SHS Web of Conferences **188**, 02009 (2024) https://doi.org/10.1051/shsconf/202418802009
ICDDE 2024

Analysis of Investment Policies in China and the U.S. and the Impact of FDI on China's Economy

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Abstract. With the acceleration of the globalization process and the increase in international links, global trade and transnational investment are growing rapidly, and a clear and sound investment policy system can provide clear guidance and support to domestic enterprises and investors, while also influencing investment decisions and willingness to cooperate of other countries or regions. This paper presents a concise summary of the investment policies of China and the United States. It highlights that the United States' investment policies primarily consist of outward foreign direct investment (OFDI) policy and the safeguarding of domestic industries and capital, while China's focus remains on attracting foreign investment, with continuous OFDI policy improvement. This paper also analyzes the positive impacts and risk challenges of FDI on China's economy. FDI generally promotes China's economic growth, provides employment opportunities, improves the quality of labor, promotes technological progress, and enhances innovation, but it also faces a series of problems, especially the negative side of economic stability, market competition, and coordinated social development. Improvements in all these issues require timely adaptation and guidance from national investment policies.

1 Introduction

Foreign Direct Investment (FDI) is one of the most important forms of capital internationalization in the modern global economy. According to the IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise).

Over the past few decades, the pattern of global outward investment development is undergoing great changes, and the world has entered a "great change not seen in a century": under the traditional international direct investment pattern, developed economies represented by North America and Western Europe have long been dominant, but in recent years, emerging markets have continued to rise, and have become more and more important outward investment source countries; investment direction, industry diversification, in addition to the traditional resource-based industries, more and more enterprises involved in manufacturing, services, high-tech fields, especially in the science and technology industry, many multinational corporations through outward investment to seek technological and innovation advantages; regional economic integration, effectively promoting the growth of outward investment, such as the free flow of the European Union within the industry chain and the formation of the industry chain; diversification of the form of investment, cross-border Diversification of investment forms, cross-border mergers and acquisitions, equity investment and other forms provide more and more efficient investment channels for enterprises, and so on. FDI is also facing more risks and challenges.

The development pattern of global FDI is closely related to the global economic pattern, which to a certain extent reflects the comparison and change of economic strength between different countries and regions. China and the United States are the two largest economies in the world, so the investment policies of the two countries have been receiving a lot of attention.

This paper tries to analyze the changes in the investment policies of China and the United States and their impact on the economic development of their countries, to summarize some regular conclusions and propose an outlook.

2 Literature review

In recent years, new trends in international direct investment have emerged, and the pattern of world outward investment has changed: Wang and Liu link the pattern of international direct investment with the global national and regional economic strength, paying special attention to the changes in the pattern of traditional international investment [1]. Zhang focuses on the pattern of international direct investment under the impact of the new scientific and technological revolution and the new crown epidemics [2]. Yao Shumei, in the Evolution of the Pattern of International Capital Flows, Trend Prospects and Related Yao Shumei, in "Evolution of International Capital Flow Patterns, Trend Outlook

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and Related Initiative Suggestions", focuses on analyzing the complex and severe situation that the global FDI will continue to show weak growth in the long run since 2022, the turbulence of international capital flows, and the steep increase in the difficulty of cross-border capital flow management in emerging economies [3]. All three of them put forward some reasonable suggestions on how to cope with the situation in China.

During the past forty-five years, i.e., since China's reform and opening up, China's outward foreign direct investment policy has continued to evolve and change, and Liu made a specific stage-by-stage analysis in "The Evolution of China's Outward Foreign Investment Policy since Reform and Opening Up", noting that "outward investment policy is one of the clues to the reform of the domestic market-oriented system, and outward investment policy is becoming one of China's participation in global economic governance one of the important ways" [4]. Gao et al. conducted a comparative study of Chinese and international outward investment policies, pointed out the gaps, and put forward the government's policy suggestions for the development of outward direct investment by drawing on the successful experience of outward direct investment in the United States and other countries and taking into account China's national conditions [5, 6].

Regarding China's policies related to attracting foreign investment, Shen Jiawen and Wang Yuandi analyze the trend of China's foreign investment policy evolution during the 30 years of reform and opening up, while Jin Fang focuses on the adjustment trend of China's foreign investment policy after China acceded to the WTO [7, 8].

