Great Leap Forward – or Backwards?

Environmental and Social Impacts of the Finnish Trade with China

By Ge Yun

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This report was prepared for the Finnish NGO Campaign to Reform the Export Credit and Guarantee Agencies, Finnish ECA Reform Campaign. It has been funded by the CS Mott Foundation, a private philanthropy of Flint, Michigan, USA. The central concern of this report is to provide an overview of impacts imposed by Finnish trade activities on China, given the fact that Finnish export credit agencies (ECA) strongly backup Finnish companies for their projects in China.

The conduct of the report was supervised by an expert group, set by the steering committee of the Finnish ECA Reform campaign in Finland. I would like to thank all those who gave me comments on the weakness of this report, like Ms. Hanna Matinpuro and Mr. Pekka Salminen. My very warm and sincere thanks are given to Ms. Tove Selin, the coordinator of the Finnish ECA Campaign, for her support and encouragement in every way. I would like to thank Miss. Ho Yueching for her help in translation of some Finnish document.

The system to write Chinese names is the surname first, the middle and first names second. Finnish and other western names are written as normally. The Chinese names (people, places, company names etc) follow the official Pinyin transliteration system, therefore the capital of China is Beijing, not Peking.

Mao's goal was an independent, self-reliant country.
The biggest international ECA supported project in China is the Three Gorges Dam. It is supported by six Western ECAs (German Hermes, Swedish EKN, Swiss ERG, Canadian EDC, Spanish CESCE, and French COFAC) and the ECA support is valued up to USD 75 billion. The project is supposed to displace 2 million people. The second biggest project is export of aircrafts for 16 Chinese companies (Hermes, COFACE, US Exim Bank, British ECGD), USD 8 billion. Other big projects are Nuclear Power Plant Ling Ao 2/Daya Bay 2 (USD 4 billion, COFACE, ECGD), Shangdong Coal Power Plant (USD 2.2 billion, ECDG), and Nuclear Power Plant Qinshan, phase III (2 billion, EDC, Japanese JEXIM, USEXIM, ECDG). This list reveals at least one thing; the ECAs normally support big unsustainable power projects (large scale hydro, coal and nuclear) in developing countries. The biggest Finnish ECA funded projects in Asia are of course the pulp and paper mill projects in Indonesia (such as PT Tel, USD 1.54 billion by Hermes, EDC, EKN and Finnish FGB, that is Finnvera; and Indah Kiat Pulp 9 project, 500 million by FEC, EKN, FGB, Danish EKF, EDC and US Exim). The most relevant for this China study is the notorious APRIL Riau Andalan Pulp and Paper (USD 730 million, by FEC that is
Finnish Export Credit, EKN and Hermes) which provides the pulp produced from the wood originating in natural rainforest to the UPM-Kymmene paper mill in Changshu in Jiangsu province. (Fried 2003)

Though geographically, China and Finland are only separated by Russia, news and reports about China have been more and more frequently shown on Finnish television and newspaper, only after Finnish companies have dabbled extensively in China for one decade. Now investment and bilateral trade are reaching levels implied by the size of the two economies. China has become the most important market in Asia for Finland and Finland is the largest Nordic trading partner of China. Not only big Finnish corporations such as Nokia, Metso, Kone, UPM-Kymmene, Stora Enso, Kemira, but also small and medium-sizes companies like KWH, Oilon, Fimet, and Savcor have opened up production plants in China.

How did Communist China change from a planned economy to an embrace of market forces? How did the emphasis on self-reliance policy give way to the opening-up policy in an all-around way? What environmental expenses do the Chinese pay for the rapid growth rate? What is the present scale of bilateral trade after the first trade transaction of 4,000 tons of newsprint from Finland to China in 1951? What industrial sectors are the Finnish investments involved in? What are China’s guiding policies and laws on trade activities? How do Chinese environmental policies and laws governing trade activities? What are the scopes of Chinese environmental impact assessment (EIA)? How do Finnish companies behave in China? What impacts do Finnish trade activities bring to China?

Finnish national export credit agencies (ECA) Finnvera, Finnish Export Credit and Fide Ltd play a very significant role in promoting the export of Finnish goods, technologies and services by providing Finnish companies government-backed loans, guarantees and insurance to actively develop China’s market. In addition to Finnish direct investment from the private sector, the loan
portfolio of concessional loans to China based on the bilateral agreement between Chinese and Finnish governments has witnessed a sharp increase since it was signed in 1986.

The importance of environmental, social and human rights considerations in the operations of public financing institutions is rising internationally. Foreign direct investment (FDI) through export credits and guarantees and concessional loans should be instrumental to sustainable development in developing countries and countries with economies in transition. Such commitments, however, are far from universal. Increasing competition and tough-minded management styles often make maximizing profit the overwhelming objective. While referring to commercial confidentiality, the Finnish ECAs refuse to disclose information on the projects they fund and guarantee. Neither Chinese nor Finnish public have access to information on projects funded and guaranteed by ECAs. Chinese public, especially local affected people have very little knowledge about ECAs in general and its obligation of environmental consideration.

When the ideology of pursuing the large quantity and fast growth of trade activities including export and import, FDI, foreign loans and so on is prevailing in China, consumer and environmental interest may get sacrificed. Chinese environmental policies and regulations function in reviewing and approving the establishment of joint ventures and foreign-invested companies in China; and in implementing EIA and “three simultaneity action”.

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1 The practice of “Three Simultaneity Action” (“San Tongshi”) means that installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project simultaneously. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement. (Article 26. Environmental Protection Law of the People’s Republic of China, 1989)
1.1 Purposes and Methodology of the Study

The purposes of the study are to demonstrate present situation of Finnish trade activities including import & export, direct investment in forms of joint-ventures, Finnish wholly-owned enterprises, Sino-Finnish cooperative enterprises; Chinese policies and laws in fields of foreign trade, FDI, labor and social security; to investigate and analyze Chinese environmental policies and laws concerning foreign trade activities, especially how environmental impacts of construction projects’ are assessed; to illustrate operation of Finnish export credits and concessional loans toward China and their application of EIA in approving a project; to offer an overview of positive and negative impacts brought by Finnish trade activities; finally to provide recommendations to reforms of Finnish ECA and for coordinating trade and environmental policies for a sustainable development in China.

To obtain opinions and information from Finnish companies, I sent in early June 2003 eighty-four questionnaires to Finnish companies, which are actively involved in trade with mainland, China. Only five companies responded to my questionnaire, therefore not enough empirical data was available from Finnish side on issues of ECA support, environmental and social consideration in their projects in China.

