

# Can Investment Liberalization Improve Enterprise Productivity -- Evidence from the Negative List of Foreign Investment Access in China

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## Abstract

**In the context of the new development pattern, a deep understanding of the factors affecting enterprise productivity and an accurate evaluation of the implementation effect of foreign access policies have important theoretical and practical significance for further promoting the improvement of enterprise quality and efficiency, and promoting the high-quality development of the Chinese economy. This article is based on the former research and uses the negative management list of foreign investment as the research basis to study the impact of investment liberalization on enterprise productivity and propose relevant policy recommendations.**

## Keywords

**Investment Liberalization; Enterprise Productivity; Negative List for Foreign Investment Access.**

## 1. Introduction

In the process of steadfastly promoting high-level opening-up to the outside world, China's adoption of the negative list management model for foreign investment access marks an important step towards deep integration with international economic and trade norms (Pei Changhong and Liu Hongqian, 2020). This strategy greatly promotes the freedom and convenience of foreign investment (Ma Yaming et al., 2021), and serves as a key measure to optimize the domestic investment environment and attract high-quality foreign investment. Extensive research has shown that the introduction of foreign investment has a significant and lasting impact on the employment market structure, labor productivity, and income distribution patterns of host countries (Rizvi and Nishat, 2009; Hoang et al., 2019). The national "14th Five Year Plan" clearly proposes to "accelerate the construction of a new development pattern with domestic circulation as the mainstay and domestic and international circulations mutually promoting each other". Foreign investment, as an important link connecting domestic and international markets and gathering global resources, is an important part of China's economic "dual circulation" construction and an organic component of China's industrial chain. Improving productivity is not only the main goal of China's economic and social development during the 14th Five Year Plan period, but also the basic principle of digital economy development. Related studies both domestically and internationally have shown that progress in productivity is the source of long-term economic growth, and is of great significance for industrial upgrading and improving people's living standards. Therefore, further research on the influencing factors of enterprise productivity in this article can help promote the improvement of enterprise quality and efficiency, and promote the high-quality development of China's economy, which has important practical significance.

## 2. Literature Review

In terms of research on factors affecting enterprise productivity, government subsidies, Internet development, digital economic transformation, trade liberalization and other factors all contribute to improving enterprise productivity. Shao Min and Bao Qun (2012) found through empirical research that government subsidies can significantly promote the improvement of enterprise productivity levels. Guo Jiatang and Luo Pinliang (2016) found that the Internet has significantly promoted China's total factor productivity through empirical analysis. Zhao Chenyu, Wang Wenchun, and Li Xuesong (2021) found through research that digital transformation has significantly improved the total factor productivity of enterprises, and has become a strong driving force for improving the production efficiency of manufacturing enterprises in the digital economy era. Zhang Yantang, Yi Hong, and Zhou Mohan (2013) found through their research that liberalization of service trade promotes the improvement of productivity in manufacturing enterprises. Pavcnik (2002), Amity and Konings (2007), Topalova and Khandelwa (2011) respectively studied the impact of trade liberalization on enterprise productivity using micro data from Chile, Indonesia, India, and China. The results showed that both reduction of import tariffs on intermediate inputs and final goods can improve enterprise productivity, with the former having a greater impact than the latter. Mao Qilin and Sheng Bin (2013) found that trade liberalization has improved the total factor productivity of enterprises through their export dynamics.

Regarding the research on the impact of investment liberalization, Shao Haiyan, Lu Jinyong, and Chen Qingping (2016) found through literature review at home and abroad that theoretically, it is generally believed that investment liberalization reduces the risk and cost of foreign investment, which is beneficial for host countries to attract foreign investment. In addition, investment liberalization also has indirect economic impacts. Asiedu et al. (2008) argued that investment liberalization can significantly promote the investment of multinational corporations in the region, and the investment of multinational corporations further promotes local employment. Arita et al. (2014) argue that investment liberalization in host countries can help reduce the fixed and variable costs of multinational corporations establishing factories abroad, promote the redistribution of resources within the multinational corporation's industry, and improve the overall productivity of the host country's industry. Zhu Shujin et al. (2011) found that overall, investment liberalization has a positive effect on stimulating consumption, expanding domestic demand, increasing employment, and improving residents' welfare, but its impact on various industries varies.

