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Report of the evaluation mission*

Prepared in cooperation with
the Government of the People's Republic of China and
the United Nations Industrial Development Organization

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EXPLANATORY NOTES

Value of the Chinese Yuan Renminbi during the period of the evaluation according to the UN operational rate of exchange:

1 US\$ = 8.2660 Yuan RNB

The evaluation team wants to acknowledge the assistance and support given to its work by the IPS Office in Beijing.

LIST OF ACRONYMS USED IN THE REPORT

| | |
|----------|---|
| ACI | All China Investment |
| BL | Budget line |
| BORITEC | International Cooperation Development and Investment Exchange, Milan |
| CCOEC | China National Corporation for Overseas Economic Cooperation |
| CECIC | China Energy Conservation Investment Corporation |
| CICETE | China International Center for Economic and Technical Exchanges |
| COMFAR | Computer Model for Feasibility Analysis and Reporting |
| FDI | Foreign Direct Investment |
| ICS | International Centre for Science and High Technology |
| IDF | Industrial Development Fund |
| IIPP | Industrial Investment Project Profile |
| IPA | Investment Promotion Agency |
| IPC | Investment Promotion and Institutional Capacity Building Division (UNIDO) |
| IPS | Investment Promotion Service |
| IPSO | Investment Promotion Services Office |
| ITP | Investment and Technology Promotion Branch (UNIDO) |
| JV | Joint venture |
| MOFTEC | Ministry of Foreign Trade and Economic Cooperation |
| NPC | National People's Congress |
| PROPSPIN | Project Profile Screening and Preappraisal Information |
| SME | Small and medium enterprise |
| UNDP | United Nations Industrial Development Programme |
| WINS | World Investment Network Service |

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS OF THE EVALUATION

Conclusions

- N IPS China represents an important point of information for Chinese and foreign investors looking for commercial opportunities in China;
- N The insufficient knowledge of international business background among the Chinese entrepreneurs, the lack of training opportunities and the scarce information regarding the possibilities of international industrial partnerships is the main argument for the establishment of IPS China;
- N The big size of China, the internal structural imbalances and the relatively short exposure of Chinese entrepreneurs to international industrial cooperation makes imperative for China the presence of an IPS office operating at country-wide level through the establishment of focal points in the provinces;
- N The lack of knowledge of investment laws and rules in developing countries for Chinese investors and for foreign investors in China is a serious drawback for starting international industrial and commercial cooperation;
- N Due to the establishment of four Centers (based in already existing institutions), to which IPS China is giving the necessary coordination and policy guidelines, the Office can serve all over China the activities needed to enhance the cooperation with the Chinese institutions, both for in- and outward investment flow;
- The four Centers cover the following functions:
- a) Overseas investment guarantees and financial approvals for Chinese entrepreneurs;
 - b) Project appraisal, in both directions, applying UNIDO methodologies;
 - c) Diffusion of investment opportunities information through the on-line presentation of a homepage on Internet in the covered provinces of China;
 - d) Assistance and financial advice to foreign and Chinese investors interested in investment in China or to buy shares in Chinese companies;
- N At downstream level the activities of the IPS over the country are presently implemented through the existence of 13 focal points (or stations) established in various provinces. It is expected that during the next year the IPS Office with the support of CICETE will extend the coverage to two additional provinces;
- N IPS China is conducting its operations at policy level, while the established four Centers operate at project level;
- N China's foreign trade, with US\$ 325 billion last year, was the tenth largest worldwide. With US\$ 45.28 billion in actually implemented foreign direct investment last year, China is the world's second largest recipient of foreign investment, second only to the United States.

Recommendations

- N Based on the positive findings of the evaluation and considering the necessity of an office like the IPS in a rapidly evolving economic and industrial context, the mission recommends that the IPS China be extended for another term;
- N Considering that in 1993 China has included in its Constitution the principle of the market-oriented economy and it is still in the transition period from a centrally organized economy, the "raison d'être" of the IPS office in the framework of the existing UNIDO framework is fully justified and needs to further enhance its promotion and information role in other provinces of China;
- N The next agreement extending the duration of the Office should include some indicators of performance for outputs achieved, in order to allow verification and quantification of the results achieved against well defined and formulated expectations;
- N Jointly with other Chinese institutions, the IPS should assist in organizing training programmes for people operating in the banking sector, both at the state and provincial level. Chinese professionals operating in the sector or industrial financing need training in assessing the viability of projects and partnerships. Knowledge of financial analysis among bankers has also to be upgraded;
- N Also for the people operating in the focal points training on international business practice is needed, together with improvement of the English language. The subjects to be specifically covered could be:
- R screening and diffusion of business opportunities
 - R investment policies and strategies
 - R promotion and improvement of institutions working in this sector to better publicize the investment opportunities
 - R training on Internet tools for better use of investment promotion approaches;
- N The salaries of staff employed at IPS China should be paid, utilizing the same updated salary scales which are utilized for the salaries paid to the national staff, both in UNDP and UNIDO offices in China. Different salary scales utilized at the same duty station to pay staff serving at the same level is not the UN policy and does not enhance staff morale. The agreement between the Chinese Government and UNIDO should establish the application of the same salary scales applied to the other UN personnel in China in equivalent categories, grades and steps;
- N IPS China should continue and expand in organizing training and seminars on international negotiations for transfer of technology, BOT, project financing, joint ventures, licensing, etc.;

This training should be aimed at people working not only in local stations (focal points), but also for persons engaged in enterprises, banks and government institutions dealing with international cooperation.

For the time being the budget of the Office does not foresee any budget line for this purpose;

N The network of the focal points (stations), which are presently 13, should be further extended to cover more provinces. Some indicators and objectives should be indicated in the new agreement to allow a better and more precise assessment of the operations undertaken;

N Finally, IPS China should establish a system of follow-up to be able to verify how many of the project proposals discussed became really operational.

I. INTRODUCTION

A. *Background of IPS China*

1. Within the Investment Promotion and Institutional Capacity Building Division (IPC), UNIDO has established the Investment and Technology Promotion Branch (ITP), which is responsible for the coordination of the Investment Promotion Services (IPS) network.

The aim of the Industrial Partnership promotion programme of UNIDO is to identify, formulate and promote investment opportunities and technology exchange between partners in developing countries and interested investors in industrialized countries. In the case of IPS China this function is working in a double direction since the Office is promoting in- and outward investment: to attract foreign investors for opportunities in China and to support Chinese enterprises looking for partnerships in developing countries.

The existence of a network of Investment Promotion Services (presently 9) allows implementation of the objectives of this programme. The IPS network disseminates information regarding project profiles and partnership opportunities available for sponsoring in developing countries and inside China. At the same time IPS gives advice on how to mobilize the financial and technical resources for the development of the project and gives also assistance in the negotiation of such opportunities. The IPS network is in close contact with business associations, financial institutions, ministries and development agencies.

2. To develop its tasks IPS has to establish data banks of national enterprises and institutions interested in implementing industrial partnerships.

Through this world-wide network UNIDO has a strong comparative advantage in gaining access to valuable investment information, particularly in the marketing of pre-investment services, providing investment information on contacts, helping in the identification, formulation and implementation of industrial partnership opportunities. The function of IPS is to promote these activities, assuring the liaison with the national infrastructure and the potential partners in China, in developing countries and in industrialized countries interested in investment in China.

3. The IPS China in Beijing is financed by a voluntary contribution of China through a special purpose contribution to the Industrial Development Fund. The guidelines for the operation of the Office are specified in the relevant agreement between China and UNIDO (Annex III), signed on 22 December 1995, and the Annexes A, B and C attached to this agreement.

Annex A outlines the terms of reference of the UNIDO IPS Office in Beijing, specifying:

- N objectives
- N functions and activities
- N methodologies and software
- N beneficiaries
- N coordination arrangements
- N resources
- N annual work programme
- N reporting

Annex B specifies the budget for the period 1 January 1996 to 31 December 1998, indicating the Government and UNIDO inputs and three detailed budgets divided by budget lines of expenditures for:

- N non convertible currency
- N Government contribution
- N convertible currency fixed at the exchange rate of 1 US\$ = 8.41 Renminbi

Annex C establishes the schedule of payments.

4. Unfortunately the Agreement and its annexes do not precise any indicators to measure the level of the results of the activities undertaken by the IPS China.

Normally the performance of an IPS is measured by the number of successfully promoted, negotiated, concluded and possibly operating industrial partnerships.

However, in China, due to many years of closure to the external world and the last twenty years of changes and reforms to pass from a centralized economy to a market oriented system, the existing national infrastructure needed by an IPS to develop its activities is not yet sufficiently developed. Moreover, it has to be taken into account the extension of the country (nearly the size of the entire Europe).

