

Status and Prospect of International Production Capacity Cooperation Carried out in Yunnan Province from the Perspective of OFDI

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Abstract—Foreign direct investment is the main form of international production capacity cooperation. The development of foreign investment in Yunnan Province is divided into three stages. Diversified characteristics are shown in the aspects of investment subject, industry, market, investment form and source of funds, etc. Through foreign direct investment, the international production capacity cooperation has obtained experience and achievement in the aspects of cooperation fields, mechanisms, models, platforms and service systems. However, there are constraints of external environment and difficulties of enterprise development that faced by the cooperation. The prospects for the cooperation shall be proposed from the perspectives of cooperation ideas, mechanisms, paths and key industries.

Keywords—international production capacity cooperation; outward foreign direct investment; enterprises in Yunnan; status and prospect

I. INTRODUCTION

Yunnan Province is bordering on or neighboring a number of countries along the line of the Belt and Road initiative. It is an important hub connecting China and the countries in the Southeast Asia and South Asia. The levels of the economic development of Yunnan Province and the neighboring countries are at different stages. There exists a relatively strong complementarity in the industrial structure between them. There are good resource conditions in the aspect of production development in the Southeast Asian and South Asian countries, but the development degree of the production capacity in each country is relatively low due to the restriction of the poor infrastructure conditions and the restraints of the weak technology conditions [2]. Therefore, in the aspect of carrying out the production capacity cooperation with the Southeast Asian and South Asian countries, Yunnan Province possesses geographical advantages and industrialFor the existing research to sort out, Wang Xiaomei [1] analyzed the main problems of China's energy security,

analysis of the import channels for fossil fuel energy and the strategic significance of the Sino-Burmese pipeline project. advantages. Thereexists the possibility of cooperation in many industrial areas, exists large space for cooperation.

II. DEVELOPMENT OF OUTWARD FOREIGN DIRECT INVESTMENT IN YUNNAN PROVINCE

A. Development Stage of OFDI

The foreign investment in Yunnan Province started from 1995, which has generally gone through three stages from the perspective of development process: The first stage is the initial stage (1985-1994). In 1984, China Yunnan International Economic and Technical Cooperation Corporation was established. It was the first foreign economic cooperation enterprise in Yunnan Province. the main businesses including international contracting projects, commitment to national aid projects in overseas, international labor cooperation, international trade, overseas wholly-owned and joint ventures.

The second stage is the overall development stage (1995-2004). During this period, a group of professional companies, design and advisory firms, small border trade enterprises, and private enterprises have access to the foreign economic power successively, further expanding the foreign economic team. The foreign economic projects have been expanded from the single contracted projects to the fields of FDI, BOT, exports of large-scale electromechanical complete sets of projects and technical services, etc.

The third stage is the rapid development stage (since 2005). During this period, Yunnan Province issued the incentive policies. The initiative of "going-out" of the enterprises has been significantly enhanced, and the overseas investment has presented leapfrog development [7]. Especially during the "12th Five-Year" Plan, the growth rate of foreign direct investment has been leading with other economic indicators (Table I).

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TABLE I. THE NUMBER OF NEW OVERSEAS INVESTMENT ENTERPRISES AND INVESTMENT AMOUNT IN YUNNAN PROVINCE (2011-2015)

Unit: USD 10,000					
Year	Number of new overseas investment enterprises	Amount of agreement investment	Growth rate of agreement investment %	Amount of actual investment	Growth rate of actual investment %
2011	28	51428.7	-93.72%	57079.8	20.41%
2012	63	97362.8	89.32%	71037.86	24.45%
2013	40	109835.4	12.81%	82120.89	15.60%
2014	92	196723.4	79.11%	103093	25.54%
2015	103	288981.1	46.90%	134434	30.40%