Previous studies have explored the relationships between foreign investment policy and different aspects of the Chinese economy. breakdown areas such as the impact of FDI on economic growth. FDI has a significant positive impact on the quality of economic growth of the host country. Qi adopts R language and uses the ARIMA model, Holt-Winters model, and nonlinear BP neural network model to predict the value of FDI and derive a better prediction model and the role of appropriate import tax incentives [9]. Secondly, Zhang and three others analyze the important role played by China's foreign investment policy on industrial restructuring based on the flow and direction of foreign investment, to give full play to the role of foreign investment policy in promoting industrial restructuring [10]. Again, regarding the role of FDI on China's technology and innovation capacity, He and Jiang discuss the relationship between FDI technology spillovers and China's absorptive capacity threshold and economic transformation, while Zhao Wei and three others study the analysis of the mechanism and attempted empirical evidence of outward FDI and China's technological progress [11-13].

3 Investment policies between China and US and the impact on China

3.1 U.S. investment policies

The investment policy of the United States can be broadly divided into two parts: OFDI policy and the protection of domestic industries and capital. The OFDI policy system can be analyzed from three aspects: the legal system, the policy system, and the management and service institutions. In terms of the legal system, the United States, as one of the earliest developed capitalist countries in the world to carry out OFDI, has a fairly complete legal system of OFDI, and the U.S. government has enacted the Economic Cooperation Act, the Foreign Assistance Act, the Common Security Act and other relevant laws in the area of OFDI to protect the safety and interests of OFDI in the country and protect OFDI through the granting of tax, credit, and investment insurance to investors in line with the provisions of the Act. The United States also regulates overseas investment and the industrial layout by giving tax, credit, investment insurance, and other preferential policies to investors who meet the requirements. Meanwhile, the U.S. has also signed bilateral investment agreements with several countries to provide excellent environmental protection for U.S. enterprises investing in overseas markets.

The OFDI policy system can be analyzed from three aspects: the legal system, the policy system, and the management and service institutions. In terms of the legal system, the United States, as one of the earliest developed capitalist countries in the world to carry out OFDI, has a fairly complete legal system of OFDI. The U.S. government has specially formulated the Economic Cooperation Act, the Foreign Assistance Act, the Common Security Act and other relevant laws in the area of OFDI to protect the safety and interests of OFDI in the country, and to regulate and control the industrial layout of overseas investment by granting preferential policies on taxation, credit, investment insurance and other aspects to investors in compliance with the regulations. The United States also regulates overseas investment and the industrial layout by giving tax, credit, investment insurance, and other preferential policies to investors who meet the requirements. Meanwhile, the U.S. has also signed bilateral investment agreements with many countries to provide excellent environmental protection for U.S. enterprises investing in overseas markets. The policy system includes three major aspects: foreign exchange management, policy support system, and after-the-fact supervision and monitoring, while the policy support system includes an overseas investment insurance system, tax protection policy, financial support, and provision of information and counseling. The U.S. rarely restricts OFDI unless there are special political needs and economic conditions. Since the mid-1980s, when all countries relaxed their OFDI restrictions and the trend of liberalization intensified, the U.S. has actively adopted a series of policies and measures to encourage and promote its own OFDI, which has led to a large number of U.S. enterprises investing in OFDI and conducting cross-border operations, and a large number of multinational corporations of great strength have been formed.

Among the management and service agencies, the Department of Commerce is one of the major comprehensive economic departments of the United States, and the International Trade Administration and the Bureau of Export Administration are the main executive agencies responsible for the management of international trade and the promotion of exports. To ensure the implementation of policies and the realization of goals, the United States Government has set up the United States Overseas Private Investment Corporation (OPIC), the United States Trade and Development Agency (USTDA), and the United States Small Business Administration (SBA), and other specialized agencies, on top of the existing Export-Import Bank (Ex-Im).