Under the central planning system there was an absence of economic legislation, the Government decided on corporate affairs and allocated the factors of production, national incomes and even small consumer commodities. The State was order, while the market competition was considered as source of chaos. Over the past 20 years the National People's Congress (NPC) has passed around 80 economic laws and the local Governments have promulgated hundred of business statutes and regulations. Before 1978, the Chinese economy was monopolized by the State and the existence of private enterprises was illegal. The main aim of the economic legal framework is now the protection of the private capital, which was discriminated for decades.

The historical turning point came in 1988 when an amendment to the Constitution granted legal status to private enterprises, providing means to fight discrimination. According to some recent statistics the number of private enterprises has since then grown to 960,000, not including 300,000 foreign-funded ventures and 1 million business run by farmers. Benefitting from the protection of the law, non-State enterprises contributed to 74 per cent of the country's industrial output value last year.

Another fundamental amendment to the Constitution in 1993 wrote the aim of establishing a market economy.

Under these circumstances, in a situation where the life of the market oriented system is still very young and with limited financial and human resources, for organizing the national network and building an institutional capacity for investment promotion, IPS China had first to establish a system starting with the coverage of the most interesting regions under the point of view of the investment climate.

IPS has established four Centres each responsible for a different service module:

- N Investment promotion network
- N Investment appraisal of projects
- N Inflow investment promotion
- N Overseas investment promotion

These four Centres received from IPS China the general guidelines for the activity and their relations are ruled by memoranda of cooperation on non-profit basis as far as investment promotion activities are concerned.

The Centres give their advice to 13 focal points or stations that for the time being have been established in some provinces in order to cover on local basis the investment promotion activities. Of course in a country of the dimensions of China the present set up covers only a small part of the national territory and it has to be understood that selecting the counterparts and establishing this organigramme in the actual transforming Chinese economy is a task implying a long and complicated process.

5. It is evident that the IPS network provides UNIDO with the unique position of having focal points in selected developed and developing economies, enabling the IPSs to establish mutual advantages with the local business communities.

Through this network UNIDO has the possibility to find out the needs and the offers of investors and at the same time to provide information on the partnership proposals coming from developing countries.

B. Structure of the Office

The Government of China has placed at the disposal of UNIDO a special purpose contribution from the IDF for the functioning of the Office on the basis of a mutually agreed three year budget. The agreement, however, is concluded for an indefinite period, on the understanding that each party have the right to terminate it upon six month's written notice.

UNIDO is responsible for the administration of the Chinese contribution in accordance with its financial rules and other applicable regulations. The Head and other staff of the IPS China are appointed by the Director General of UNIDO after consultation with the Chinese Government and in accordance with the applicable regulations, rules and procedures of UNIDO. UNIDO supervises the IPS China staff who reports to UNIDO.

UNIDO keeps the Government of China informed on the activities of the Office, through the Chinese Permanent Mission to UNIDO in Vienna. However, the Head of the Office maintains direct contacts with CICETE (China International Center for Economic and Technical Exchanges) and all other Authorities involved in the activities of the project, IPS China will be part of UNIDO's worldwide network of IPSs and will use methodologies, mechanisms and software developed by UNIDO in the fields of industrial investment and technology transfer.

The terms of reference attached to the Agreement stipulate that UNIDO shall provide the Government of China with an annual report on the progress of the activities of the Office as well as an annual financial statement. The annual report on the activities of the Office is prepared by the Office itself and covers a period

of twelve months. The annual financial statement is provided by the Financial Services of UNIDO.

According to the budget attached to the Agreement, the Office should be staffed with:

- N Head of Service
- N One senior investment promotion officer
- N Two investment promotion officers
- N Two secretaries
- N One messenger/driver

At present, the Office is staffed with four persons:

- N Head of Service
- N One senior project officer (BL. 17-03)
- N One project officer (BL. 17-04)
- N One project secretary (BL. 17-05)

The evaluation team can conclude that the working climate in the Office is good. The duties and the tasks of each person are well specified and in the framework of the general strategy established by the Head of the Service. The implementation of the tasks discharged are closely monitored by the Head of the Service.

Discussing with the staff the evaluation team discovered that presently the salaries paid to the IPS China staff are lower than the salaries paid to other UNDP or UNIDO staff in China recruited at the same level and step.

The difference is due to the fact that when the budget was established (1995), the salaries were the same with the other UN offices in China, but subsequently they were revised by UNDP. Since the budget of the Office has not been revised, this is probably the reason behind this discrepancy.

As pointed out in the preliminary recommendations, the evaluation mission recommends to consider this matter and re-adjusting the salaries, because according to the UN rules the salaries for the same steps and the same level, at the same duty stations, should be equal. This is not only in respect of the UN rules and policies but also for the effect that such a discrepancy can have on the moral of the staff.

C. *Reasons and methodology of the evaluation*

Article V of the Agreement foresees a joint in-depth evaluation conducted by the Government of China and UNIDO.

The purpose of the evaluation is to provide the basis for a joint decision on the possible extension of the office.

The persons nominated to conduct the evaluation have not been directly involved in the design, appraisal or implementation of the project, and their comments are the direct result of an evaluation carried out on their own capacity.

The views and opinions of the team do not necessarily reflect the view of the Chinese Government or UNIDO. The primary purposes of the in-depth evaluation are:

- a) to assess the achievements of the office against its objectives and expected outputs, including an eventual proposal for a new project design, and
- b) to identify and assess the factors that have facilitated the achievements of the project's objectives, as well as the factors that have impeded the fulfillment of these objectives.

The present joint in-depth evaluation took place from 1st to 13th November 1998 in Beijing, Zibo City, Fujian and Hong Kong. The evaluation team was composed of the following members:

N Mr. Tingrong Gong, Representative of Government of China

N Mr. Mario Marchich, Evaluation Officer, Field Operations and Administration Division,
Representative of UNIDO

The mission, in accordance with its terms of reference (Annex I), conducted a thorough review of the developments of the Office during the last three years, assessing the results in terms of its relevance, effectiveness, impact and whether the objectives have been achieved.

As regards methodology, this report is based on the examination of the documents establishing the Office, the information obtained during the visits to organizations and persons, as well as meetings with the staff of UNIDO and IPS-China.

An interim de-briefing of the mission (after one week), was made in Beijing at CICETE with Mr. Tan Weiwen, Director, Program and Planning Division of CICETE. The final de-briefing was made by the two evaluators in Vienna at UNIDO with the presence of the Alternate Permanent Representative of the People's Republic of China to UNIDO, Minister-Counsellor Wang Baorong, Mr. A. Pinto-Rodrigues and Mr. V. Zakharian of the Investment and Technology Promotion Branch and Mr. O. Gonzalez-Hernandez, Principal Evaluation Officer of the Field Operations and Administration Division. During this meeting, the evaluation team presented in draft its preliminary conclusions and recommendations.

II. PROJECT CONCEPT AND DESIGN

A. *Institutional operational infrastructure in the context of China and UNIDO priorities*

According to the information provided by the Director of IPS China during the briefing of the evaluation team regarding the Chinese investment situation and the service requirements of the Office it appears that China, being the biggest developing country on its way to the market oriented economy since its opening to the outside world, investment promotion has been a very important part of its opening policy. By the end of July of 1998, nearly 300,000 foreign-funded enterprises had been approved, with total employment of 17 million. US\$ 175 billion foreign direct investment has been actually put into use since then. The output of foreign firms and the joint ventures in China represents more than 14% of the Chinese National industrial output (1997). China has been the second largest country in the world in attracting foreign investment for the last four years.

These figures show one thing clear: China with an estimated population of 1.3 billion towards 2010 is a very attractive investment market. From 1983-1990, direct foreign investment to China increased 27.5% each year. China has adopted a multi-channel, multi-direction and multi-source fund raising policy for the last 17 years.

In a period of rapid economic growth and transition of economic systems, China intends to open further to the outside world during the next 15 years. According to the Chinese Ninth Five-year Plan (1996-2000), China plans to attract US\$150 billion during the period. Foreign investment should be fully utilized and foreign-funded enterprises should gradually be granted preferential treatment nationally. China is on its way to further improve the investment environment, widen investment options and look for new sources of investment.

This coincides with the UNIDO's working priorities. On the one hand, UNIDO focuses on building up sustainable national information networks among IPSOs and HQ as one of its most important thematic priorities through strengthening of World Investment Network Services (WINS) and linking with UNIDO information services. On the other hand, the Chinese central Government has been taking effort in seeking ways of coordinating the investment promotion activities among the local governments so as to direct them on a health path. The Government strategy also calls for providing technical assistance to the local investment promotion centres in an effort to promote investment.