Data Source: Yunnan Foreign Investment Cooperation Network

The OFDI in Yunnan Province has grown up to large scale since 2003, which has experienced the first, second and third stages of development successively. Now it is in the initial development period of the third stage. During the period from 2003 to 2012, the speed of capital outflow of foreign investment in Yunnan Province had been always higher than that of the capital inflow. The net foreign direct investment was the negative of the greater absolute value with the continuously increasing scale. As a turning point of 2012, although the amount of the net foreign direct investment in Yunnan Province was still large, compared to the growth of the GDP of the province, the growth rate of the net flow of foreign direct investment was reduced (from 43.05% to 1.32%). Meanwhile, the growth rate (24.35%) of the capital outflow in Yunnan Province is greater than the growth rate (8.89%) of capital inflow. According to the theory of Dunning, the change in 2012 and the more stable statistics data after 2012 marked that Yunnan Province began to enter the third development stage and to grow continually.

B. Characteristics of OFDI

1) Diversification of ownership of investment firms

The firms of foreign direct investment in Yunnan Province have gradually shown the trend of diversified distribution. From the number of investment enterprises, the private enterprises accounted for the majority of foreign investment enterprises. From the amount of investment, the state-owned enterprises dominated and the foreign-invested state-owned enterprises were with the national enterprises to Yunnan Province and provincial state-owned enterprises as the main force. In recent years, the trend of development has shown that the performance of private enterprises was more prominent. In 2014, the amount of foreign direct investment of private enterprises reached USD 47,660, accounting for 46.2% of the total investment over the same period. In 2015, among the newly approved 103 overseas investment enterprises in the province, the number of private enterprises was 89, accounting

for 86.4% of the total number of newly approved enterprises in the province; The amount of actual investment over the same period reached USD 679 million, accounting for 50.9% of the actual investment in the province, roughly the same with the amount of investment in the state-owned enterprises.

2) Diversification of investment industries

The foreign investment has shown the trend of diversification, with the continuously expansion of the investment areas. In 2015, the foreign investment in Yunnan Province was mainly distributed in the nine categories of national economic industry classification. The agriculture, mining, electricity and other traditional areas of investment still dominated, with the amount of foreign investment in the three industries reached USD 694 million, accounting for 52% of the total amount of foreign investment. At the same time, the foreign investment has been gradually expanded to the areas, for example the high-end manufacturing (such as medicine, new energy manufacturing), emerging services (such as ecological protection and environmental management, e-commerce services, professional and technical design research and development, monetary and financial services), education, cultural industry.

3) Diversification of investment market

The host countries of foreign investment in Yunnan Province are mainly distributed in Asia, and the key markets are still "five sub-regional countries"---Myanmar, Laos, Vietnam, Thailand, Cambodia, which are mainly concentrated in Myanmar and Laos. At the same time of stabilizing the traditional key markets, the foreign investment has also been expanded to Europe and the United States and other developed countries, and even realized the breakthrough development of the investment in Africa. In Table II, it summarizes the distribution situation of the foreign direct investment markets from 2011 to 2015.

TABLE II. THE HOST COUNTRIES OF FOREIGN INVESTMENT OF YUNNAN PROVINCE (2011-2015)

Unit: USD 10,000						
Country (Region)	2011	2012	2013	2014	2015	Sum
(I)Asia	54773	69275.95	68294.16	89244	120041	401628.1
1. Myanmar	33017.9	12730.6	11601.4	12981	14776	85106.9
2. Laos	6136.9	16104.45	32645.27	54067	61185	170138.6
3. Vietnam	3970.6	2334.8	2524.2	217	1413	10459.6
4. Other	11647.6	38106.1	21523.29	21979	42667	135923
(II) Africa	280	124.2	8121.03	90	4699	13314.23
(III) Other	2026.7	1637.7	5705.7	13759	8686	31815.1
Total	57079.8	71037.86	82120.89	103093	134434	447765.6

Source: Statistical Report on Foreign Investment in Yunnan Province

4) *Diversification of investment form*

Greenfield investment is the main investment form of Yunnan Province. In 2015, among the newly approved 103 enterprises in Yunnan Province, the number of Greenfield investment enterprises was 96, up 20% over the same period last year; the number of cross-border mergers & acquisitions was 7, with the amount of Chinese contracted investment of USD 870 million, reaching a record high. Among them, the project of Chinese-Laotian Aluminum Co., Ltd. invested by Yunnan Aluminum Co., Ltd. with the Chinese contracted investment was USD 821 million, reaching a record high of the transaction amount of individual merger and acquisition.

