

Some methods of influencing province's fixed asset investments: Some lessons from foreign law and experience

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SOME METHODS OF INFLUENCING PROVINCE'S FIXED ASSET INVESTMENTS
Some lessons from foreign law and experience

As an important aspect of difficulties relating to fixed asset investments in China, provincial and township administrators (need to specify precisely which ones if possible) have either directly invested local funds, or encouraged township enterprises to invest funds (often with funds borrowed from commercial banks) in the wrong kinds of projects.

A review of ROCCIPI research agenda suggests hypotheses as to existing factors likely to influence the relevant provincial administrators' investment behaviors; if facts prove those factors do influence their investment behavior, then foreign law and experience may prove helpful in designing measures to help change those factors, leading to more desirable patterns of investment:

Rule:

Explanatory hypotheses: Existing rules remain vague, so relevant provincial administrators make fixed asset investment decisions (affecting direct government funds, as well as funds borrowed from banks, pension, or other funds) without adequate guidelines. Existing legislation provides inadequate monitoring and evaluation processes and gives national authorities means of changing the administrators' investment behaviors.

Solution (new bill) should identify the national authority to monitor and evaluate existing provincial administrators' investment behaviors, and give it power to a) conduct necessary research and formulate appropriate guidelines governing provincial administrators' fixed asset investment behaviors; b) various means of altering the factors that presently contribute to causing those undesirable behaviors (as suggested in review of rest of ROCCIPI categories, below).

Opportunity and capacity:

Explanatory hypotheses: Reforms have given provincial authorities the opportunity to make direct investment decisions and influence provincial enterprise investment decisions, but they have neither the necessary knowledge nor skills to make them in ways likely to ensure balanced integrated national development. Few, especially outside of the coastal provinces, have any training in assessing how local investment projects will affect provincial, let alone national development; and no opportunity for learning from discussions of those projects' likely impact with other provincial or national authorities. Furthermore, provincial workers may not have necessary skills to provide the essential work force for desired projects.

Solution (new bill) should ensure appropriate institutions provide adequate training for provincial administrators, and ensure they have the opportunity to participate in some form of national plan coordination process to establish agreed-upon investment

guidelines. (How do Japan, France, Canada deal with these issues?) Educational institutions should provide appropriate skills training for local workers (eg Japan's central educational authorities help local governments establish retraining facilities for workers laid off by declining industries to enable them to do work required by desired new projects like local factories producing parts for hi-tech industries).

Communication:

Explanatory hypotheses: Under reforms, the state council has informed provincial administrators they have the power to make fixed asset investment decisions, but the vague existing rules offer them no guidance as to the kinds of investments to make.

Solution (new bill) should ensure communication of agreed-upon regulations to provincial administrators. (How do other governments these this kind of information to provincial authorities?)

Interest:

Explanatory hypotheses: Under reforms, relevant provincial authorities expect to receive increased immediate revenues and the support of local citizens if provincial fixed assets investments provide immediate profits and provide increased wage employment -- regardless of their possible impact on long-term national and regional development prospects.

Solution (new bill) should provide central government authority (the executive arm of the proposed coordinating agency) with a variety of ways of creating incentives to invest in more desirable fixed assets (BUT in every case, the executive must carefully weigh the social costs against the social benefits). Possible ways of creating incentives might include:

tax subsidies - ie reduce taxes on income generated by desired investment projects selected according to specified criteria (almost all developed country governments use these; note discussion of developing countries' tax incentives for foreign investors in Song, Introduction to Law and Legal System of Korea, pp. 545ff);

reduced interest rates - ie lower interest on loans made by state-owned banks (often, but not always, separate development banks) for desired projects (many countries use this, including Japan and South Korea; eg see Song, pp. 532ff);

matching grants for desired projects - ie central government invests 100 yuan for every 100 yuan invested by provincial authorities in desired projects (used by US at various times to encourage investments in specific kinds of research, training, redevelopment projects for inner cities, etc.)

foreign exchange controls and tariffs - may provide preferential treatment in obtaining foreign exchange or reducing tariffs or quantitative controls on necessary imports for desired projects (eg Song, re developing countries' measures to attract foreign investment, pp. 553ff)

negative incentives might include: taxing undesirable investments more heavily; raising interest rates or denying loans for undesirable investments; withdrawing central government funds from other projects; etc.

In addition, the solution (bill) should provide for education of provincial citizens to help them understand why, in the long run, some kinds of fixed asset investments, rather than others, will more likely provide steady employment growth, higher incomes and improved quality of life for all Chinese citizens.

Process:

Explanatory hypotheses: Provincial administrators make their decisions without adequate inputs either from other provincial or national authorities, according to criteria and in line with procedures that take into account only provincial concerns and short-term citizen interests, with little or no feedback mechanisms exist to ensure that they learn of the negative consequences of these processes (note description in Song, summarized on p. 517, of large enterprises' misuse of incentives in an inadequately open, monitored system; and discussion of the Korean coordinating committee that deals with providing tax incentives)

The solution (the new bill) should

- 1) enable provincial administrators to participate in a national investment coordinating mechanism to ensure that they take part in formulating and understand the reasons for national investment guidelines and can communicate them to their own citizens;
- 2) require provincial administrators to establish provincial criteria and procedures, that require consideration of inputs related to national development as well as from local communities' citizens; and
- 3) ensure adequate provincial-level feedback, that is, research (conducted in accord with nationally-agreed research guidelines that take into account nationally-generated information as well as local community-member participation) to assess the consequences of specific fixed asset investments (eg US legislation sometimes requires government agencies to give university faculty members the opportunity to bid on contracts to conduct research according to pre-determined guidelines to assess US state or national investments in programs relating to such different issues as education, housing, and foreign aid.)

(note Kitigawa, Doing Business in Japan, on detailed regulations of the standardization system, including the way the implementing agency tries to ensure protection against corruption, eg. pp. A11-2-21ff; and flow diagram which details the process)

Ideology:

Explanatory hypotheses: The simple notion that to get rich is glorious tends to emphasize short term personal profits without concern for long term social consequences.

The solution (the new bill) should ensure that every element of the solution suggested above (training, communication, incentives, and processes, including feedback mechanisms) contributes to educating provincial administrators and citizens throughout China that short-term profitable investments may have negative long-term consequences which they must learn to take into account.