According to relevant literature review, existing literature focuses more on the impact of trade liberalization and capital flows in the manufacturing sector on firm productivity, and few scholars have studied the impact of investment liberalization on firm productivity. Based on this, this article supplements the relevant research gap by studying the impact of investment liberalization on enterprise productivity, providing empirical support for further promoting enterprise productivity and promoting the high-quality development of Chinese enterprises.

## 3. Institutional Background and Theoretical Analysis

In June 1995, China officially released the first edition of the "Catalogue for Guiding Foreign Investment Industries", which divided foreign investment projects into four categories: encouraged, allowed, restricted, and prohibited. However, the admission rules of this positive list thinking are often ambiguous, and the intersectionality and conflict of different categories and items can easily interfere with foreign investors' independent decision-making (Li Mosi and Shen Yuliang, 2015).

**Table 1.** Pilot Process of Negative List for Foreign Investment Access

Year	Zone of application	Measure of special control
2013	Shanghai Free Trade Zone	190 items
2015	Four free trade zones in Shanghai, Guangdong, Fujian, and Tianjin	122 items
2017	11 free trade zones including Chongqing, Liaoning, Zhejiang, Henan, Hubei, Sichuan, Shaanxi, etc	95tems
2018	nationwide	48tems
2021	nationwide	31tems

Source: Compiled from publicly available materials.

In order to provide a more free and convenient investment and financing environment for foreign investment, China has adopted a pre admission national treatment and negative list model that is in line with international standards, gradually establishing a predictable, standardized, and transparent foreign investment management system. Scholars have conducted extensive research on the impact of foreign direct investment on firm productivity. From an empirical perspective, the impact of foreign direct investment on the productivity of manufacturing enterprises in China is uncertain, and scholars have not reached a consensus on this. Some studies suggest that foreign direct investment can improve the productivity of enterprises (Jiang Guanhong et al., 2013; Mao Qilin and Fang Senhui, 2020), but there are also some studies that suggest that foreign direct investment has negative spillover effects or no impact on enterprise productivity (Wang and Wang, 2015); Lu et al.,2017). From the perspective of research objects, it includes developed countries and developing countries, such as developed countries in Europe, China, the United States, Türkiye, Chile, Bangladesh, etc. From the perspective of influencing channels, foreign direct investment can affect the productivity of enterprises through mechanisms such as enterprise innovation, industrial linkage, resource reallocation, selection of enterprise technology upgrading paths, financing constraints, improvement of domestic added value of enterprises, and promotion of the recovery of "zombie enterprises". This article proposes the following research hypothesis based on relevant theories and current research: investment liberalization promotes the improvement of enterprise productivity through resource reallocation. Investment liberalization promotes the improvement of enterprise productivity through resource reallocation, which can be analyzed from three main aspects: intensified market competition, technology transfer and innovation, and improved resource allocation efficiency.

### 3.1. The Intensification of Market Competition

The liberalization of investment has introduced more domestic and foreign competitors, which undoubtedly increases the competitive pressure in the market. In an increasingly competitive environment, enterprises must continuously improve their efficiency and competitiveness in order to survive and develop. This competitive pressure prompts companies to take various measures to improve productivity, such as adopting new technologies, improving management methods, reducing costs, and enhancing product quality. The entry of foreign-funded enterprises not only brings advanced products and services, but also increases consumers' expectations for product quality and service levels, forcing local enterprises to continuously improve their own standards to meet market demand. In addition, competition also prompts companies to pay more attention to customer needs and market changes, thereby adjusting production plans and marketing strategies more flexibly to adapt to rapidly changing market environments.

### 3.2. Technology Transfer and Innovation

Investment liberalization provides a broad platform for technology transfer and innovation. Foreign funded enterprises usually have more advanced technology and management experience, and when these enterprises enter the domestic market, they may bring new technological knowledge and management concepts. The introduction of this technology can not only directly improve production efficiency, but also indirectly promote the technological progress of local enterprises through demonstration effects and personnel mobility. At the same time, in order to compete with foreign-funded enterprises, local enterprises will also increase their R&D investment and promote technological innovation. This competition driven innovation activity is one of the key factors in improving enterprise productivity. In addition, under the background of investment liberalization, the government often introduces a series of policies to encourage innovation, such as tax incentives, financial support, etc., to further stimulate the innovation vitality of enterprises.