5) *Diversification of funding source*

With the smooth progress of the foreign projects by the enterprises in Yunnan Province, the overseas profits obtained will be transferred to other countries and areas. The re-investment of profits has become a new growth point of foreign investment.

C. *Development of Foreign Investment Enterprises in Yunnan Province*

From the year of 2011 to 2015, the newly approved foreign investment enterprises increased year by year, and the number of newly approved foreign investment enterprises increased from 28 in 2011 to 103 in 2015. From January to September in 2016, the number of newly approved overseas foreign investment in Yunnan Province was 76, with the amount of actual foreign investment of USD 1.237 billion, with year-on-year growth of 25.38%. From 2005 to the end of September, 2016, the number of foreign investment enterprises (institutions) has reached 670, with the accumulative total of the actual foreign investment of USD 7.023 billion.

From the perspective of the types of investment enterprises, the development performance of foreign investment enterprises in Yunnan Province during the “12th Five-Year” Plan has shown four characteristics.

1) With the national enterprises to Yunnan Province as the main force. From 2011 to 2012, The hydropower project at the upper reaches of the Yijiang of Myanmar by the CLP Investment Yunnan International Power Investment Co., Ltd., the power grid development project and hydropower development project in Cambodia by the Yunnan Southeast Asia Economic and Technological Investment Industrial Co., Ltd., the total actual investment of which reached USD 309 million, accounting for 54.1% of the actual total investment over the same period.

2) The private enterprises have gradually grown into the backbone of foreign investment. From January to December 2013, The actual investment of the private enterprises, including Yunnan Jiansheng, Yunnan Haicheng, Ruili Datong, Yunmeng Group, Yunnan Jiefeng Investment, etc. reached USD 46.6645 million, accounting for 56.8% of the actual investment over the same period, exceeding the state-owned enterprises for the first time.

3) The provincial state-owned enterprises and the private enterprises have equal shares of honour. From January to

December of 2014, the actual investment of the state-owned enterprises, such as Yunnan Provincial Energy Investment Group, Co., Ltd., Yunnan Provincial Overseas Investment, Co., Ltd., Yunnan Power Investment, Yunnan Zhongliao Mining Co., Ltd. reached USD 554.33 million, accounting for 53.8% of the actual investment over the same period; The actual investment of private enterprises, such as Yunmeng Group, Yunnan Hanneng Photovoltaic Power Generation Company, Kunming Boyang Yuanhong Energy Technology Company, etc. reached USD 47,660, accounting for 46.2% of the actual investment over the same period.

4) The investment of state-owned enterprises is steady and the performance of private enterprises is prominent. In 2015, the actual investment of state-owned enterprises reached USD 655 million, accounting for 49.1% of the actual investment over the same period. At the same time, the private enterprises were active. In 2015, among the newly approved 103 foreign investment enterprises, the number of private enterprises reached 89, accounting for 86.4% of the total number of newly approved provincial enterprises. The actual amount of investment over the same period reached USD 679 million, accounting for 50.9% of the actual provincial investment, more than the investment amount of state-owned enterprises.

III. *ACHIEVEMENTS OF PRODUCTION CAPACITY COOPERATION CARRIED OUT BY YUNNAN PROVINCE*

A. *Rapid Growth in a Number of Cooperation Areas*

Power, equipment manufacturing, metallurgy, chemical building materials, light industry, logistics, etc. are the key industries of production capacity cooperation. Laos, Myanmar, Vietnam, Thailand, India, Sri Lanka, and Bangladesh are the key countries for production capacity cooperation.