Meanwhile, questionnaire and telephone interview were conducted with responsible offices of selected technology development zones, high-tech development zones and free trade zones in Shanghai, Jiangsu and Guangdong Province, where most of the Finnish production plants are clustered. The questionnaires were sent to administrative committees or departments in charge of Changshu Economic Development Zone, Suzhou Industrial Park, Suzhou New and High-technology Industrial Development Zone, Kunshan High Technology Industrial Park, Shanghai Waigaoqiao Free Trade Zone and Dongguan township government and department of environmental protection. No feedback was received Changshu, Suzhou Industrial Park and Dongguan (in Guangdong).

The framework for analysis is also based on Chinese guiding policies and legislature on foreign trade, FDI, environmental protection, labor and social security. Cases as ‘carrier of information’ are selected from public published documents, newspapers, internet and interviews.

1.2. Structure of the Study

Chapter 2 presents Finnish readers a very brief overview of the special context of China in the past two decades, which differentiates China from the other developing countries in Eastern and South-eastern Asia. Central accounts are given to China’s open-up policy, most concerned problems at present and environmental situation. Chapter 3 and 4 first look at the present trade relationship between Finland and China. Then I’ll concentrate on the Chinese guiding policies and legal aspects on foreign trade activities, labor rights and social security, environmental laws and rules, specifically concerned with Chinese EIA law and its application in practice. It is followed by the illustration and analysis of the positive and negative impacts imposed by Finnish trade activities on China. In the last chapter, I’ll make some recommendations for development.
2. China in Transition

2.1 China’s Trade with the Outside World in Retrospect – Success and Failure

Through much of its modern and contemporary history, China has been closed to the rest of the world. The Chinese emperor Qian Long (1736–1796) only allowed a limited number of foreign merchants to establish a seasonal base near Guangzhou (formerly Canton) in the late eighteenth century, from which they were allowed to trade with thirteen authorized Chinese merchant groups (Gong Hang). China’s first major experiences with European countries were unpleasant. To redress the negative balance of trade with China, Great Britain began selling opium to the Chinese. After the First Opium War (1839–1842), which was handily won by the superior British military forces, China was forced to sign unequal trade treaties with Britain and the pouring-in European powers as well as the emerging United States, and to open to the West–on the Western terms–economically. Chinese law was not enforceable against foreign interests on Chinese soil in the foreign-administered enclaves of the treaty ports.

Even the United States, which never officially had its own treaty port, demanded all the rights and privileges in China that had been accrued by the other Western powers and their citizens. This was established the international principle of most-favored-nation (MFN) status (currently the basis of GATT), which is defined as agreement by consenting states to grant each other equal access to their domestic markets. Thus U.S President John Quincy Adams (1767–1848, 1825–1829 as a president) praised England for fighting a just war for the “Christian precept” of open trade (Faust & Kornberg 1995).

After one century’s plagues of presence of foreign commercial domination, a weak political system, civil wars and Japanese invasion during World War II, the Chinese people felt more attracted to the Communist Party’s nationalism from the late 1950s through the late 1940s. When Mao Zedong proclaimed the establishment of the People’s Republic of China in 1949, one of his foremost goals was the establishment of a Chinese nation-state that was independent of foreign influence. The economy and the development of China under Mao from the 1950s to 1970s are characterized by the overly centralized planning systems, poor planning, and economic mismanagement.

In terms of China’s foreign trade system, it was placed under unified management, operation and accounting by the state. The national commodity import and export plans were drawn by the state. Given China’s low foreign exchange reserves at the time, trade policy restricted imports, as support was only provided for exports. Customs duties during this time served no purpose, as imports were limited to only those imports required under State plans (Brahm 1996). Cash trade and agreement trade were the two commonly used trade modes. By cash mode, the two trading parties settled their accounts one by one according to the terms of goods delivery and price level previously agreed upon. Larger transactions were usually concluded by the specialized Chinese import and export corporations. Agreement mode, named also as account trade was generally used in the bilateral trade with the Soviet Union and the East European countries in the 1950s.

While intensified ideological and territorial disputes caused deterioration of Sino-Soviet relationship in early 1960s, China’s economy suffered
enormously from the international embargo and isolation, which carried strong political implications for U.S.’s allies in the Western world. With no alternative, China had to emphasize its self-reliance, heavy industry and rely entirely on internally generated production.

Like other Nordic countries, Finland was among the first capitalist countries to establish diplomatic relationship with People’s Republic of China on October 28, 1950. The first barter trade transaction—4,000 tons of newsprint from Finland to China – was initiated in April 1951 through Kaukomarkkinat. In the fields of economy and trade, China, Finland and the Soviet Union signed a trilateral trade agreement in 1952. In 1955 China and Finland signed the Bilateral Trade and Payment Agreement, which specified the general trade volume for each year, including the quantity of some principal goods. Each transaction was entered in each other’s bank accounts, to be settled at the end of the year, with the balance to be paid in cash against the time limit specified in the agreement. It was the first one of its kind between China and Western Countries. Three years later Exchange of Notes on Reciprocating Most-Favored-Nation Status Regarding Tariffs and Navigation between two countries was signed. In 1960s the annual volume of bilateral trade between China and Finland was about US$ 16 million and grew to US$ 40 million in 1970s.

2.2 Let Foreign Things Serve China — A Rise of Pragmatism

After the death of Mao in 1976 and a short transition period following the end of the ‘Cultural Revolution’, a new pragmatic leadership under Deng Xiaoping emerged. In 1979, China instituted a guiding policy of ‘reform and opening to the outside world’ under Deng’s leadership, and the focus was shifted to modernization. Major efforts were made to reform the economic and political systems. As Deng put it, ‘When we cross the river, we must first feel the rocks to make sure they are secure, and then move forward taking one step at a time’. The socialism of modern China, moulded or still being moulded from the experimentation and fusion of socialist and capitalist mechanisms, represents a new economic model: China must follow its own path, borrowing selectively from other systems while retaining ‘Chinese characteristics’. Deng believed that China’s future depended not only on its joining the international economic system, which is based on marketplace capitalism, but also on actively participating in the different economic regimes that make up the global system, such as the World Bank, the International Monetary Fund, and the General Agreement on Trade and Tariffs, later World Trade Organization.