In such context, the People's Republic of China and the United Nations Industrial Development Organization concluded the agreement for the establishment of the IPS China. As part of UNIDO's worldwide network of IPSs, this Office will use methodologies, mechanisms and software developed by UNIDO in the fields of industrial investment and technology transfer. The Office has also the task of building and strengthening national capabilities for attracting foreign investment, enhancing technology transfer and outward investment by setting up UNIDO Investment Promotion focal points/stations at the provincial level.

The Chinese Government is well aware of the "bridge" function of UNIDO IPS-China and of its linkage position to connect focal points at the provincial level for China's healthy investment promotion activities.

IPS-China was set up at the time when the scale of foreign investment absorbed by China has been declining. From 1994 to 1996, China witnessed an annual decline of 43%, 22.2% and 33.7% respectively in the numbers of newly-approved foreign funded enterprises. The contractual and actual foreign investments

were also descending. The scale of foreign investment could possibly continue to decline in the next few years due to the Asian financial crisis. The China's share in terms of utilizing foreign investment among developing countries dropped from 38.8% in 1994 to about 20% in 1998. This cannot be all attributed to the large world wide competition for capital investment but it is also the result of China's traditional operations in soliciting foreign investment which are usually conducted in a scattered, individualized, and disorganized manner.

Besides, China's inflow investment in the past depended largely (nearly 60% before 1995) on overseas Chinese investment. In such internal investment environment, the key to an effective development of IPS-China is to find out its comparative strength and advantage in the field of industrial investment promotion and partnership.

UNIDO's strong points are:

- N its experience in industrialization combined with worldwide network of contacts;
- N direct access to enterprises of developed countries and developing countries by means of the UNIDO offices' network;
- N neutrality of a United Nations organization operating as an impartial intermediary and honest broker;
- N capacity of carrying out pre-investment studies; and
- N capacity of mobilizing financial resources.

The task of IPS-China is to tap UNIDO's advantages in investment promotion. In developing its infrastructure the office has mainly relations with the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), CICETE (which is part of MOFTEC and supports directly the budget of IPS China), Ministry of Science and Technology, Chambers of Commerce, China Council for the Promotion of International Trade, several Chinese institutions dealing with investments, business cooperation and technology exchange, foreign economic and trade commissions, municipal governments of provinces and districts where local focal points/stations have been established, associations of small and medium enterprises, etc.

B. Sectors of capacity building to be dealt by IPS-China

UNIDO IPS offices are a key feature of UNIDO's promotion approach. At the time when UNIDO set up its IPS office for China in Beijing, China obtained roughly US\$100 million inflow investment each day with the total actually accumulated FDI amounting to US\$170 billion in 240 thousands foreign-funded enterprises by the end of 1996. The first issue was to define the Office position and verify its value.

It was a top priority for the Office to set up both the structure and strategy of IPS-China, based on China's specific situation, so as to be competitive in providing value-added technical services for inward and outward investment. Client orientation, quality instead of quantity, spirit of cooperation and team work inside, competitive spirit outside, innovation are some key works for the orientation of the Office. UNIDO played a pioneering role for opening up China for foreign investment at early '90s through investment fora and supporting

an investment promotion network service based on high-tech communication such as Internet. This not only ensured a sustainable support to improve China's investment policies, climate, institutions, training with UNIDO methodologies, but also made a dynamic link with UNIDO global development programme. Therefore, the main objective of IPS-China is to develop a comprehensive and systematic approach to foreign investment promotion which will modernize, enhance and streamline the existing efforts of the Chinese local authorities. The role of IPS-China relies in:

- N how to make best use of UNIDO's comparative advantages in investment promotion in response to the requirements of the local governments;
- N how to organize a sustainable link in the field;
- N how efficient and effective the field office can be as a channel in investment promotion; and
- N how to become the best vehicle in China for investment promotion service.

(i) Problems facing China in obtaining foreign investment

- N At national level:

The uneven inward investment flow as far as provinces are concerned, and an administratively complicated investment structure that hinders investment development.

- N At local level:

The local governments are still weak in foreign investment promotion due to lack of reliable external channels, adequate information network, accepted project appraisal methodologies and adequate numbers of well qualified sectoral operators and government officials. This has resulted in wasted efforts and lost opportunities.

- N At international level:

Investment promotion is supply oriented by nature. Since the decision-making of investment rests with the sponsor/investor, the promoter has to take into account the investors' point of view, considering cultural differences and its development strategy. On the other hand, the host authorities shall coordinate their activities so as to avoid unlawful competition among themselves.

Foreign-funded projects involve for a large proportion ordinary processing industries. There are a large number of labor-intensive industrial projects, but a limited number of technologically advanced projects and particularly those with high added value. Besides, due to the uneven development in the regions of China, the foreign investment structure shall be optimized with more attention to the central and western regions. Most of the provinces in China have remained isolated mainly due to lack of reliable external channels, solid information

network, accepted methodologies and adequate numbers of well experienced persons in the sector of business partnership.

As China moves to a market oriented economy, an important question is whether past achievements in attracting foreign capital can be continued. The method of using concessionary incentives to attract investment becomes hard to sustain.

The specific problems for China to improve its strategy for inflow investment promotion are:

- N Lack of information on countries economic trends, target industry trends and specific company information. This has resulted in wasted efforts and lost opportunities. Information required in the field is not only not readily available but also the accuracy in most cases is in question. There is need for impartial investment promotion service programmes to help identify promising opportunities and match potential partners.
- N Low profit and low project quality are due to factors such as the lack of qualified promoters to provide the requested information, facilitate investment proposals, provide needed technical advisory support and training. Chinese enterprises, particularly SMSs are unfamiliar with specific requirements of potential foreign investors, or with international business codes and market channels. On the other hand, potential foreign investors consider it difficult to find suitable Chinese business counterparts.
- N Current investment promotion activities in China are not well planned. Many investment promotion trips abroad are undertaken yearly without coordination. Authorities take a short-gun approach covering many markets in a single trip. There is no focus, resulting in low yield and poor quality projects. Investment cycle is a long process, requiring efforts, analysis of risks and special expertise.
- N Investment project proposals in China are often wrongly-formulated, based on inadequate information and data. Especially export-oriented and technology-based investment proposals require massive foreign input of capital.

(ii) Problems facing China in outward investment and technology transfer

The absence of a solid and reliable external linkage, the weakness of investment promotion network at the local level, the lack of knowledge of internationally accepted methodologies is not only hampering the development of investment and other international relationships, but also could undermine prospects for China of acquiring a great share of the profits generated under current and future international commercial collaboration.

The specific problem in China is that although steps have been taken at the local level to establish the investment promotion centres, these centres lack, almost entirely, the capacity to provide the type of investor-oriented project profiles that are basically needed for the investment promotion. Issues such as:

- N through whom promoting investment;
- N how to identify industrial investment projects;
- N how to formulate investment project proposals; and
- N how to do the pre-investment study.

are all the major points to be addressed so that investment promotion inputs could lead to expected outcomes and return on investment.

C. *Main problems to be tackled by the IPS-China Office*

To face the difficulties mentioned above, the Office follows a strategy involving:

- N strengthening national capabilities for attracting foreign investment and encouraging outward investment and technology transfer by building up a sustainable investment information network coordinated by IPS-China;
- N opening an efficient channel of communication and arranging valuable contacts with the international business community and UNIDO World Investment Network Service (WINS) in order to bring UNIDO programmes, expertise, documentation, studies to the attention of interested Chinese authorities, organizations and enterprises; and
- N using UNIDO methodologies, mechanisms and software in investment promotion activities and tapping UNIDO advantages in investment promotion through the services rendered by the various IPS centres associated with IPS-China.

The IPS-China therefore aims to address this constraint by building up a sustained investment promotion network under the WINS system coordinated by UNIDO, so that active, rational and effective use of foreign capital could be realized. Directing technical assistance resources towards the development of the Chinese investment promotion focal points/stations at the provincial level shall contribute enormously also to the better performance of the macro investment policy.

D. *Design of the operational framework*

In order to achieve its objective in rapidly changing local conditions, the IPS-China Office has elaborated the major guidelines of the activity which are based on the combination of different factors, *inter alia*, evaluation of the current political and economic situation inside China, perception of the roles of the main actors of the local investment sector, determination of the current demand for services and the real possibilities of local enterprises, etc.