Foreign trade, foreign investment, international engineering contracting, labor cooperation and other fields are in the provincial forefront and along the country. In 2015, the total amount of import and export trade realized in the whole province reached USD 24.53 billion; The foreign investment reached USD 1.344 billion, with year-on-year growth of 30.4%; The number of newly signed foreign contracting engineering contracts was 95, with the completion of turnover of USD 1341.62 million, an increase of 13.1% over the same period; the number of dispatched labors reached 10,398, with an increase of 12.7%. The number overseas reached 10,460 at the end of the period.

B. *Improvement of the Development of Multi-channel Cooperation Mechanism*

Yunnan Province is actively integrated into the national strategy, becoming the advocate and builder of building the cooperation mechanism for the Southeast Asian and South Asian countries. Yunnan Province participated in the construction of the mechanism of Lancang-Mekong cooperation, set up the Bangladesh-China-India-Myanmar regional economic cooperation forum, implemented the GMS cooperation issue, promoted the cooperation of “Four Golden Corners”, established the Yunnan-Taibei cooperation mechanism; set up the bilateral cooperation mechanism with Laos, Vietnam, Myanmar, India, Maldives, etc.

C. The Construction of Cooperation Model and Cooperation Platform

The establishment of Hekou-LaoCai cross border economic cooperation zone, Mohan-BoTen cross border economic cooperation zone, Ruili-Muse cross border economic cooperation zone, carry out the production capacity cooperation in the zones, forming the leading industry. Say Settha Comprehensive Development Zone has passed through the national zone assessment. The zone introduced 23 signed enterprises, with the contracted investment amount of over USD 300 million.

CITIC Union won the bid for the construction of the Myanmar Kyaukpyu special economic zone. Yunnan Construction Investment Group, as a member enterprise of the CITIC Union, laid the foundation for the production capacity cooperation carried out in Kyaukpyu for the enterprises of Yunnan.

In 2016, the fourth China-South Asia Expo added the international production capacity cooperation pavilion, and held the international production capacity cooperation forum at the same period.

D. Innovate Service System and Perfect Service Functions

The government innovated the service system of production capacity cooperation vigorously, improved the service functions continuously. In the latter half of 2015, the management model of foreign investment changed from the approval system to the record approval system, which facilitated the foreign investment of the enterprises. There are 11 newly established overseas commercial representative offices, and the total number of representative offices reaches 23, which spread all over the Southeast Asia and South Asia countries.

Improve the information service system of production capacity cooperation, construct the overseas investment information base, establish the Yunnan foreign investment cooperation network, initiate the construction program of the three projects base of the foreign investment projects in the Southeast Asia, South Asia, Middle East and Europe and the United States, and prepare the national investment guidelines, carry out the special study on foreign business and commerce.

IV. THE PROBLEMS EXISTING IN THE PRODUCTION CAPACITY COOPERATION OF YUNNAN PROVINCE

A. Negative Impact of Changes in the Political Situation in Neighboring Countries

The implementation of the strategy of the United States "Return to Asia", the competition of countries, such as Japan and India, made the degree of political influence of the market environment increase. After the new government of National League for Democracy held power, the uncertainties of accepting the foreign policy was increasing. The increasingly sensitive and complex situation in the surroundings caused very great impact on the overseas investment of the enterprises.

B. Fluctuations in the International Economic Environment

Affected by the international environment, the overseas enterprises already existed in Yunnan Province were faced

with the business difficulties, and even the situation of project stagnation, which involved the confidence of newly established investment enterprises, and transformed them into the wait-and-see state. Although the amount of Chinese contracted investment had great growth, the projects started slowly, failing to form the new real investment growth point. In 2015, the number of great projects with the newly approved Chinese contracted investment in Yunnan Province of more than 10 million was 21, with the total amount of Chinese contracted investment of USD 1.88 billion. However, in June 2016, the actual total amount of the investment for the 21 projects was USD 287 million, which only completed 15.3% of the Chinese contracted investment.