Deng first carried out reform in the countryside by introducing a system for contracted responsibility, releasing the energies of the peasants by allowing them to farm their own land and create rural industries. Private production and distribution of goods was first allowed in the countryside and then gradually extended to the city. Today in China, household production units can lease their land, and these leases can be inherited. In the past two decades or so, the Chinese countryside, under the premise of adhering to collective ownership, has taken the market economy as guidance, bravely broken away from the traditional system, and pursued a new mode for the realization of the collective economy under the market economy.²

² China 2002, New Star Publishers, Beijing, P82

There are already 30 million urban poor (7–10% of the urban population).
The outer facet of China’s economic reforms since 1978 has been China’s dramatic opening to outside investment and trade, led by the joint venture and foreign direct investment in China’s special economic zones, reversing Mao’s policy of self-reliance. To encourage foreign investment, in 1979, China introduced the Joint Venture Law, which permitted foreign investment in China, followed by the establishment of four special economic zones (SEZs) in 1980, which received various policy incentives. These were pockets of unrestrained laissez-faire dotting the coast, strategically positioned in Xiamen across the Straits from Taiwan, Zhuhai adjacent to Macao (Portuguese colony before 1999), and Shenzhen across from the heaven of laissez-faire, Hong Kong (British colony before 1997), the fourth SEZ, Shantou is located in Guangdong province too. In the late 1980s, Hainan Island was also declared an SEZ. In 1984, China further opened 14 coastal cities to the outside world. Starting from 1985 China listed the Yangtze River Delta, Pearl River (Zhuhjiang) Delta, South Fujian Triangle, Shandong Peninsula, Liaodong Peninsula, Hebei and Guangxi as the economic open areas, thus forming an open coastal economic belt. In 1990 the Chinese government decided to develop and open the Shanghai Pudong New Zone, and further open a number of cities along the Yangtze River, thus forming the Yangtze River Open Belt with Pudong as the leader.

Following Communist authority’s crushing down the student demonstration at Tiananmen in 1989, Western investment in China temporarily slowed down. By 1992, Deng Xiaoping’s famous visit to southern China signaled a renewal of economic reform and support for the “socialist economic market”. The policy of reform and opening-up was strengthened at the Fourteenth Party Congress in 1992. Additional provinces opened up new special industrial zones, in some cases providing even more advantages than those created in southern China. Since 1992 the Chinese government has opened a number of border cities and the capital cities of all the inland provinces and autonomous regions; set up 15 bonded zones, 47 state-level economic and technological development zones and 53 new and high-technology industrial development zones in some large and medium-sized cities. Consequently China has formed an all-round, multi-level, wide-ranging opening-up setup integrating coastal regions, border regions, riverine regions and inland regions.

“To further the opening-up policy in an all-around way and increase the quality of using foreign investment” was clearly articulated in the report of the latest Sixteenth Party Congress in 2002. More emphasis is given to expand commodity and service trade and attract more FDI.

Profound changes have come about in China since the country embarked on the policy of opening-up. Foreign trade plays an increasing important role in the Chinese economy. In 1980, the ratio of foreign trade to China’s gross domestic product (GDP) was only 12.6 percent. In 1990, this figure reached 30.4%, and it advanced to 39.5% by 1995. Total trade—exports and imports—rose from US$115.44 billion in 1990 to US$620.77 billion in 2002 (diagram 1).


In 2002 China started a develop-the-west campaign to balance the uneven development of
eastern coastal provinces and inland provinces. The western region includes nine provinces and autonomous regions, i.e., Gansu, Guizhou, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang and Yunnan, in addition to Chongqing Municipality, and covers two thirds of the nation’s territory, with a population making up 22.8% of the nation’s total 1.3 billion. Starting from 2001 the Chinese government has offered preferential policies to the western region in terms of capital input, investment environment, internal and external opening-up, development of science and education, and human resources. A sequence of preferential policies and measures for encouraging the FDI include for example, the foreign funded enterprises in central and western China whose development is encouraged, within three years after the termination of the implementation period of the existing preferential tax policy, their income tax will be collected at the reduced rate of 15 percent; and that for the enterprises whose products are for export shall be exempt or reduced, the tax rate being 10 percent at the lowest. In addition, the provinces, autonomous regions and municipality may approve the foreign-funded projects with an investment of less than US$30 million on their own.

2.3 The Fittest Survive—the Reform of State-owned Enterprises

The prevalent understanding of globalization in China is that in order to cater to the needs of globalization, an important task is to quicken the pace of the market-oriented reform. In essence, economic globalization is no other than a historical process of worldwide market reorganization, a process in which the market economy witnesses full and unprecedented development and a process, in which the factors of production flow throughout the world towards an optimized allocation of resources over the world. Economic globalization is tantamount to a readjustment of the industrial structure of the world, with the developed countries as the leading force and the transnational corporations as the major dynamic force. “Like it or not, a country must take prompt actions to go along with this trend in the world economy. Otherwise, it will remain self-secluded and in a backward state.” According to this argument, state-owned enterprises (SOEs) should meet the requirements of the market economy where it is the survival of the fittest.

China’s biggest single problem today is how to solve the interwoven problems of SOEs. By the end of 1978, the public sector accounted for 99% of the GDP, with the state and collectively sectors making up 56% and 45% respectively, and private sector accounted for a meager 1%. In 2000, the total output value of state-owned and state-owned holding industrial enterprises made up 48.3% of the total output value of the state. Nowadays 170,000 SOEs occupy about 70% of the nation’s total reserve of resources, but contribute 30% to the economic growth. Structural adjustment of the public sector refers to ‘controlling big ones and decontrolling small ones’, that is to control about 1,200 big ones and regroup small SOEs in whatever useful form. State-owned assets should be shifted from lines of business that are of general competition to and should be concentrated in basic industries, key areas and special lines of business. State control of China’s top twelve industries include petroleum, tobacco, power, iron and steel, electronics, food processing, chemicals, machinery, textiles, building materials, coal and electrical machinery. The effort to reform SOEs and adapt them to the modern corporate system generally takes three forms: shareholding company, limited liability company, and wholly owned state company. The reform of SOEs has always been the key link of China’s economic restructuring.