To achieve internal institutional capacity building and investment promotion strategy IPS-China has designed its operational framework as follows:

IPS-China Beijing conducts its operations essentially at policy level giving guidelines and coordinating the activities of the four sectoral specialized centres, which are based in already existing Chinese institutions and will operate at downstream level. (The organigramme of UNIDO IPS-China is presented as Annex V.)

1. China Investment Promotion Network Service, which works as part of the UNIDO WINS system:

The success of the investment promotion agencies rests on an efficient and effective communication and information network between potential partners for industrial cooperation and the enterprise level. Using modern electronic means of communication and information exchange, IPS-China concentrates on establishing an institutional information link between the focal points/stations at the provincial level. UNIDO IPS-China in this process plays an intermediating role, aiming at strengthening the network, providing quality control tools and facilitating the communication between the network actors. The steps undertaken by the China Investment Promotion Network Service to develop its activity have been: the system design; the network centre building; the software development; Internet connection; data base establishment ; nation-wide WINS and world-wide service system connection.

Through the cooperation with China Silver Network of the Ministry of Construction and the Gou Ye Holdings Co. Ltd., the Investment Promotion Network was put into operation since August 1996. It consists of Information Services, Technical Services and Investment Services to facilitate potential investors and local sponsors in different stages of investment promotion.

The China Network Centre was established in 1994 to provide information on investment opportunities to institutions and enterprises in China. Starting this year the Centre is publishing a monthly bulletin entitled "Information express" providing information on partnerships and investment opportunities all over the world. These opportunities are coming from various sources, not only UNIDO. This year, around 100 proposals included in the network were coming from IPS-China. The Centre works like an association with 130 enterprises/institutions participating and presently scattered over 24 provinces of China.

The monthly bulletin is sent to 500 addresses in the country at the enterprise level, institutions and local governments. The subscription fee for the bulletin is around US\$ 20 per year.

The annual participation fee of the enterprises to the network is around US\$ 2,000 per year and includes the connection to the website with the possibility to insert requests of partnership.

The contents of the UNIDO China WINS homepage are:

- N UNIDO brief introduction
- N Investment opportunities in China
- N International investment opportunities
- N Institutions for international investment
- N Investment standardization service (IIPP forms and business plan template)

The copy of the UNIDO China WINS website index page is reproduced in Annex VI.

The Network Centre started its cooperation with IPS in June 1996. Presently, 30 persons are working at the Centre.

The flow of profiles published in the network is quite balanced, 50 per cent inward and 50 per cent outward promotion.

If requested, the Centre helps in filling the IIPP forms and assists in establishing contacts. These services are fully free for foreign companies and with some charges for Chinese companies.

The information received from the IPS-China on seminars, workshops and fora is regularly publicized on the homepage and the same is done for the Chinese companies indicating their needs and the technology they can offer.

As can be seen, the website is presented as UNIDO and it is updated every two weeks, since November 1998, eight pages are written in English and eight in Chinese.

The evaluation team recommends to verify whether the China Investment Network Centre can legally utilize UNIDO's name and logo because the personnel employed is not UNIDO's staff, the Centre has only a memorandum of understanding ruling its cooperation with IPS-China, its premises are not UNIDO premises and only part of the projects indicated on the website are coming from IPS-China. To avoid any kind of legal problems, it is suggested that UNIDO's name and logo are taken out from the premises, letterhead, business cards and the website homepage should indicate that the information provided is prepared in collaboration with UNIDO, but the website is the property of the China Investment Promotion Network Centre.

With IPS-China, the Centre has established an agreement of cooperation at no costs, where IPS gives guidance and information on partnership and trade opportunities and the Network Centre publishes the requests on the website.

2. Investment Project Assessment Service, which is established at CECIC (China Energy Conservation Investment Corporation) and has the function of project appraisal centre.

In order to render a sustained service to the IPS stations/focal points at direct project level in September 1997 IPS-China established a cooperation agreement with CECIC.

CECIC was created in 1988 from the Energy Conservation Planning Bureau of the State Planning Commission which was founded in 1982. CECIC is a state-owned company directly linked to the State Planning Commission.

The aim of CECIC is:

- N to carry out State industrial policies with priority on energy conservation;
- N to collect investment funds from various sources;

- N to support the development of energy conservation and environment protection projects; and
- N to promote the rational utilization of resources, improving energy utilization efficiency and reducing environment pollution.

CECIC is composed of 80 staff members in Beijing and has 16 subsidiary companies in China.

CECIC is carrying out the overall strategies for sustainable development stipulated in China's Agenda 21 and its main function is the selection of projects in the field of energy conservation and to arrange for their financing.

CECIC deals with an average of 300 projects per year. In view of their well established structure and the fact they have their own assessment unit, IPS-China has selected this institution as support for its activities at project level as far as the project appraisal function for the projects identified by IPS is concerned.

In 1998 two staff of CECIC have been trained in projects appraisal at UNIDO Headquarters in Vienna utilizing COMFAR III. Also, this year consultants of CECIC have participated as speakers on project appraisal at two seminars organized by IPS-China.

The cooperation between IPS China and CECIC is ruled by a memorandum of understanding establishing the rules and the procedures of the cooperation.

Until present, CECIC has dealt with three projects proposed by IPS (brewery, ceramics pottery and ceramics for electrical isolation) but only to prepare the IIPP forms and check the data.

At the moment, they are in the negotiation phase for a feasibility study in the textile industry of a project in Peru identified by IPS for an estimated outward investment of US\$ 40 million.

3. Overseas Investment Service, which has been established at CCOEC (China National Corporation for Overseas Economic Cooperation) and is acting as an adviser for overseas Chinese outflow investments and also for the transfer of Chinese technology abroad.

In September 1998 CCOEC has signed with IPS-China a memorandum of cooperation after one year of negotiations. CCOEC is a consortium engaged in international trade and economic cooperation under the direct administration of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). This cooperation plays an important role in the Chinese economy particularly considering that last year China invested abroad US\$ 5 billion. According to the management of this corporation, every year several Chinese entrepreneurs go abroad but they are unsuccessful because they do not find the right partners. Their main function is to arrange the match-making between China and overseas partners.

CCOEC employs 500 persons at its headquarters in Beijing and other 400 in the branch offices in the

provinces. The unit dealing with IPS China is staffed with six persons.

The objective of CCOEC is to meet the domestic demand with that of foreign enterprises. IPS China is one of their main source of information then they approach the potential enterprises in China to promote the cooperation. CCOEC considers obtaining Government approval which is needed for any Chinese investment abroad as one of its main task.

CCOEC is not involved in the technical aspects of the projects and does not make any feasibility study, since this is done by the investor company itself.

In the framework of its cooperation with IPS-China, CCOEC is participating with its consultants in information seminars organized for Chinese entrepreneurs, the next are planned for December 1998 for some countries in Africa and the Gulf area.

CCOEC assists in various areas of partnership: investment, providing equipment, joint ventures, trade, subcontracting, buy back arrangements, dispatching workers to other countries or regions (presently 10,000 workers are employed in China under these arrangements) since they are a non-profit state-owned organization.

The head office is located in Beijing and they have representative offices or branches in Hong Kong, Botswana, Ghana, Moscow, Shanghai and Guangzhou.

4. Inward Investment Service, which is located at ACI (All China Investment) and has the task to assist entrepreneurs in investment into China.

ACI has a staff composed of 12 persons plus some external consultants and concentrates on foreign acquisitions and how to invest in the Chinese financial market.

It is a non-profit government company where financial resources are coming from various shareholders like: local MOFTEC section of Beijing, Municipality and Economic Commission of Beijing, Industrial Development Bank of China. At the beginning their budget was provided 85 % by the stakeholders and 15% self-raised funds. Now the proportion has changed and 80% of the budget is coming from self fund raising.

ACI has been established in August 1995 and it is a market intermediary institution, which aims at helping international direct investment, promote and achieve the optimum integration of various capital factors and provide services to investors and China in its effort to attract investment.

It serves to bridge investors and project owners in China in their cooperation. On average they execute six feasibility studies per year, which are paid by the foreign clients commissioning them.

ACI provides advice and services to foreign investors that want to buy share of the 876 Chinese companies available on the market for foreign participation. The Stock Exchange system in China started in 1994.

The cooperation with IPS-China started in August 1998 and is ruled by a memorandum of

understanding and IPS is providing them guidelines, UNIDO investment methodology and project profiles.

The cooperation with IPS China is quite recent and till now ACI has not yet received any project profile from IPS.

The evaluation team was surprised to learn that ACI did not know the existence of the website of China Network Centre and that they are not connected to the network.