Since the first half of 2016, the growth rate of foreign investment in private enterprises in Yunnan Province was obviously slow. In the past two years, the falling price of the bulk commodity such as the international price of sugar, rubber, and minerals, etc. caused great distress to the business and development of private enterprises, which took the traditional areas as the growth point of investment, such as agriculture (including sugar, rubber and other preliminary processing), mining, and smelting, etc. Coupled with the problems existing in the majority of private enterprises, such as the small scale, the lack of talents and funds, the poor ability to resist risks, it is difficult for the private enterprises to achieve industrial transfer in a short period, therefore many enterprises stop production and work

C. The Issues of Industrial Structure and the Capacity of the Enterprise

The amount of foreign investment in Yunnan Province accounts less than 1% of the whole country. The investment scale is small, with the investment fields concentrating in mining, energy and agriculture. Manufacturing, especially the equipment manufacturing industry is backward. The cross-border leading enterprises that can drive the cluster development of the enterprises have not been formed, and the enterprises are weak in the aspects of risk control of foreign investment, international financing, international business management, cross-border business talents, etc. restricting the development of cooperation.

Some foreign enterprises are not standardized and the commerce department can not integrate into the statistical and standardized management with the poor record of the performance of enterprise liabilities outside the border, which affects the reputation of the enterprises and caused the opposition of the host countries.

D. Slow Initiation of the Large Projects

The enterprises had difficulties in business, and the major projects initiated slowly, or even occurred the situation of project stagnation. In 2014, the number of newly approved projects with the amount of investment of USD 10 million was 21, with the total amount of Chinese contracted investment of USD 1332.1016. As of October 2015, the actual investment amount of these enterprises was only USD 94.671 million, with the completion degree of the project of only 7.1%.

E. Difficulties in the Promotion of Foreign Economic and Trade Cooperation Zone

The costs for development and operation in the foreign zones are high with great pressure of funds, and insufficient capability to develop the enterprise management. There are many industrial zones in Laos, Myanmar with fierce competition and investment difficulties. The settings of evaluation standards in the national overseas economic and trade cooperation zones are relatively high [6]. The cooperation zones can not reach the evaluation standards in the short period, and it is difficult to realize the supporting policies.

F. Difficulties in the Pperation of Newly Established Overseas Commercial Representative Offices

The newly established representative offices are facing with new environment, new tasks, new management, which require a long time to adapt to the new work. Due to the special reasons of the host countries, it brings considerable difficulties to the local rooting of the newly established representative offices.

V. PROSPECTS FOR INTERNATIONAL PRODUCTION CAPACITY COOPERATION IN YUNNAN PROVINCE

A. Ideas of Cooperation

The purpose of international production capacity cooperation is to transfer its superior capacity or surplus capacity to other countries and markets with demand through carrying out cooperation with other countries in the way of investment and trade [3], realizing the transfer of international capacity and upgrading of domestic capacity. Due to the restriction of the slow development of manufacturing industry and the geographical and environmental factors, the development of advantageous industries in Yunnan Province is not strong enough. Make use of the advantages of geographical location, Yunnan Province can serve as an intermediate hub in the international production capacity cooperation to promote the cooperation with other countries. In the course of cooperation, use the management experience and development strategy of the enterprises for reference, introduce the high-tech production technology, and gradually eliminate the backward, inefficient equipment, optimize the production structure in Yunnan Province continuously, improve the production efficiency, perfect the production system, to realize the industrial transformation and upgrading.

Through the implementation of “Belt and Road” initiative and the promotion the international production capacity cooperation, enterprises can bring the advantageous industries to be “going out”, combine the advantageous industries with foreign demand [4]. The government can promote the bilateral multi-faceted cooperation with Southeast Asian and South Asian countries. The diversified models of production capacity cooperation could be promoted. In the process of cooperation, all partners should take the enterprises as the main part of cooperation, develop new-type commercial model with green, efficient and sustainable development, maintain the upward trend in the economic development, promot the enterprise transformation, and enhance the competitiveness.