3 Chi Fulin, (2000), Reform Determines Future of China, Foreign Language Press, Beijing, P7
2.4 To Get Rich Is Glorious and A Surge of the Low-income Group of People

Under the planned economy, the Chinese government took care of old-age pension, medical service and other welfare of all civil servants, and staff and workers of enterprise or institution. In addition to feed people and provide jobs, SREs took care of all one's life, although it was a low-level security system. Twenty years ago the reform target put forward by Deng Xiaoping, the chief architect of China’s reform, was to realize a common prosperity among the people step by step while permitting a certain proportion of Chinese to get rich first. The fact is that the relations of the income distribution in China have been changed greatly, and the income level of urban and rural residents has risen in a large margin. In recent years, the low-income group of people with laid-off workers as the main body is expanding, when SOEs are rejuvenated by maximizing their profits, putting scores of millions out of work and shedding off their social obligations. Social policy is, in essence, intervention by governments and other agencies altering the distributive outcomes of market activities. Social policy historically has been about interventions of social redistribution (from rich to poor, young to old), of social regulation (setting the social ground rules of a market economy) and of social rights (delimiting the rights and duties of citizens with regard to access to services and incomes). In the early state of the reform and development, the choice of an uneven development pattern between economic development and social development helped China’s economy. But the strategy that favors economic development over social development has resulted in a serious problem.

By 2002, the amount of the urban poor has grown to 30 million, accounting for 7 to 10 percent of the non-agricultural population of the state. In comparison to the urban poor, approx-

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5 Bob Deacon, Eeva Ollila, Meri Koivusalo and Paul Stubbs, (2003), Global Social Governance—Themes and Prospects, Globalism and Social Policy Program, Helsinki, P14
6 The Human rights conventions signed not ratified by China: the UN Covenant on Civil and Political Rights; Signed and ratified: the Universal Declaration for Human Rights, the UN Covenant on Economic, Social and Cultural Rights, the UN Convention on the Rights of the Child, the UN Convention on the Elimination of Discrimination Against Women, the UN Convention on the Elimination of Racial Discrimination, UN Convention Against Torture. Source: Unesco
approximately same number of the rural poor are facing more severe situation. The net income per rural resident was 2,876 RMB (1 euro = 9,117 RMB (yuan), September 2005) in 2002, less than one third of the income per urban resident, which was 7,703 RMB. Although the country’s level of urbanization had reached 37.7%, the progress of urbanization still lags behind the development of the national economy and industrialization. Compared with countries of the same economic development level, China’s urbanization rate is 10 percentage points lower.8

An expedient measure to solve this problem is that the central finance allocated 98.2 billion RMB to be used for social security payments, 5.18 times the amount for 1998.9 A social security system that guarantees urbanites a minimum standard of living has been established across China. The reform of the basic medical insurance system is being carried out in China, with a continued increase in the coverage of basic medical insurance. By the end of 2001, 97% of prefectures and cities had started such reform programs, and 76.29 million employees had participated in basic medical insurance program. However, a social medical care assistance system to provide basic medical security for the impoverished population is still under way.

2.5 Environmental Situation—Dilemma between Development and Environment

The tension between development and environment is of overwhelming concern to all nations of the world, but particularly to the Third World. Beside population explosion, clear-cutting of forest during the Great Leap Forward (1958), opening up of the wasteland under the planned economy, and the following national plundering of natural resources and destruction of environment in the market economy have caused tremendous environmental degradation in China. At present, China’s overall ecological environment is still deteriorating. The ecological damages and adverse impacts are aggravating.

Environmental problems have become increasingly outstanding with the development of production and the population growth, while

China has the most contaminated air in the world.
protection for environment has lagged behind the pace of economic development. The definition of environmental damage differs in the industrialized world from that in China. The Chinese define environmental problems in terms of pollution and ecological degradation, such as soil erosion, desertification, droughts, floods, reforestation and the problems of overpopulation. Main tasks set by the National Tenth Five-year Plan for Environmental Protection will focus on industrial pollution, urban environmental protection, rural environmental protection, marine environmental protection, ecological environmental conservation, the environmental supervision and management of nuclear safety and radiation between 2000 and 2005. Following facts and figures picture present China’s severe environmental situation.

Forest: China’s forest area constitutes 16.55% of the land area, 10.45% lower than the average level in the world. The per capita forest area is 0.128 hectares in the whole country, about one fifth of the per capita forest area in the world. Around 90% of China’s total forest land and 80% of the country’s total stocking volume are in mountainous parts of the country (FAO 1997). Facing this severe situation, Chinese government gives great importance to tree planting. The speed and scale reforestation in China both rank first in the world. China has planned to significantly increase its forest cover through reforestation and establishment of plantation for timber production and environmental purposes.

Soil erosion: The area of soil erosion is 3.67 million square kilometers, constituting over one third of land area. Soil erosion in China is the worst known in the world. Each year over 10 billion tons of fertile soil is lost due to soil erosion. The situation is even worse in the Huangtu Plateau in western China. 80% of the 1.6 billion tons of sand and mud transmitted to the Yellow River yearly comes from the Huangtu Plateau.11

Desertification: The area of desertification, which is 2.62 million square kilometers, or about 27% of China’s land territory, has far exceeded the nation’s total farmland. About 400 million Chinese are living under the threat of desertification. Today, desertification is expanding at a rate of 2,460 sq km every year. Sand storms have not only swept Beijing in the latest years, but also threatened vast areas of the lower reaches of the Yangtze River in the south.

Natural disasters: Droughts and floods have appeared more frequently in the past 50 years. Because of swash silt, the total capacity of 82,000 reservoirs all over China has been decreased one third. In 1997 the number of drought-stricken population reached 500 million. The infrequent flood along the Yangtze River, the Nen River and Songhua River (in the north) in 1998 brought a calamity for 380 million Chinese and caused 4,610 deaths. The direct economic loss was RMB 500 billion.

Water crisis: China is a country in short of water. Per capita water resource is only 2,300 cubic meters, which barely reaches one quarter of the world average level. The phenomena of lacking water in cities of China began at the end of 1970’s. Among 663 cities of the whole country, approximately 320 cities are short of water and 110 are in serious condition. The annual waste water discharge goes beyond 36 billion tons, among which over 80% is drained off to lakes and rivers without any processing. Water quality in over 90% cities is deteriorating. About 700 million to 800 million Chinese are drinking unclean water.

Pollution: China has the most contaminated air in the world. The annual emission of 20 million tons makes China the country with the larg-

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8 China Daily, June 22-23, 2002, P.4
est amount of sulfur dioxide emission in the whole world. Beijing, Shenyang, Xi’an, Shanghai and Guangzhou are among the ten most contaminated cities in the world. The sharp expansion of areas that suffer from acid rain has swept 30% of the total land area, from the southwest and the south to the east and the northeast China. Each year 620 million tons of solid waste are generated and accumulated stock has reached 6 billion tons. Annual generation of household garbage is 146 million tons and most of them are not processed at all.  