It is advisable that ACI is connected at least in order to have direct and immediate information on the investment proposals coming from the Chinese side.

The major task of the China Investment Service Center is to offer both Chinese and foreign business interested in investing in China the following services:

N Information service:

Information on global investment, attraction of foreign capital, China's investment policies, laws and regulations.

N Consulting service:

General policies advice, working out regional industrial development programmes and investment - attracting strategies, developing enterprise investment strategies, designing enterprise reorganizations, advising on stock listing, financial consulting, marketing planning and surveys, pre-feasibility studies, analysis of investment projects.

N Financing service:

Developing financing programmes, mobilizing financial resources and providing financial advice.

N Investment promotion service:

Organizing study tours and investment seminars.

5. The focal points/stations

The operational organigramme of IPS-China is completed by the focal points/stations which are operating at the provincial or city level for permanent assistance in the identification of the investment opportunities and formulation and promotion of projects according to the UNIDO methodology. Presently 13 stations or substations have been established and two or three more are expected to be created next year. (See Annex V)

The objective is to involve and train local authorities and enterprises in investment cooperation

according to international standards and methodologies. Considering the specific situation of China (several years of closure to the international business world, the transition to a market oriented economy and the extension of the territory) regarding investment promotion, IPS-China during the first three years of activity has been intensively engaged in implementing investment promotion programmes and especially in building the capacity of the investment infrastructure concerned.

Several seminars have been held in the cities of the stations to outline: UNIDO investment promotion activities, WINS, IPS-China promotion network, how to evaluate IIPP forms with COMFAR and PROPSPIN.

E. China strategy for foreign investment in the present situation of worldwide economic globalization

The recent global financial crisis has made people fully aware that today's economies are increasingly independent and that economic globalization is becoming an increasing reality. Economic globalization is a worldwide industrial restructuring led by developed countries with transnational corporations as the central force of commerce.

China should carefully compose its strategy of participating in this process, coordinating its opening up and according to the development of its national economy. This statement was made by Mr. Long Yongtu, Vice Minister of the Ministry of Foreign Trade and Economic Co-operation, which appeared in an article in the "Guangming Daily" newspaper and reported in "China Daily" on Saturday, 7 November 1998.

The evaluation team had the possibility to meet Mr. Long Yongtu and he expressed his appreciation for the work of UNIDO and IPS-China. To attract FDI, a regional development of the SMEs is needed, particularly in the least developed provinces of China.

To allow foreign investment to play a bigger role in boosting its economic development, China should make full use of the ongoing global industrial restructuring in the light of its national conditions. First, as a developing country with the world largest population, China's economic development is improving, but various areas in the country are developing at different speeds.

To bring the China's comparative advantage of low labour costs into full utilization, more labour intensive industries with advanced technology should be encouraged to be transferred from developed countries to China. This will enhance the country's overall strengths, because of large economic gaps among different areas, China will retain its advantage of low labour costs for many years.

Second, as a large country, China must have an industrial structure that comprises new and advanced industries. While developing labour-intensive industries, China should also develop its own capital and technology-intensive industries by absorbing foreign investment, especially cooperating with transnational corporations with strong capital and advanced technology.

According to Mr. Long, China should open wider to the outside world to develop itself into an overseas production base for transnational corporations, a well established link in their international production chain and also an important part of their global market. Only when the interests of transnational corporations are closely

linked to that of their joint ventures in China, they will take the initiative to provide the newest technology and management, which will help the development of China's new technology industries.

The globalization of the industrial worldwide production has greatly changed the traditional division of the international cooperation. In view of efficiency and costs, developed countries dominate the high-tech and high-added-value link of production, leaving to the developing countries the labour intensive and low-added-value links of production.

Since China is still a developing country and employment is of vital importance, it is necessary to develop labour intensive industries, however, also industries with high-tech component should be expanded.

While encouraging local enterprises to develop cooperation with foreign corporations in partnership and investment, the State should also take an active role in global and regional economic cooperation, formulating investment rules and creating a risk-proof domestic economic environment.

III. PROJECT IMPLEMENTATION

A. *Budget*

The budget of the Office for the period 1 January 1996 to 31 December 1998 was spelled out in Annex B of the agreement establishing IPS-China.

The detailed financial status of the project at 30 September 1998 reports the present budget situation. (Annex IV)

It can be noted that the financial status is sorted in three different allotments:

N status in convertible currency (TC/GLO/95/091);

N status in non-convertible currency expressed in US\$ (TN/GLO/95/091);

N status in non-convertible currency expressed in YRMB (TN/GLO/95/091).

The project document TC/GLO/95/091 is revision E, total budget US\$29,056. The project document TN/GLO/95/091 is revision G, total budget US\$ 127,764 at rate US\$1 = 8,28 YRMB.

So far, the expenditures are within the limit of the budget and it results that some local staff posts foreseen in the original budget have not been filled.

B. *Delegates Programme*

The evaluation team recommends in the next budget to arrange some provisions for the delegates programme.

The delegates programme is understood to be, at least in part, an investment promotion training. The choice of the countries of origin of the delegates is in accordance with the IPS's strategy to focus on those countries which are likely to meet the interest of the Chinese enterprises.

In the case of China the delegates programme could have a double function because it could be used also to place Chinese delegates in developing countries which are targeted by the Chinese investors. The main characteristics of the programme is to have in IPS a national of a developing country of potential interest for Chinese entrepreneurs. This person, generally coming from a Development Agency or Institution related to industrial development activities in his/her country, will have the knowledge of the local language, institutional structure and of the local business climate. To sum up, the inclusion of the delegates in the Office's budget allows to obtain direct information on important economic and industrial issues of the country of origin or of the country of assignment for Chinese delegates sent abroad.

The basis objectives of the programme are:

- N to strengthen investment promotion through the familiarization of the delegates in the techniques and tools of investment promotion of IPS-China;
- N to promote industrial projects from the delegate's country among potential Chinese investment partners; and
- N to promote industrial projects involving transfer of technology from China to the country of assignment in the case of Chinese delegates sent abroad.

The major tasks of IPS China during the stay of the delegate at the IPS are:

- N informing appropriate institutions and enterprises in China about the delegate's presence and inviting to make use of the services offered;
- N promotion in China of the project proposals coming from the country of the delegate;
- N serving as focal point in China for business people of the country of the delegate wishing to get in touch with Chinese institutions or enterprises, establishing appointments or preparing programmes for visits; and
- N informing the country of the delegate periodically on aspects relevant to industrial cooperation in China.

The programme gives the opportunity to host delegates of developing countries where the Chinese cooperation is weak and can then complement the bilateral cooperation.

Several Chinese have already served as delegates in some IPS offices of industrialized countries during the last years and their work has been greatly appreciated.

It may be useful to note that the costs of the delegates could be sponsored also by other institutions like provinces, districts or local governments in both ways: for Chinese delegates going abroad or for nationals of developing countries going to China.

The duty station of the delegate could be also at one of the 13 focal points/stations established in China, in case a province is particularly interested in establishing tight links with the country of the delegate.

Of course in this case the sponsoring institution should add to the costs of the delegate the 10% flat rate for the UNIDO administrative support costs.

C. *Activities*

As explained in the previous chapter the majority of the activities is performed through the delegation of these tasks to the four service centres.

i) Information dissemination

The information disseminated by IPS China regarding investment promotion can be divided into:

N general information regarding foreign investment in China and in targeted developing countries, particularly in countries where Chinese Investment and Trade Centers are established:

Cameroon, Egypt, Mozambique, Lebanon, Gabon, Guinea, Ivory Coast, Mali, Nigeria, Tanzania and Zambia;

N Individual project information, regarding opportunities in China and in developing countries.

On the average the Office receives yearly around 100 IIPP forms from UNIDO headquarters and included them in the China electronic network, in addition, project proposals received from other sources are also inserted in the network. During these years, the majority of the proposals were coming from Lebanon, Saudi Arabia, Peru, Guinea, Zimbabwe, India and some other African countries. The number of responses seems low and this can be expanded because: the Office has not yet established a system of follow up; the enterprises getting information from the network and how they are using the information is not known; and, finally, as usual all over the world, the enterprises concluding agreements following the information obtained through the IPS are not willing to admit the results being afraid to be charged with some commission fees. This reluctance from the part of the entrepreneurs to disclose the positive results disappears only after years of cooperation and trust in the IPS activity.

ii) Advisory functions, promotion of business contacts and match-making.