The protection of domestic industries and capital is mainly reflected in foreign investment access policy, industry regulation, intellectual property protection, trade policy, and so on. As one of the earliest countries to legislate on the security review of foreign investment, the United States has always been at the forefront of the world's foreign investment security review system. With the trend of more frequent international economic and trade exchanges and the commercialization of cutting-edge scientific and technological research and development related to national defense and security, the Committee on Foreign Investment in the United States (CFIUS) has gradually expanded its traditional review focus – transactions involving core national security such as national defense, transportation infrastructure, energy, and government supply chains – to the technological and financial fields. From The Exon-Florio Amendment by the U.S. Congress in 1988 to the U.S. legal framework for national security review of foreign investment, The Foreign Investment and National Security Act of 2007, CFIUS has also expanded its traditional review focus-defense, transportation infrastructure, and government supply chains – to technology and financial sectors. And National Security Act of 2007, the U.S. has sought to strike a balance between keeping investment open and safeguarding national security in different international situations. The United States is one of the world's largest trading countries, and its trade policies also have a great impact on investment, such as the protectionist policies practiced by the United States Government, including tariffs on certain imports and anti-dumping measures.

On August 9, 2023, U.S. President Joe Biden signed an executive order severely restricting U.S. investment in China's sensitive technology sectors, limiting the scope to three major areas: semiconductors, quantum information, and artificial intelligence. This presidential decree has become a new change in the U.S.-China investment relationship.

3.2 Chinese investment policies

China's investment policy is mainly based on the policy of opening up to the outside world and attracting foreign investment, in the context of the continuous development of outward foreign direct investment.

The Chinese government has been committed to promoting opening up to the outside world and attracting foreign investment. Since the reform and opening up, China has gradually relaxed the restrictions on foreign investment and provided favorable policies and a good investment environment for foreign enterprises:

3.2.1 Industrial policy

China has formulated a series of industrial policies to guide and support foreign investment in priority development areas. These areas include high-tech industries, modern service industries, and green and low-carbon industries. The government also encourages foreign investment in key areas and weak links through tax incentives, land use concessions, and other measures.

3.2.2 Investment facilitation policy

The Chinese government is committed to simplifying the investment approval process and improving the level of investment facilitation. In recent years, the implementation of the "release of resources, management and service" reform, it has significantly reduced the number of approvals matters for foreign investment projects and improved the efficiency of the approval process. At the same time, a one-stop investment service platform has been set up to provide convenient investment services for foreign-funded enterprises.

3.2.3 Regional policy

Numerous special economic zones and development zones have been established to provide a more convenient policy environment for foreign investment. In order to promote coordinated regional development, the Chinese government has implemented a series of regional preferential policies, such as the policy of attracting foreign investment to the central and western regions.

3.2.4 Talent policy

The Chinese government attaches importance to the introduction and cultivation of talent and provides talent support for foreign investors. It attracts and retains outstanding talents by setting up business parks for foreign students returning to their home countries and introducing high-level talents from overseas, so as to provide talent security for foreign-invested enterprises.

3.2.5 Financial policy

The Chinese government encourages financial Institutions to provide financing support for foreign-invested enterprises. Through the establishment of a risk compensation mechanism for loans to foreign-invested enterprises and the expansion of the cross-border use of RMB, it will reduce the financing costs of foreign-invested enterprises and improve the convenience of financing.

3.2.6 Optimizing the investment environment

The Chinese government continuously optimizes the investment environment and protects the legitimate rights and interests of investors. For example, it has improved the intellectual property rights protection system and intensified the crackdown on infringement and illegal acts; it has strengthened the convergence with international investment agreements to provide a fairer and more transparent investment environment for foreign investors.

3.2.7 Cooperation and exchanges

The Chinese government actively participates in international cooperation and exchanges, and promotes bilateral and multilateral investment cooperation. By organizing events such as the China International Import Expo and the World Internet Conference, it has built a platform for investment cooperation between China and the rest of the world.

In terms of the legal system, China's legislation on outward foreign direct investment is lagging behind, and there is currently no specialized legislation on overseas investment; relevant legal norms are mainly found in a number of regulations and ordinances issued by various ministries and commissions under the State Council. In terms of international law, there are mainly a series of bilateral investment agreements, tax agreements and other bilateral treaties concluded between China and other countries, as well as international conventions to which China has acceded and concluded. The policy system mainly consists of three parts: OFDI approval policies, regulatory policies, and service and promotion policies. China's OFDI management and service institutions mainly include commerce departments, development and reform departments, finance departments, state-owned asset management departments and industry management departments, etc., which delineate the approval authority; foreign exchange bureaus, which carry out foreign exchange registration and filing for domestic institutions' OFDI and the assets and related rights and interests that they have formed; and service organizations, which include the Export-Import Bank of China (Exim Bank of China), China Export and Credit Insurance Corporation (CECIC), state-owned commercial banks, and policy banks. Commercial banks and policy banks, etc.