Biodiversity: By the end of 2001, 1,551 nature reserves, covering a total area of 1.44 million sq km (or 14.4% of China’s land territory) had been established in China. There are 4,000–5,000 kinds of endangered higher plants, accounting for 15~20% of the total in the whole country, which has also resulted in threats to the survival of over 40,000 kinds of organisms related to the higher plants. China’s wetlands are presently facing serious threat because of unsustainable farming, exploitation of natural resources, overuse of water, pollution, sedimentation and beach erosion. The number of natural lakes has decreased from 2,800 in the history to present 1,800.

The Law on Environmental Protection, the first of its kind, was officially promulgated in 1989. In 1984, the State Environment Protection Commission was established. To date, the Chinese government has enacted 12 laws and over 20 regulations on environment protection, as well as 250 environmental standards. With regard to international cooperation, Chinese government states that China has always adhered to a principled stance in international negotiations and effectively upheld the legitimate rights and interests of China and other developing countries.  

Chinese government has been omnipresent and overbearing for four decades and has left little room for private voluntary organizations. Chinese environmental non-governmental organizations (NGOs) started to blossom only during the last decade. Best known of them are Friends of Nature, Global Village of Beijing and Green Earth Volunteers; several dozens of similar in Yunan, Jiangsu, Sichuan Provinces and so on. Even though the development of China’s environmental NGOs is far from the ideal status, compared with the past, they have gained substantial development. Retrospect to the past 20 years of China’s environmental NGO shows something inspiring and at a upward trend – number and variety of them are rising, their management and self-governance has reached to a higher level with the wide-spreading and deepening of their functions and influence. Chinese environmental NGOs keep a low profile in political campaigns. They have tried to raise awareness of environmental protection in public, encourage involvement on environmental activity, offer environmental education programs for students, provide support and favorable environment for independent and flexible research, and bridge between the government and the public.


13 See Note 1, P135.
3.

Finland and China—Trade and Its Impacts

China has implemented a series of ‘open door’ and reform policies to attract foreign investment, reversing Mao’s policy of self-reliance. China’s opening up to the outside world has been facilitated by the globalization of economic activities, during which foreign investment and trade have increased on the global scale. A large amount of foreign capital has been invested in the newly industrializing countries (NICs) of Asia and recently, especially after the Asian financial crisis, in China. Foreign direct investment (FDI) frequently cited as the engine of economic growth, takes place mostly between North America, Europe and Japan. Together with China, these areas receive more than 90% of all foreign direct investment.14 A number of structural, technological and institutional forces have facilitated the globalization of economic activities. Globalization increases partly due to the low profitability and intense competition in developed countries, and to cheap labor in developing countries. Developments in transportation and communication and changes in technology and production organization have also facilitated the relocation of firms overseas. Meanwhile, foreign investment and trade have been widely viewed by developing countries as a way of achieving eco-

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14 See note 4, P80
nomic growth and benefiting from globalization and the new international division of labor.

3.1 Foreign Trade and Trade with Finland

Rapid economic growth, FDI, efforts of local governments, and the ties to the international markets have also contributed to the growth of international trade of China. Exports increased from $9.8 billion in 1978 to $325.57 billion in 2002, and in 2002 imports reached $295.2 billion. At present, more than 220 countries and regions in the world trade with China. China mainland’s 10 major trading partners are: Japan, the United States, EU, the Hong Kong Special Administrative Region, the Association of Southeast Asian Nations (ASEAN), the Republic of Korea, Taiwan Province, Australia, Russia and Canada. In addition to cash trade and agreement trade, processing trade is one of the dominant trade modes of China. Overseas raw and semi-finished materials are processed into products for export. Main forms are processing of imported materials, processing of supplied materials, and co-production. Processing of imported materials means that enterprises with the approval of the foreign trade department or specialized import & export corporations use specially allotted foreign exchange to import raw and semi-finished materials to process into finished products for export. Processing and assembling of supplied material means that Chinese processing enterprises accept all or part of raw materials, auxiliary materials or elements and accessories provided by overseas firms, process or assemble them into finished products according to the required specification, quality and design, and then deliver the products to the overseas firms for sale. Co-production means that overseas firms provide the principal parts and part of the accessories and Chinese enterprises provide the rest of the accessories and assemble them into integrated products for export.

In recent years, to quickly merge itself with the world economic tide, China has made active efforts to reduce customs duties. Having now entered the WTO, the Chinese government will continue to carry out its promise of reducing customs duties. Starting from January 1, 2002, Chinese government reduced the rate of import duties of 5,300 tax items, making a tariff decrease 21.56% on average. Particularly, customs duties of

The foreign competition shuts down the state owned companies and causes a big unemployment problem.
agricultural products have dropped to 15.8% and subsidies to exported agricultural products were cancelled.

China and Finland have strengthened the bilateral trade relationship since 1980s. The total value of trade between the two countries surpassed the US$100 million benchmark in 1984. 1990s witnessed a more vigorous growth of bilateral trade and it increased by 50% annually in this decade.\(^{15}\) During his trade promotion visit to China in September 2002, Mr. Jari Vilén, then Minister of Foreign Trade of Finland announced that China has become the most important market in Asia for Finland and Finland is the largest Nordic trading partner of China.\(^{16}\) According to statistics of Finpro, the total trade volume between China and Finland in 2002 was EUR 2.44 billion (US$2.67 billion) while Chinese exports to Finland totaled EUR 1.24 billion and import from Finland to China was EUR 1.20 billion (Diagram 2 and 3).\(^{17}\) At present, China’s main exports to Finland are textiles and garments, cereals, oils and foodstuffs, light industrial products and mechanical equipment, and China’s main imports from Finland are paper-making machines, generating sets, paper and paper board, composite fertilizer, wires and cables and telecommunication equipment.\(^{18}\)

### 3.2 Utilizing Foreign Capital and Finnish Investment in China

China utilizes foreign capital through various channels and forms, which fall into three major categories: (a) foreign loans, including loans from foreign governments, international financial organizations, foreign commercial banks, export credits and guarantees, and issuance of bonds overseas; (b) direct foreign investment (FDI), including Chinese–foreign joint ventures, Chinese–foreign cooperative enterprises, wholly foreign-funded enterprises and Chinese–foreign cooperative development projects; (c) other foreign investments, including international leasing, compensation trade, processing and assembly and issuing stocks overseas. From 1979 to 2001, direct foreign investment utilized by China totaled US$ 395.5 billion in real terms. At present, China ranks sec-

\(^{15}\) The Economic and Commercial Counselor’s Office of the Embassy of P.R. China in Finland, http://fi.mofcom.gov.cn/article/200203/20020300004724_1.xml


\(^{17}\) http://www.finpro.fi/print.asp?Section=54&Item=13691

\(^{18}\) The website of the Ministry of Foreign Affairs of P.R. China, http://www.fmprc.gov.cn/eng/4344.html
second in the world in absorbing foreign capital, next only to the United States.