These activities are directly performed by the stations under the general supervision of IPS-China and the specialized support of the service Centers. The local governments and associations visited by the evaluation team expressed appreciation for the work of IPS because through its assistance they:

N obtained more information on business opportunities and international cooperation;

N obtained assistance in contacting foreign enterprises, both for inward and outward partnership cooperation;

N gained experience in on-line electronic information, also among Chinese companies and institutions. The extension of the country and the limited level of diffusion of the information within China for institutions and enterprises outside this network have to be taken into account;

N received training in investment policies and practices, analysis of investment opportunities, feasibility studies, utilization of COMFAR;

- N were able to prepare industrial investment project profile forms;
- N were invited to participate in investment fora, presentation tours and seminars abroad; and
- N had the opportunity to be contacted by foreign companies and to conclude afterwards important contracts.

The IPS Office advises and supports the creation of an adequate channel for Chinese entrepreneurs to get adequate support and clearance from relevant government and financial institutions when making overseas investment.

The Office acts as a coordinator to integrate all the authorities in one-stop clearance body.

One of the priorities of the Office is to organize in a rational and integrated framework the needs of the Chinese outflow investment so to put together into one board all the authorities.

In China, there are three kinds of industries clusters as far as foreign investment:

- N Industries in which overseas investment is encouraged;
- N Industries in which foreign investment is restricted; and
- N Industries in which foreign investment is forbidden.

This list was provided by IPS-China and is shown in Annex VII.

In the annual report of the Office are indicated the Chinese delegations from various provinces which received IPS assistance in their investment promotion missions abroad. In 1997 and 1998 sixteen delegations were assisted, with all together over 200 Chinese participants.

The missions include participation in investment fora such as UNIDO Intechmart, BORITEC, International Technology Transfer Exchanges and international fairs.

The IPS China office has also provided assistance in organizing the investment promotion tours for delegations from industrialized and developing countries to China. Among the developing countries in which delegations of Chinese entrepreneurs were assisted by IPS we can list Mozambique, Egypt, Guinea, Zimbabwe, the Philippines and Sudan.

iii) Management and backstopping

The Office is well managed, the distribution of duties is well defined and the evaluation team had the opportunity to remark that it operates with satisfaction of the counterparts internally and abroad. The Office is taking promotional initiatives to fulfill its tasks in relation to the industrial environment. Of course, in analyzing the achievements, it has to be considered the extension of the national territory, the economic and technological imbalance between the provinces and the fact that it is only twenty years that the country has opened itself to the outside world.

Image building activities includes preparing and distributing brochures and newsletters, holding briefings, engaging in media relations and advertising. This is what is done by the Chinese local government authorities together with investment promotion and investors servicing. However, in many cases these activities are not very effective or represent duplications if they are not integrated and under a centralized supervision. This is exactly the catalytic role of IPS-China to render more effective the promotional work of the local governments and Chinese partners in general and to credit the UNIDO's network comparative advantages.

IPS-China assists in training staff of local stations, provinces and other institutions on utilization of computers for feasibility analysis, project profiles screening, pre-appraisal information system and electronic information dissemination such as China's investment climate, legislation and incentives, approval procedures and formalities required to conclude an industrial cooperation agreement with local partners.

The Office during the three years of operations assisted several fact finding missions of other IPS Offices (Austria, France, Italy, South Korea), investment promotion agencies, other UN organizations and international institutions.

In three years IPS-China was requested by the local authorities to organize fifteen investment promotion seminars in various provinces of China with hundreds of participants.

The Office has established a network for cooperation and distribution of the information that did not exist before.

The targeting of countries for potential investment activities is done according to the requests of the local Chinese partners, the objectives of the Chinese policy making organs and the requests received from UNIDO.

The responses of the institutions and local government authorities interviewed have been positive regarding the information and the services provided by the Office.

Headquarters Vienna is continuously informed on the activities of IPS-China and IPC/ITP receives the periodical reports on the operations implemented (work plan, back to office mission reports, periodical reports, annual activity report).

The Office maintains contacts with a number of staff in UNIDO in the Investment and Technology Promotion Branch in connection with the promotion and participation in investment fora all over the world. There are also contacts with other parts of the UNIDO Secretariat for country specific information and particular technical assistance projects.

The Head of IPS China has direct contacts with the other IPS regarding organization of specific investment promotion actions.

iv. IPS-China and integrated services in relation to UNIDO Business Plan

The development objective of UNIDO is to support developing countries and economies in transition in

their efforts to accelerate socio-economic development. The Business Plan of UNIDO requests field offices to provide support in the delivery of comprehensive packages of integrated services through interdisciplinary team-building.

In this regard IPS-China, as operational field office of UNIDO, is elaborating sets of integrated services according to China's specific condition.

The approach taken has been to identify a comprehensive set of services which can help China and partner countries to solve their development problems in view of investment promotion and technology transfer in the changing global economic environment. These services have been adapted and customized for application in region-specific contexts of China. It is ensured that each service package responds to the requirements to promote a competitive economy, create productive employment and protect the environment. Each service package addresses at least one of these three dimensions taking at the same time into full account the implications for the other two dimensions.

The specific components within each package of integrated services are drawn from a "tool box" of established UNIDO modules which are relevant for several of the service packages.

The packages of integrated services embrace activities in connection with investment promotion and technology transfer. They also serve as a promotional instrument to demonstrate - to both recipient countries and the donor community - the value added of UNIDO in addressing complex; multidimensional industrial development problems, and to other multi- and bilateral agencies the value of UNIDO as an active development partner.

The clustering of services under IPS-China priorities are:

- N Investment Promotion Governance
- N Industrial Technology Transfer & Export Capacity-Building
- N Industrial Information Networking
- N International Industrial Partnerships
- N Quality and Certification for Industrial Competitiveness

This clustering is based on the primary objectives of the different UNIDO and IPS-China's needs and services. It is important to stress that all services attempt to cover the priorities of UNIDO Business Plan.

- v) Relevance, sustainability and impact of the Office

IPS-China is considered by the Chinese authorities and the institutions interviewed as a valuable window to international business opportunities and as a resource centre for assistance on matters regarding training and information on international investment and partnership cooperation.

Moreover, the Office fulfills the function of liaison between Chinese authorities and entrepreneurs, UNIDO and other international institutions complementing, through its international links, the other Chinese infrastructure operating in the sector of promotion of international partnerships.

The sustainability of the Office depends entirely on the financial contribution of Chinese authorities. The evaluation team is of the opinion that the present financial arrangements should be maintained, reviewing some budget items in the light of the recommendations of the evaluation.

The impact of the Office in terms of comparative values cannot be quantified because, as already mentioned in previous chapters, the agreement did not establish any indicator. However, the evaluation team had the possibility to verify a very positive achievement of the Office in the structure set up, the establishment of the focal points/stations, the training given to hundreds of Chinese involved in international investment activities, the systematic distribution of the international business opportunities and the assistance given to entrepreneurs for both in- and outward flow of investment activities.

Tangible results in term of value of projects promoted, concluded or operational are not known, because the Office has not established a system of follow up for the verification of the match-making promoted.

Investment promotion work requires a lot of time and effort to identify and negotiate business opportunities and only in few cases achieves positive results. On the other side the assisted entrepreneurs or investors do not like to disclose their achievements.

The enhancement of technological innovation capabilities and the provision of information for and on industry in China in the framework of the south-south economic and technical cooperation is another positive achievement of the Office.

Technology transfer growth requires that foreign and domestic manufacturing enterprises considerably improve their production process and product range. Developing countries are weak in this respect. At present in China the national strategy to embark on the promotion of outward investment is not yet well defined. South Korea, Singapore, Hong Kong and Taiwan have been pursuing outward investments vigorously to expand their markets and relocate labour intensive investments.

In the framework of the readjustment of China's aid policy to other developing countries, the Chinese authorities recognize to IPS China a coordinator role in this context in order to design strategies that stimulate technology transfer and outward investment to other developing countries. It is important for Chinese enterprises to have coordination, advice and support through an adequate channel to get timely and adequate support and clearance from relevant government institutions and financial organizations when making overseas investment and technology transfer.

Thanks to its established infrastructure IPS China is in a position to collect and disseminate industrial statistics in China. The data gathered from its four service centres and the 13 local stations are a reliable source of information to serve basic investment promotion activities.

IPS China provides the networking support to maximize the impact of the services provided by the four centres and facilitate their availability to institutions and small and medium enterprises in particular.

Identification, formulation and appraisal of partnership opportunities is an important task IPS China fulfills. Through its counterpart institutions IPS China identify entrepreneurs with a potential to attract foreign partners, as well as those demonstrating innovative capacities, and assist them in formulating viable opportunities.