In response to the Biden administration's investment restriction order, the State Council issued the Opinions on Further Optimizing the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment on August 14, 2023, proposing 24 measures to increase the attraction of foreign investment, to promote a high level of opening up to the outside world, construct a new system of an open economy, and welcoming international investors to explore the Chinese market.

3.3 The impact on China's economy

3.3.1 Economic growth and employment

The rapid economic growth of China is inextricably related to FDI. Since 1993, China has long ranked first among developing countries and second in the world in terms of the amount of foreign capital utilized. The actual amount of foreign capital utilized has increased from 920 million US dollars in 1983 to 173.48 billion US dollars in 2021, with an average annual growth rate of nearly 15%. China's absorption of foreign capital has made a remarkable breakthrough in terms of scale and quantity and has entered a period of high-quality development. FDI has become an important force in China's economic and social development. Table 1 shows the statistics on GDP and real foreign capital utilization in recent years.

Table 1. GDP and amount of foreign capital actually utilized in recent years.

Subjects / **Year**	**2001**	**2004**	**2007**	**2010**	**2013**	**2016**	**2019**	**2022**
Gross Domestic Product (GDP) Unit: billion dollars	1211.33	1955.35	3550.33	6087.19	9570.47	11233.31	14279.97	17963.17
Amount of foreign capital actually utilized Unit: ten billion of dollars	468.8	606.3	835.2	1147.3	1239.1	1337.1	1412.2	1891.3

Source: China Foreign Investment Statistics Bulletin 2023 - Ministry of Commerce & Trading economics.com-World Bank.

In the long run, FDI can contribute to the easing of regional and urban-rural inequalities under the regulation of national policies and population flows. FDI mainly flows into secondary and tertiary industries in cities, and less FDI flows into rural areas and primary industries, which promotes the concentration of resources, talents and technologies in cities. The inflow of FDI promotes the upgrading of China's industrial structure, which in turn leads to the tendency to widen the gap between urban and rural areas and between regions in China. There is a limit to the widening of the gap. When the level of economic development of cities reaches a certain level, the economic development of cities will show the phenomenon of external diseconomies. This is where government policy regulation is needed. At the same time, the inflow of FDI has gradually changed the employment structure of China. On the one hand, it encourages farmers to work in non-agricultural industries and earn higher wages; on the other hand, FDI tends to flow into labor-intensive industries, and the manufacturing industry occupies an overwhelmingly dominant position in labor-intensive industries, absorbing more rural surplus labor, thus narrowing the income gap between urban and rural residents.

3.3.2 Technology transfer and innovation

The impact of FDI on technology transfer and innovation capacity is mainly a matter of capital outflows to capital inflows. MacDougall first proposed that FDI would have spillover effects on the technological progress of the host country, and according to scholars' opinions, the technology spillover effect of FDI refers to the involuntary diffusion of technology to domestic firms due to a series of resources brought by FDI, such as advanced production technology, business concepts, R&D capabilities, etc., or "quasi-rents" generated by correcting the original distortions of domestic firms due to FDI's entry, whereas TNCs are not able to capture all of the benefits, thus generating externalities. Thus, FDI facilitates the transfer of advanced technology and management knowledge from TNCs to Chinese firms. Through joint ventures and technology licensing agreements, Chinese firms acquire new knowledge and skills, thereby increasing their innovative capacity. Large-scale FDI also brings more capital factors needed for production to the host country, facilitating the inflow of capital and promoting the formation of economies of scale and capital accumulation, which plays an important role in supporting China's R&D activities. MNCs often allocate large amounts of resources to establish R&D centers in China, thereby creating new technological solutions and products. At the same time, FDI has stimulated competition in the domestic industrial market, prompting Chinese firms to invest more in R&D and to innovate to remain competitive. This competitive pressure has led to the adoption of advanced technologies in production by enterprises and has boosted the overall level of technological innovation in China, promoting the transformation and upgrading of China's industrial structure from labor-intensive to capital- and technology-intensive.