By the end of 2000, mixed or concessional loans granted by the Finnish Government to the Chinese side has totaled up to US$ 485 million in financing 83 Chinese projects, which mainly cover the fields of paper manufacturing, timber processing, cable manufacturing, container dock, municipal heating system, energy, telecommunication, energy and medical treatment.\(^\text{19}\)

China’s potential market, cheap labor and policy incentives have lured investment from both multinational enterprises (MNEs) and small investors. From 1979 to 1990, foreign loans were the major source of foreign investment in China. In 1992, however, FDI became the major source. From 1991 to 2002, FDI increased dramatically from $4.4 billion to $52.7 billion (Table 4). In much of the reform period, foreign investment and trade were less significant. Foreign investment as a source of financing accounted for 3.6% in 1985 and 6.25% in 1990. However, by the mid-1990s, foreign investment and trade had become important components of the Chinese economy. In 2002, FDI in China accounted for 10.1% of fixed investment, and industrial output value of foreign-invested enterprises accounted for 53.57% of the total, in comparison with 2.28% in 1990.\(^\text{20}\)

Foreign investment has been primarily in second industries since early 1990s. (Table 5)

FDI from Finland to China started to mount significantly in the middle of 1990s and it has totaled up to EUR 4 billion, among of which 2.3 billion is invested by Nokia.\(^\text{21}\) In 2002, Finland invested in 19 projects in China with a contractual value of US$ 67.55 million and an implemented value of more than US$ 64.65 million, accounting for 1.2% of the total FDI.\(^\text{22}\) The turnover of Finnish companies in China has reached US$ 2 billion and about 15,000 Chinese are employed by Sino-Finnish or wholly Finnish-funded enterprises. According to statistics, approximately 110 Finnish companies operate in China, though most of them are doing business through representative offices in Beijing, Shanghai, Guangzhou. There are about 60 industrial plants either wholly owned by Finnish companies or joint ventures established with Chinese enterprises. Finnish companies with large amount of investment and size are Nokia, Elcoteq, kone, Stora Enso, Metso Paper, UPM-Kymmmene and Kemira.

### Table 4. Foreign Direct Investment in China, 1996-2002 (US$ billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Projects</th>
<th>Contracted Amount</th>
<th>Actual Amount Utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>24,556</td>
<td>73.27</td>
<td>41.72</td>
</tr>
<tr>
<td>1997</td>
<td>21,001</td>
<td>51</td>
<td>45.26</td>
</tr>
<tr>
<td>1998</td>
<td>19,799</td>
<td>52.10</td>
<td>45.46</td>
</tr>
<tr>
<td>1999</td>
<td>16,918</td>
<td>41.22</td>
<td>40.32</td>
</tr>
<tr>
<td>2000</td>
<td>22,347</td>
<td>62.38</td>
<td>40.71</td>
</tr>
<tr>
<td>2001</td>
<td>26,140</td>
<td>69.19</td>
<td>46.88</td>
</tr>
<tr>
<td>2002</td>
<td>34,171</td>
<td>82.77</td>
<td>52.74</td>
</tr>
</tbody>
</table>

### Table 5. Industrial Structure of Foreign Investment in China by 1999, (US$ billion)\(^\text{23}\)

<table>
<thead>
<tr>
<th>Industry</th>
<th>No. of Projects</th>
<th>%</th>
<th>Contract Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>First industries</td>
<td>9,534</td>
<td>2.79</td>
<td>10.83</td>
<td>1.76</td>
</tr>
<tr>
<td>Secondary industries</td>
<td>258,178</td>
<td>75.59</td>
<td>384.4</td>
<td>62.63</td>
</tr>
<tr>
<td>Tertiary industries</td>
<td>73,826</td>
<td>21.62</td>
<td>218.5</td>
<td>35.61</td>
</tr>
</tbody>
</table>

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19 See Note 13. Another source (www.chinatradenews.com.cn) states that by June, 2002, the agreed amount of mixed loans granted by the Finnish government to China totaled up to US$ 435 million and the amount taking effect was US$ 409 million in financing 85 projects.

20 The website of the Ministry of Commerce of P.R. China, http://www.mofcom.gov.cn/

21 Ilpo Kaislaniemi, (2003), China’s Challenges Today, FINPRO,

22 See Note 16

23 China’s latest Regulation on Categorization of Three Industries (2003) stipulates that: (1) First industry (Primary industry) covers agriculture, forestry, husbandry and fishing; (2) Secondary industry covers mining, manufacturing, generation and supply of electricity, heating and water, and construction; (3) Tertiary industry covers the rest, such as transportation, post, information transmission, computer service and software industry, wholesale and retail, finance, real estate, leasing and commercial service, scientific research, technical service, management of water conservancy, environment and public facilities, education, sanitation, social security and welfare, industry of culture, sports and entertainment, public administration and social organization.
3.3 Features of Finnish Investment in China

The flow of Finnish investment into China is attracted by China’s continuous economic growth at a high speed and its huge market capacity. In addition, the economic development of China provides a more promising future for Finnish companies. Acceleration of the demand for paper and paper-related products provides golden opportunities for Finland's traditional paper industry. China’s mobile telecommunication business leaps with an average annual growth rate of more than 100%. The strategy to double the scale of information industry market by 2010 has generated momentum of growth for Finnish electronics and telecommunication industry. Furthermore, China’s accession to the WTO has opened up new perspectives for two countries’ mutual involvement in the world economy by making the investment environment more attractive and more accessible for the Finnish companies.