A portfolio of viable opportunities is a necessary condition to attract flows of investment and technology. Once the foreign and national enterprises have been successfully matched a lot of work has still to be done to complete the partnership. UNIDO and IPS China can assist the partners through the final phases of the process, formulating an agreement; negotiating its terms; undertaking additional economic studies; preparing surveys covering market, production, choice of technology and equipment; assessing financing sources, etc.

IV. CONCLUSIONS

N IPS China represents an important point of information for Chinese and foreign investors looking for commercial opportunities in China.

N The IPS Office China is financed through the allocation of a specific budget out of the Chinese contribution to the Industrial Development Fund (IDF) and it is regulated by an agreement signed by the Chinese Government and UNIDO at the end of 1995.

N The insufficient knowledge of international business background among the Chinese entrepreneurs, the lack of training opportunities and the scarce information regarding the possibilities of international industrial partnerships is the main argument for the establishment of IPS China.

N Twenty years of reforms and opening-up to the outside world have transformed a centrally planned Chinese economy into an increasingly market-oriented system, which is developing and becoming stronger as it integrates with the international market.

Development needs investments which go together with transfer of technology, therefore, IPS China can play an active role in a country still with enormous unexploited capacities of cooperation and industrial development, both for the internal and international market.

N Thanks to the UNIDO framework the IPS office in China can be part of an international network already established all over the world in developed and developing countries.

N IPS China does not charge for its services. Generally in China people think that UN organizations have to provide their services free of charge. Therefore, when the Office is organizing some activities for the local governments or enterprises, they sometimes cover the costs arising from transportation, printing materials for workshops, hiring equipment, etc. But they do not make cash contributions to the IPS China budget. Moreover, should they pay for the services received, they would need a formal receipt and IPS cannot issue such receipts due to its diplomatic status.

However, the four service Centres, being independent, charge for the services rendered. For instance China Network charges each participating client US\$ 2,000 per year as subscription fee for 16 homepages design and the development of the website.

N The office is a valuable window on international business opportunities, for in-ward and out-ward flow, which otherwise would not be easily accessible for Chinese entrepreneurs, both at Government and private level.

N Due to the establishment of four Centres (based in already existing institutions), to which IPS China is giving the necessary coordination and policy guidelines, the Office can serve all over China the activities needed to enhance the cooperation with the Chinese institutions, both for in- and outward investment flow.

On behalf of IPS China, the four Centres cover the following functions:

- a) Assistance for overseas investment guarantees and financial approvals for Chinese entrepreneurs.
- b) Appraisal and feasibility analysis of industrial partnership projects, in both directions, applying UNIDO methodologies.
- c) Diffusion of investment opportunities information through the on-line presentation of a homepage on Internet in the covered provinces of China.
- d) Assistance and financial advice to foreign and Chinese investors interested in investment in China or to buy shares in Chinese companies. The evaluation team was told that presently there are 876 companies on the Chinese Stock Exchange.

N These four Centres, like all the focal points, before establishing memoranda of cooperation with IPS, first need the approval of CICETE on behalf of the Chinese Government.

The memoranda of cooperation specify that IPS China provides technical guidance in supervising the operations, ensuring that they act according to the government regulations and UNIDO mandate. It is specified that they are not UNIDO offices but counterparts of IPS China in investment promotion and technology transfer. Therefore, they do not enjoy diplomatic status and no UNIDO should be used in their letterheads and business cards.

N At downstream level the activities of the IPS over the country are presently implemented through the existence of 13 focal points/stations established in various provinces. It is expected that during the next year the IPS office with the support of CICETE will extend the coverage to two additional provinces.

N Also the focal points/stations need first the approval of CICETE and then a memorandum of cooperation is prepared with IPS China. Since all stations are associated with the investment promotion authorities of the local governments, the Office issues a letter to the local government indicating the regulations for running the stations. Most of the stations are run directly by the local Foreign Trade and Economic Cooperation Committee (the local MOFTEC) of the city or the province concerned.

IPS China is responsible for the technical guidance and the operational mechanism, while the local government provides directly the assistance in terms of financing mainly through in kind contributions, such as providing office space, salaries of staff, budget for communications, office equipment, transportation, etc.

The stations do not enjoy diplomatic status and they just perform the work assigned by IPS on its behalf.

The memorandum specifies also that IPS China has no binding agreement with the local government and just the operational activity is specified.

Usually each station has 3-4 full time staff.

Investment promotion is considered in China as a government function, so each city has an office designated for this purpose.

The stations are set within the government framework and get the support of the local government.

The stations operationally bear responsibility for:

- R the accuracy of the information provided to IPS China;
- R the screening and identification of the inflow project profiles. Some stations visited provided a portfolio of bankable projects indicating the investment project proposal with data and background;
- R holding, with IPS assistance, training workshops on inward and outward investment;
- R mobilizing each year the participation of the Chinese companies in UNIDO Intechmarts. Helping in obtaining the necessary approvals;
- R assisting foreign entrepreneurs willing to cooperate with Chinese entrepreneurs;
- R assisting local entrepreneurs in their efforts of overseas investment and technology transfer.

IPS China carries out training programmes with the stations on UNIDO methodology, enhancement of modern technologies in communication and operations issues regarding inflow and outflow investment.

The Office organizes also meetings with the stations to exchange experiences on investment promotion practices.

- N According to some recent estimations there are presently in China more than 10 million registered SMEs and probably non-registered small business are three times more.
- N The lack of knowledge of investment laws and rules in developing countries for Chinese investors and for foreign investors in China is a serious drawback for starting international industrial and commercial cooperation.
- N The big size of China, the internal structural imbalances and the relatively short exposure of Chinese entrepreneurs to international industrial cooperation makes imperative for China the

presence of an IPS office operating at country-wide level through the establishment of focal points in the provinces.

- N The rapid increase of the Chinese international industrial cooperation in both directions (inward and outward) during the last decade warrants assistance and promotion work, utilizing the comparative advantages available in the UNIDO global network.
- N The evaluation team has ascertained that Chinese public authorities and the business community are very eager to be more exposed to international industrial cooperation activities and that specific training for this purpose is needed by Chinese entrepreneurs and institutions.
- N IPS China is conducting its operations at policy level, while the established four Centers operate at project level.
- N The Office fulfills not only investment promotion functions, but has also a general liaison role to facilitate the contacts between Chinese companies/institutions and UNIDO.
- N IPS China receives yearly an average of 100 project profiles from the HQs and all for partnership in developing countries. From developed countries IPS China receives mainly requests for technology transfer, investment proposals and industrial partnerships. The wish of the Office is that UNIDO HQs assists in establishing contacts and business alliances with financial institutions, industrial associations and IPAs.
- N IPS China does not handle directly projects outside HQs control. IPS acts only as "match-maker". When local sponsors and potential investors get in touch, both sides are reluctant to cooperate further with IPS, since they are afraid to be charged with commission fees.
- N The existence of the IPS China is still in its starting phase, considering that the project started three years ago and that the surface of China is nearly 10 million square kilometers (nearly like all Europe) with a population of over 1.2 billion. The Office has planned to extend its coverage during the next years.
- N The evaluation team considers that, although limited to only some provinces, nonetheless the Office has contributed considerably to increase the awareness of selected Chinese institutions on the industrial cooperation opportunities abroad.
- N China's foreign trade, with US\$ 325 billion last year, was the tenth largest worldwide. With US\$ 45.28 billion in actually implemented foreign direct investment last year, China is the world's second largest recipient of foreign investment, second only to the United States.
- N The annual workplan, the periodical quarterly reports and the annual report on the activities undertaken allow an effective monitoring of the Office. IPS China considers that the new organizational structure has negatively influenced its habitual working relations with HQs due to the fact that several staff members have been replaced.

N The UNIDO service modules have been circulated to the Chinese focal points for comments and the Office has also prepared its own portfolio of services regarding the possibilities offered in China.

N The relations with the office of the UNIDO Field Representative are periodical and constructive. On the administrative side IPS China is completely independent. On average there are two meetings per month to discuss technical issues as participation in investment meetings or presentation of papers for seminars.

N IPS China has close relations with other IPS offices, but mainly with those where Chinese delegates were assigned. Their relations are at project level and to promote investment promotion missions.

Relations and contacts with International Technology Centres are nearly non-existent. Early this year, IPS China contacted ICS (International Centre for Science and High Technology) requesting assistance to hold a seminar in Beijing in 1999. So far no answer has been received. Relations with IPAs (Investment Promotion Agencies) are on the occasion of Intechmarts for information on projects or whenever there are Chinese delegations visiting the country of the IPA. Normally IPS China provides the address of the IPA and then the Chinese delegations or enterprises get in touch with the IPA directly. IPS China has contacts with national and regional Chinese institutions dealing with technology exchange and investment promotion.

