreign investment enterprises more depend on their own countries or other foreign materials suppliers in these products, and less correlated with domestic units.

Forth, it's different from 10 years that China has insufficient natural resource to be exported. China has to import raw materials, which will be the main reason of deficit of trade in the future.

#### **IV Conclusion**

From development of foreign trade in China, it can get that FDI aids China to create a brand new advantage of trade, which shows in two fields.

First, it has broken through the restriction of resource that China has in current stage and improved efficiency of traditional sectors. During 20 years of economic openness, increasing of economy has become mainly stimulated by investment, which is the result of bringing FDI and advanced producing technology. In this stage, competition isn't expressed by relative price of certain factors, but by efficiency of producing standard goods. Currently, China's competition of trade comes from international different nature of certain factors, and also comes from increase of invest. Especially, increase of FDI brings higher productivity to China and make China have advantages of cost and efficiency when producing a great deal of standardization of manufactured goods and become one of the world's processing factory.

Second, it helps China form the trade pattern of export oriented and multi-forms of labor-intensive industry. Traditional export goods of China focused on clothes, shoes, toys that are labor-intensive sectors, but increasing potential of export in these sectors are restricted. Therefore, finding more industry that can be exported can guarantee increase of China's export. To make it real, it should depend on FDI. FDI helps China acquire ability to export more goods, such as IT products, consumed electronic products. And also FDI helps these industries can join into the international producing line in quite a short time, provide more job opportunities and bigger export amount. Even though China's role in these sectors is still the part of packing and testing which has low value added and is labor intensive, yet these are the parts that grow fastest in international trade which are also the parts have little trade protective barriers. These untraditional sectors of export expand so rapidly that they bring a new way for China's labor to enter international market, easing off exporting pressure of traditional labor intensive sectors, securing export develop consistently in China.

**References:**

1. China Statistical Yearbook
2. China Statistical Abstract
3. China Customs Statistics
4. China External Economic Statistical Yearbook