### 3.3. Improvement of Resource Allocation Efficiency

Investment liberalization helps capital flow to the most efficient areas and enterprises, thereby improving the overall efficiency of resource allocation in the economy. In an open environment, capital can flow freely and seek the best investment opportunities. This liquidity enables capital to withdraw from inefficient areas and shift towards efficient areas, promoting the optimal allocation of resources. For businesses, this means they can access more financing opportunities, especially in industries and projects with high growth potential. Meanwhile, enterprises can also achieve scale expansion and resource integration through mergers and acquisitions, further improving production efficiency. In addition, investment liberalization has also promoted the flexibility and mobility of the labor market, allowing labor to flow to higher productivity sectors and enterprises, thereby improving the overall labor productivity of society.

## 4. Conclusion and Suggestions

The introduction of the negative list for foreign investment access is a strategic measure for China to comprehensively deepen reform and expand opening up under the new situation, which is of great significance for optimizing the investment environment and building a high-level open economy. The main conclusions of this article are as follows: the negative list model enhances the reallocation of enterprise resources while achieving the basic policy objectives, indicating that the liberalization of foreign investment not only improves the level of "institutional investment attraction" in China, but also promotes resource reallocation, which is in line with the current policy goal of high-quality utilization of foreign investment in China; Theoretical analysis has found that market competition effects and technology spillover effects are the main channels for foreign investment liberalization to enhance enterprise resource reallocation.

Based on the above conclusions, this article can draw the following policy implications: firstly, firmly implement and optimize the negative list management mode for foreign investment access. We should continue to streamline the negative list content, release positive market signals, and create a convenient and free investment environment. Rely on China's super large market advantage, attract global resource elements, make full use of foreign capital technology spillover effect, and improve China's human capital and product competitiveness. By promoting industrial transformation and upgrading, building a unified market that mutually promotes domestic and international dual circulation, and demonstrating to the world through practical actions the determination that "China's door to openness will not close, but will only open wider and wider". Secondly, we attach great importance to the role of foreign investment

liberalization in improving resource allocation efficiency. While promoting the optimization of resource allocation, ensure that all types of resources are utilized reasonably. As China's economy enters a new normal, the utilization of foreign investment has shifted from mainly undertaking the transfer of low - and medium tech manufacturing industries to an important force in promoting industrial transformation and upgrading. Local governments should effectively combine advanced foreign technology with domestic resource elements, encourage enterprises to develop and cultivate high-quality workers that are suitable for the needs of the post industrial era, and form a "reservoir" of high-quality talents within the enterprise. At the same time, the government and enterprises need to plan measures in advance to deal with the risk of resource mismatch, vigorously develop high-level vocational education, provide on-the-job training, help workers improve their skills, and enhance their ability to find new jobs. This is an effective way to improve labor productivity and overcome resource mismatch. Thirdly, differentiated utilization of foreign investment, classified policies, and policy guidance and support should be provided. In the implementation of the negative list model for foreign investment access, local governments should also pay attention to the differentiated characteristics of different types and regions of enterprises, and implement specific policies tailored to the needs of each enterprise. The eastern region should strictly control the quality of foreign investment, timely transfer foreign investment industries that are consistent with China's original endowment structure and have diminishing marginal returns to the central and western regions, and support the participation of existing foreign investment in China's industrial and regional development to make up for shortcomings. State owned enterprises should continue to deepen reforms, stimulate market competition vitality, and promote technological and efficiency improvements. Guide private enterprises to seize the institutional construction dividends of the negative list, actively cooperate with foreign investment, and fully integrate different international and domestic resources. Intensify support for private enterprises in terms of technological innovation and talent cultivation, smooth the channels for high-end talents to flow to private enterprises, promote the transformation of China's demographic dividend into talent dividend, and continuously inject new endogenous driving forces into economic growth.

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