B. Mechanism of Cooperation

Follow the “Belt and Road” initiative to consolidate and deepen the production capacity cooperation with three countries of Vietnam, Laos, Myanmar, while developing the potential opportunities of production capacity cooperation with the countries in Southeast Asia and South Asia. Make full use of the role of cooperation platforms, such as the cooperation mechanism of China-ASEAN free trade area, the mechanism of Lancang-Mekong cooperation, the mechanism of GMS, the cooperation mechanism of China-India-Bangladesh- Myanmar economic corridor.

Yunnan Province should actively carry out dialogue of the production capacity cooperation with the surrounding countries, strengthen the bilateral trade links, simplify the customs clearance procedures, give policy support and encourage cooperation between the enterprises on both sides. Strive to establish foreign economic and trade cooperation zone and cross-border cooperation zone, hold fairs and exchanges on a regular basis, carry out discussion on the issues in the cooperation on each side, and formulate the solution schemes. Create the good environment for communication between both sides, realize the win-win model of normalization of exchanges and cooperation on both sides and facilitation of production capacity cooperation.

C. Path of Cooperation

The development path of international production capacity cooperation selected by Yunnan Province can be implemented from the two aspects simultaneously.

One the one hand, through preferential policies, continue to attract the high-tech industries in the coastal areas to participate in the production capacity cooperation [5], for example, in the aspects of taxation, financing and plant construction, etc. introduce the leading enterprises in the fields of railways, hydropower, iron and steel nonferrous metals, etc. to be stationed and rooted in Yunnan Province, which reduces the costs and improves the competitiveness advantages of the enterprises. Attract the enterprises outside the province or international enterprises to participate in the production capacity cooperation through the forms of joint ventures, acquisitions, the establishment of branch offices, etc. which will, at the same time, lead the rapid development in the provincial economy and technology.

On the other hand, deepen the cooperation with neighboring countries with the existing resources. Export the existing surplus production capacity according to the planning of the national “Belt and Road” initiative to the surrounding countries in need. Develop strategy docking with other countries in the aspects of economy, trade and infrastructure construction, and promote the exchanges and cooperation between the domestic and foreign enterprises through joint ventures and acquisitions, etc.

D. Key Industries of Cooperation

With the rapid growth of the scale of international production capacity cooperation in Yunnan Province, a number of superior capacity is continuously exported to the neighboring countries Among them, as the key industries of capacity output to the Southeast Asian and South Asian

countries, power, logistics, equipment manufacturing, metallurgy, chemical building materials, light industry, agriculture with plateau characteristics, etc. are creating economic value continuously, exporting a number of surplus capacity to the surrounding countries.

In recent years, China and the Southeast Asian countries have developed a series of large-scale infrastructure construction, such as the construction of China-Laos railways, the opening of China-Myanmar oil and gas pipelines, the construction of Siem Reap Airport of Cambodia, etc. Yunnan Province should rely on these large projects to carry out the cooperation of industrial chain, to find opportunities of production capacity cooperation in the aspects of the fields of raw materials, manufacturing production, service management, etc. to select key fields of cooperation, to expand the scope of production capacity cooperation, to consolidate the industrial foundation of neighboring countries while expanding the international market of production capacity cooperation.

VI. CONCLUSION

With the advantage of location, Yunnan province play an important role in International production capacity cooperation with the neighbor countries. International production capacity cooperation is being carried out by enterprises in Yunnan province through the way of OFDI. More OFDI and more achievements in production capacity cooperation.

Cooperation Areas, Cooperation Mechanism Cooperation Model, Cooperation Platform and Service System were development. But the change in environment of political and

economic brings negative impact on cooperation. And some difficulties were faced by enterprises in international cooperation.

So innovation in ideas of cooperation, in mechanism of , cooperation, in path of cooperation and in key industries of cooperation should be carried forward to promote International production capacity cooperation.

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