Therefore, FDI has played an important role in the optimization and upgrading of the industrial structure of the Chinese economy. The technological innovation and technology spillover effect brought about by the introduction of FDI has improved the productivity and product quality of Chinese enterprises, promoted the upgrading of the entire industrial chain, and contributed to the optimization of the industrial structure, e.g., the automobile manufacturing industry, etc. FDI has also brought about a higher level of the industrial division of labor in China and promoted the extension and integration of the industrial chain. Foreign-funded enterprises usually invest in core technology fields, while Chinese enterprises invest and develop in supporting industries. This division of labor and cooperation in the industrial chain promotes the synergistic development of internal and external links in Chinese industries and accelerates cross-industry industrial integration, typical examples being China's electronics manufacturing industry. Finally, FDI expands the scale and scope of Chinese exports, stimulates the competitive awareness and market development ability of domestic enterprises, spawns the development of local enterprises, and improves the international competitiveness of Chinese enterprises.

3.3.3 Risks and stability

First, the impact of FDI on technological innovation in China is not without its challenges, such as the problem of technological dependence triggered by FDI (excessive reliance on foreign technology, development constraints, and inability to develop domestic innovation capacity), the uneven distribution of benefits from FDI on China's regional and urban-rural development imbalances, and the risk of brain drain, among others. So it is imperative for China to strike a balance between leveraging foreign expertise and fostering indigenous innovation capabilities. This can be achieved through strategic policies that promote knowledge transfer, investment in human capital, and the equitable distribution of technological benefits across regions.

Second, the impact of FDI on inequality. From a spatial perspective, China's FDI is unevenly distributed. Regionally, the eastern and coastal developed areas have absorbed more FDI, of which Jiangsu, Guangdong, Shanghai, Shandong, Zhejiang, and Beijing provinces are the most intensive, and 86.6% of the number of new foreign-invested enterprises will be established in the Eastern Region in 2022; while the FDI inflow into the populous and resource-rich central and western provinces is less, and the regional distribution of FDI shows the obvious characteristic of "more in the east and less in the west". At the urban-rural level, cities are the main FDI inflows.

FDI has brought about unequal regional development in China. Coastal areas have attracted the majority of FDI, leading to rapid economic growth and industrial development, while inland and western regions have lagged based on the above data. This has widened the income and development gaps between different regions, exacerbating the unequal distribution of wealth and resources. The same applies to the widening gap between urban and rural areas. FDI will first flow to the more developed urban areas and provide more capital and resources to the cities, thus widening the gap between urban and rural development.

To emphasize coordinated and fair development, the government will guide and tilt its policies, make reasonable adjustments and arrangements to the industrial structure, and create employment and knowledge training for the less-developed regions to bring about an increase in the incomes of the labor force in these regions, thus reducing the gap between the urban and rural areas, This will lead to an increase in the income of the labor force in these regions, thus reducing the urban-rural and regional disparities.

4 Conclusion

This paper gives a brief overview of the investment policies of China and the United States, pointing out that the investment policies of the United States mainly include the OFDI policy and the protection of domestic industries and capital, and that China is still focusing on the policy of attracting foreign investment, and the OFDI policy is still on the way of improvement. At the same time, it is divided into three parts: Economic Growth and Employment, Technology Transfer and Innovation, and Risks and Stability to elaborate on the impact of the FDI investment policy on China's economy. To sum up, FDI can not only upgrade the technical level of China's industries, promote economic growth and increase financial income but also reduce the regional and urban-rural income gap by promoting the optimization and upgrading of industrial structure, increasing the total employment in China, improve the quality of labor force and improve people's livelihood.

To maximize the positive impact of FDI and meet the challenge, The Chinese government should formulate reasonable policies and regulations, such as continuous market opening and protection of intellectual property rights, to provide a favorable investment environment, and actively guide the flow of FDI to the region and improve the quality of labor; while enterprises should actively take advantage of foreign investment to enhance their core competitiveness and accelerate their development, and should also focus on the construction of internationalized human resources, to make joint efforts to effectively utilize FDI and to promote the healthy development of China's economy. The enterprises should actively take advantage of foreign investment to improve their core competitiveness and accelerate their development.

The defects of this paper, firstly, did not use economic models for analysis, rigor needs to be improved; secondly, the impact of FDI has a lag, so the analysis must be a long-term process; thirdly, some points are not specifically explored such as the specific impact of FDI on the development of various industries.

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