IPS China has no focal points inside private industrial associations. Good working relations have been established with the local bureau of rural enterprises in charge of private industrial development, with China International Public Relation Association, All China Federation of Industry and Commerce, China Industry Information Association.

N IPS China has working relations with the China Import and Export Bank to support Chinese outward investment. The General Manager of the International Department of the Bank, Mr. Zhu Wengen, had been assigned as delegate to IPS-Zurich and therefore is well acquainted with the structure, the services and possibilities offered by the IPS system. Representatives of IPS China, the Bank and of the relevant departments of MOFTEC hold periodically meetings for the coordination of the support given to the outward investments. All Chinese investment abroad has to be approved by the government authorities and the feasibility and financial assessments prepared according to the IPS methodology are considered as a guarantee for an effective pre-screening.

N The evaluation team considers that the Office is well managed and is operating in line with the UNIDO rules and guidelines. The Director of the Office has foreign experience and specifically several years as resident in developing countries, having served abroad for the Chinese Foreign Service.

V. RECOMMENDATIONS

N Based on the positive findings of the evaluation and considering the necessity of an office like the IPS in a rapidly evolving economic and industrial context, the mission recommends that the IPS China be extended for another term.

N Considering that in 1993 China has included in its Constitution the principle of the market-oriented economy and it is still in the transition from a centrally organized economy, the "raison d'être" of the IPS Office in the framework of the existing UNIDO framework is fully justified and needs to further enhance its promotion and information role in other provinces of China.

N The agreement for the new term of the Office should continue under the present financial arrangements, however, adjusting the budget according to the recommendations of the evaluation provided these are accepted by the Chinese Government and UNIDO.

N The next agreement extending the duration of the Office should include some indicators of performance for outputs achieved, in order to allow verification and quantification of the results achieved against well defined and formulated expectations. The annual workplan of the Office should indicate some benchmarks for the outputs to be produced, describing precisely the activities to be undertaken.

N IPS China should establish a system of follow up to be able, at least in part, to check how many match-making were successful and how many agreements concluded became really operational activities.

Investment promotion work requires a lot of time and effort to establish an adequate network structure, identify, prepare and negotiate business opportunities and only in part of the activities promoted positive results are achieved. Ascertaining some successful stories will show the positive results achieved and this can bring additional means of work, in terms of enthusiasm, reputation and financial support.

N IPS Office has to assist and further strengthen its activity for foreign business people investing in China in implementing as far as possible in all the national territory the following:

- 1) Dissemination of information on the investment environment and assistance in organizing the match-making of the partners.
- 2) Assistance in the preparation of business plans or feasibility studies utilizing the UNIDO methodology and preparation of industrial investment project profiles (IIPP) forms.
- 3) IPS China should also assist in submitting the agreement to the relevant Chinese departments for approval and in carrying out the registration procedures for the establishment of the joint venture when the two sides of the partners sign an

agreement for the establishment of the project.

N Jointly with other Chinese institutions, the IPS should in organizing training programmes for people operating in the banking sector, both at the state and provincial level. Chinese professionals operating in the sector of industrial financing need training in assessing the viability of projects and partnerships. Knowledge of financial analysis among bankers has also to be upgraded.

N Efforts to improve the knowledge of English at managerial level have also to be done. The team has noticed that the level of language knowledge was poor and the interpreters utilized were young and with limited knowledge of the subject, therefore, facing problems in translating technical terminology.

N Particularly for the people operating in the focal points/stations training on international business practice is needed, together with improvement of the English language. The subjects to be specifically covered could be:

R screening and diffusion of business opportunities

R training on project appraisal and elaboration of business plans

R investment policies and strategies

R promotion and improvement of institutions working in this sector to better publicize the investment opportunities

R training on Internet tools for better use of investment promotion approaches.

N IPS China has no provisions in its budget for the delegates programme, which is a facility existing in other IPS offices to develop investment activities. The evaluation mission recommends considering the inclusion of this facility in the next budget. The programme could have a double function for China:

R to place delegates from developing countries (mainly Asia and Africa) in China, and

R to place Chinese delegates in developing countries, which are targeted by the Chinese investors.

In selecting the delegates, the evaluation team recommends paying attention to the specific experience of the selected person and to his/her going back at the end of the assignment in a position dealing with investment promotion and international cooperation.

Moreover, it could be taken into account the suggestion that the delegate takes to the assigned duty station a portfolio of screened bankable projects to be further promoted, in order to make his/her stay fully profitable.

N The salaries of staff employed at IPS China should be paid, utilizing the same updated salary scales which are utilized for the salaries paid to the national staff, both in UNDP and UNIDO offices in China. Different salary scales utilized at the same duty station to pay staff serving at the same level is not the UN policy and does not enhance staff morale. The agreement between the Chinese Government and UNIDO should establish the application of the same salary scales applied to the other UN personnel in China in equivalent categories, grades and steps.

N It should be verified whether China Investment Network Centre can utilize UNIDO's name and logo in the premises and in the business cards, because the memorandum of cooperation with IPS China stipulates that they are not UNIDO offices, but only local counterparts working under IPS guidelines and applying UNIDO methodology. The premises and the staff of the service centres do not enjoy diplomatic status and are not part of the UNIDO administrative structure, they are just cooperating with IPS China, performing some tasks on its behalf.

N All China Investment Service, one of the four service centres, performing functions delegated by IPS China did not know the existence of the website and consequently of the information electronically distributed. It is recommended that IPS China organize a briefing session for the organizations participating in its structure and that all the service centres are connected to the electronic network.

N The cooperation among the IPS offices belonging to the network should be strengthened, because at the level of IPS China there is a certain disappointment for the assistance received by the majority of the other IPS offices regarding the distribution of Chinese project offers.

N Since the IPS China claims that the other IPSOs are not very supportive when they have to act on requests for assistance and cooperation coming from the IPS China, it is deemed necessary that UNIDO Headquarters assures a more effective control on the flow of information in the IPSOs network. It has also been reported to the evaluation team that the information emanating from other Investment Promotion Agencies (IPAs) is received in an unsatisfactory way and IPS China receives the information on opportunities in developing countries mainly through the Chinese commercial delegations abroad. Several of the project opportunities obtained in this way are subsequently publicized by IPS China through its network.

N IPS China should continue and expand in organizing training and seminars on international negotiations for transfer of technology, BOT, project financing, joint ventures, licensing, etc.

This training should be aimed at people working not only in local stations (focal points), but also for persons engaged in enterprises, banks and government institutions dealing with international cooperation.

For the time being the budget of the Office does not foresee any budget line for this purpose. Staff of the other IPS offices could give lectures in these seminars, containing in this way the

costs and a participation fee could be charged to the participants.

- N As already mentioned, the network of the focal points (stations), which are presently 13, should be further extended to cover more provinces. Some indicators and objectives should be indicated in the new agreement to allow a better and more precise assessment of the operations undertaken.

Among the focal points it is strongly recommended to consider the establishment of a station in Hong Kong. Due to its special status and long practice of business with foreign investors, Hong Kong is an ideal bridge between the western world and China.

The mission visited a potential focal point in Hong Kong indicated by IPS China. Although not having the possibility to assess the specific technical and professional qualifications of this office, in the light of the discussions held, it is of the opinion that a station in Hong Kong can be very useful to assist in clarifying the laws and the bureaucratic modalities which sometimes create obstacles in business between China and the western world.

- N The evaluation team was informed that in 1999 the Chinese translation of COMFAR will be ready. On the basis of the limited knowledge of English among the Chinese users it is recommended to follow up this matter in order to ensure that the Chinese version of COMFAR will be available next year. This will help considerably in the utilization and diffusion of the software in China.

VI. LESSONS LEARNED

From this joint in-depth evaluation the following lessons were learned:

N Investment promotion work requires time and efforts.

First, a structure for the dissemination of the information and of the partnership opportunities has to be established. Second, people dealing with the matter have to be specifically trained and knowledge of English is an essential factor. Third, business opportunities have to be identified, screened and negotiated and only in few cases positive developments are achieved. Fourth, a continuous monitoring of the activities of the Office has to be carried out by the Donor country and by UNIDO HQs.

N The appropriate selection of the Head of the Office in terms of experience in industrial economics and investment, corresponding educational background and direct experience in technical assistance cooperation with development countries is essential in the initial phase of operation of an IPS, when the structure and its functioning have to be established in accordance with the administrative and financial exigencies of the host country and the rules and regulations of UNIDO.