A. Investment and operation of Finnish companies in China are led by two pillar industries: telecommunication and paper manufacturing. Even the trade relationship between Finland and China can be traced back to early 1950’s, large investment in China's market and establishment of factories by Finnish companies are relatively cautious and late in comparison with other western countries. Following Nokia’s success in China’s market starting from the middle of 1990’s, other large or medium-sized Finnish subcontractors set up their manufacturing plants in succession to form a tight supply chain. (Diagram 6) All the Finnish mobile or telecommunication subcontractors position their plants very close to where Nokia factories are in China. The new production plant of precision plastics manufacturer Perlos Corporation will be located in a leased facility at Beijing Economic and Technological Development Area close to Nokia related Xingwang industrial park, where Nokia sets up its cluster. Some other Finnish suppliers in the park include new plants of Savcor and Elcoteq. ACP Electronics, Efore, Filtronic and Scanfil are all located in Suzhou, where Nokia Suzhou is.

B. The majority of Finnish-funded production plants are densely located in eastern coastal part of China. It is estimated that about 95% of them are

Diagram 6. NOKIA and Its Finnish Subcontractor’ Plants in China
in China’s coastal provinces. Among all the production plants, only Valmet-Xi’an Paper Machinery Co. Ltd (Xi’an, Shaanxi Province), NK Cables Co., Ltd (Wuhan, Hubei Province), Chongqing Nokia Telecommunications Co. Ltd. (Chongqing), and Tamrock Machinery Co. Ltd (Luoyang, Henan Province) are set up in western and central parts of China.

Apart from the advantageous geographical locations of eastern area, a large amount of human, material and financial resources put by the richer local governments to construct more infrastructure facilities and create a favorable environment for foreign investors in China. Thanks to the favorable hard and soft environments, Finnish companies prefer setting up their productions plants in industrial park, new and high technology industrial zone and free trade zone. Establishing export bases for new and high-tech products in selected national new and high technology industrial development zones is part of the plan for developing trade by means by science and technology worked out and implemented by the Chinese government. Sixteen new and high-tech industrial development zones in Tianjin, Shanghai, Jiangsu, Guangdong, Heilongjiang, Shandong, Anhui, Hubei, Shaanxi, Dalian, Xiamen, Qingdao and Shenzhen have been designated as the first group of export bases. Export bases enjoy the convenience and privilege of ‘operating within the territory yet beyond customs tollgate’. For instance, Metso, Wärtsilä NSD and Dynea Oy settled in Shanghai Waigaoqiao Free Trade Zone; Kone in Kunshan High-tech Industrial Park; Nokia Suzhou in Suzhou Industrial Park to mention a few.

The present trend of direct investment from Finland shows more Finnish companies tend to set up wholly owned enterprises in China, while in the earlier stage many of them establish joint ventures with Chinese partners. It is in fact the remarkable trend of FDI in China. The total actual amount of utilized FDI of joint ventures has reached 42.91% by 2002, while that of wholly foreign-funded enterprises has accounted for 56.97%. However, actual amount of utilized FDI for wholly foreign-funded enterprises exceeded 60% of the total in 2002. Nokia, the flagship of Finnish companies in China, announced in March 2003 that its Beijing Capital Nokia Mobile Telecommunications, Beijing Nokia Hangxiang Telecommunications Systems, Dongguan Nokia Mobile Phones and Nokia Suzhou Telecommunications will be merged into one giant foreign-owned company with over 60% of the shares hold by Nokia. Meanwhile, Finnish companies increase their shares in the Sino-Finnish joint ventures by buying shares from the Chinese partners or adding more investment. Stora Enso acquired the majority shareholding (61%) in Suzhou Papyrus Paper in 1998. In October 2001 Stora Enso increased its shareholding to 81% by purchasing significant number of shares from Suzhou Light Industry Group while the remaining shares of its Chinese partner dropped to 19%.

3.4 Legal Aspects Concerning Trade and Foreign Investment

3.4.1 International Scenario

Trade liberalization and globalization can have both positive and negative effects on sustainable development. There is a continued need to support efforts by developing countries to integrate themselves into and derive benefits from the multilateral trading system. At the same time, attention also must be given to enhance the contribution of the multilateral trading system to sustainable development. The Commission on sustainable development of UN Economic and Social Council, at its fifth session, recognized that trade liberalization should be accompanied by environmental and resource management policies in order to realize its full potential contribution to improved environmental protection and the promotion of sustainable development through the more efficient allocation and use of resources (see General Assembly resolution S-19/2, annex). At its second
The trade liberalization should be accompanied by sustainable development.

Session, in 1994, the Commission noted the importance of developing a framework to facilitate the assessment of the environmental impact of trade policies, taking into account the special needs and conditions of developing countries (see E/CN.17/1994/20).

Recent discussions have gradually moved from possible “win-win” or double dividend scenarios to “win-win-win” results, in terms of environmental, trade and developmental gains. Nevertheless, even the win-win situations are cast with doubt, because environmental quality comes at a cost. Weighing the trade-off between environmental protection and economic development to maximize sustainable development is a difficult political question, not a simple technical one.  

Flow of tremendous amount of foreign direct investment is one of the most apparent manifestations of globalization. Foreign direct investment refers to cases where an investor holds an equity stake in a business operation in another country and exercise at least some managerial control over the operation. FDI is typically a long-term investment in the production of goods or services abroad; the major concern of the investors is the competitiveness of the business operation. FDI and transnational corporations have a large but mostly unexplored potential to contribute to sustainable development in host develop-

24 Introducing the successful experience from Taiwan, mainland China has established 53 state-level development new and high technology zones, home to more than 20,000 enterprises.
ing countries. Enhancing this potential, *inter alia*, requires:

* a. Exploring ways to ensure that a larger number of countries benefit from FDI;
* b. Promoting the use of environmental management systems in and transfer of environmentally sound technologies to subsidiaries in developing countries, as well as their diffusion to other companies in the host developing country;
* c. Exploring possibilities for encouraging investors to apply best practices;
* d. Exploring the potential for improving environmental performance along the supply chain and in waste management, in cooperation with other stakeholders;
* e. Building multi-stakeholder approaches to promote environmentally sound FDI;
* f. Enhancing transparency, e.g., by encouraging effective public disclosure procedures to promote best practices and environmentally responsible corporate behavior.27

3.4.2 China’s Policies and Laws on Trade

Since the early 1980s, the Chinese government has promulgated more than 500 foreign-related economic laws and regulations to provide the legal basis and guarantee for foreign investors in China. According to the Foreign Trade Law of China adopted in 1994, ‘foreign trade’ refers to the import and export of goods and technologies and international service trade. The most recent foreign trade policy and regulations in China include:

* a. Quotas, permits and import management policies. These include policies for active and passive export quotas, import management, permit management, quota-based commercial bidding, and the trading right, etc.
* b. Policies concerning value-added tax and export tax refund;
* c. Policies concerning the trading right approval. Authorized by the State Council, the Ministry of Commerce (former Ministry of Foreign Trade and Economic Cooperation) will exercise

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*The Chinese state should ban the hazardous foreign projects.*
the central management power over the enterprises, which are engaged in foreign trade;

d. Policies concerning the foreign currency management system. The key element for foreign currency management system reform is to establish a well-managed floating rate system and a unified and standardized foreign exchange market, so as to make Renminbi (Yuan) gradually convertible. Relevant policies include those for the foreign currency exchange rate and foreign currency management.

e. Policy concerning customs. China has for several times adjusted its policies for tariff reduction and exemption according to changes in its economic development and the developments of international market.

