

A report regarding the attractiveness of alternative countries



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Prospects of FDI in China Inserts His/Her Inserts Grade Inserts Contents

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FDI in China China's persistence in attracting FDI is one good reason why future investors are attracted to its large market. Economies of scale make it

better for the multinationals in China to be located in same areas and share

information. China provides a lot of incentives to companies that plan on

investing. According to some statistics, in 2008 china was the most

attractive country for FDI. China is a country with where cheap labor is easily

available giving a cost advantage to the companies investing. (Diego Quer,

2008) Moreover, China is largely a buyer's market keeping in mind the

country's population of 1.3 billion people. And with time there is an

expectation that the purchasing power of Chinese residents is likely to

increase sharply because of the lower rates of inflation and a good annual

GDP growth rate of 8 % for the country. To top it all China's government

recently has eased down the regulations and laws concerning foreign

investment in China. As a result of these incentives a lot of companies

invested in China and as according to research FDI flows into china were of

about 83.5 billion dollars which grew to 108.3 billion in 2008 with continued

investment announcements and a positive investor outlook. (Jianhong Qi,

2008) The trend of FDI in China has changed since 2001 after it joined WTO.

Since then until now foreign investors who have invested in China have

formed companies entirely owned by foreign capital. Other than industry and

hi-tech foreign investment is also allowed in the financial services, insurance

and banking sectors. (Jianhong Qi, 2008) Tax benefits Most of the benefits

that the Chinese government offers to foreign investors investing in China

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are in the form of tax benefits. These include customs and income tax benefits which are given for investing in a particular special economic zone. Also value added tax benefits are offered. These benefits are approved mostly depending on the nature of investment. (Diego Quer, 2008) Special Economic Zones Talking of the Special Economic Zones in China, there are 5 zones in the south of China here tax benefits are offered. These tax benefits include a corporate tax of 15%, a tax exemption for the first two years of operation along with a tax rate of 12.5% for another three years, a 6 years tax exemption for projects in environment protection, infrastructure and energy. (Kandil, 2011) There are similar benefits offered for investment made in Shanghai where there are 5 development zones specializing in agriculture, financial services etc. FDI confidence index The foreign direct investment confidence index provides a unique look for companies intending to invest internationally giving them an insight of the present and future prospects. This survey is conducted by A. T. Kearney Since the year 2002 China was a top ranked destination for foreign investors. Also according to the 2010 FDI confidence index China holds the top position among the 25 countries with high confidence of investors. This index and optimism of investors is an indication of a strong economy. (Kandil, 2011) Bibliography Diego Quer, E. C. (2008). Foreign Direct Investment in China: Beyond the Representative Office. *Journal of Asia Business Studies* , 50. Jianhong Qi, H. L. (2008). Spillover effect of FDI on China's knowledge creation. *Chinese Management Studies* , 50. Kandil, M. (2011). Financial flows to developing and advanced countries: determinants and implications. *International Journal of Development Issues* , 50. homeworkgenie@hotmail.com