Whether import policies will have impacts on the environment depends on whether environmental considerations have been taken into account in formulating such policies. Article 17 of the Foreign Trade Law states that, "The State shall ban the import or export of goods or technologies that are of necessity to ban their import in view to protect the life or health of the people; danger to ecological environment; and ban import by the provisions of international treaties or agreements to which the People's Republic of China is a signatory or has entered." Article 24 "The State may restrict international trade in services in order to protect the ecological environment".

3.4.3 China's Policies and Laws on Foreign Investment

When China's economy is more and more integrated with the world economy, an active and stable open policy is of crucial importance for China's economic growth. China's guiding policies on foreign investment include:

a. China needs to maintain its advantages in attracting foreign investment, especially those from transnational companies, given the fact the competition for foreign investment has become even more intensive after the Asian Financial Crisis.

b. While keeping the continuity and stability of preferential policies for foreign investment, more appealing policies should be worked out and implemented to attract foreign investment. Decreasing and standardizing approval procedures, improving open and fair market are the key factors to provide a favorable environment for foreign investment.

c. The state continues to support coastal areas in East China in their leading role of attracting foreign capital and technology. Pudong New Zone in Shanghai is a successful example of re-creating itself as an industrial powerhouse under the preferential policies.

d. Encouraging foreign investment with more preferential policies and measures are worked out as part of the overall plan for the development of West China.

e. More efforts will be taken on 'Making good use of foreign investment' in the near future, which refers to encouraging FDI on new and high technology, basic industries and auxiliary industry, establishment of foreign-capital enterprises oriented to exporting products; integrating using foreign capital with domestic structural adjustment and reform of state-owned enterprises.

At the end of 1997, China revised and promulgated the Industrial Catalogue For Foreign Investment to encourage and support foreign businesses to invest in the comprehensive development of agriculture, energy, communication, important raw and processed materials, new and high technology, the comprehensive utilization of resources and environment protection. The latest Industrial Catalogue for Encouraged Foreign Investment adopted in 2001 further eased restrictions on foreign investment in China's domestic industries. For instance: "Forest (bamboo)
plantation and breeding of good strains of them are encouraged "(I.7); “Construction and management of chemical pulp with an annual pulp output of or exceeding 500,000 tons, and mechanical pulp (CTMP, BCTMP, APMP) with an annual pulp output of or exceeding 100,000 tons and corresponding raw material bases are encouraged (restricted to Sino-foreign joint venture or Sino-foreign cooperative enterprises)”; “High-grade paper and production of card paper are encouraged (newsprint exclusive)” (III.6)

Rules For the Implementation of the Law on Foreign-capital enterprises revised in April 2001 by the State Council and a series of other laws and rules towards FDI cover a wide range of areas, including:
• form and control of foreign ownership
• project duration
• choice of investment sectors
• size of investment project
• choice of investment location
• tax rates
• policies on land use
• management, employment, and wage systems
• rights of workers and staff members
• environment impact assessment
• product pricing structures
• terms for financing and remittance of profits, and other areas.

3.4.4 Existing Environmental Polices and Law on Trade and Foreign Investment

For the developing countries, such as China, the issue of environmental protection is also about time or rather lack of it. The pressure of delivering high growth rates and increasing trade and attracting FDI means that policy decisions have to be taken in response to immediate output and employment objectives. The lack of resources and expertise in monitoring and enforcement, and sometimes the inability to work collaboratively with transnational corporations, add to the problem.

The most basic principles of China’s environmental policies include:

\textbf{a.} Principle of sustainable and coordinated development of economy, social development and environmental protection

\textbf{b.} Principle of precautionary and combined prevention and control

\textbf{c.} Principle of developers responsible for conservation, and

\textbf{d.} Principle of polluters pay

Up to now, China has established an environmental legal system based on the Constitution Law and the Environmental Protection Law. There are eleven environmental mechanisms in China, including environmental impact assessment, “three simultaneous” action (design, construct and operate pollution control facilities simultaneously with the main parts of the project); pollution levying, responsibility to achieve envi-
Environmental goals; quantitative appraisal of comprehensive control of urban environment; checking of pollutants discharged; centralized pollution control; deadline to clean up; deadline to phase out backward technical processes and equipment; administrative enforcement of hazardous waste disposal; and total amount pollution control. Local People’s Congress and governments have formulated and issued more than 600 local environmental regulations to implement national environmental laws and regulations with due considerations to their own situation.

A. Environmental Regulations and Policies on Import

Regulations and policies to curb negative environment impact brought by imports mainly focus on control of importing wastes, wild animals and plants, out-of-date technology. Each year, China needs to import 1.5 to 3 million tons of scrap steel, 1 million tons of aluminum, 1.8 million tons of scrap copper and 2 million tons of waste paper. Imports of wastes for a long time were managed as an ordinary trading practice, without involving environmental departments for review and approval. In October 1995, the State Council promulgated an Urgent Circular concerning Strict Control of Transfer of Foreign Municipal Waste into China. After a series of policies and regulations concerning waste import control were adopted in 1996, for instance the Interim Provision of Environmental Protection Management on Imports of Waste states clearly the definition of “waste” which includes solid waste, industrial solid waste, municipal waste and hazardous waste, the regulatory regime and means for waste imports were strengthened.

Some Chinese scholars recommend that imports that promote environmental protection should be encouraged:

a. The import of foreign advanced technology and equipment promotes pollution prevention and control and reduce energy and resources consumption.

b. The rational import of raw materials is favorable for protecting natural resources and improving the environment. For example, the import of paper pulp, paper, timber and veneer board, etc. will reduce the depletion of limited forest resources in China and can help improve the ecological environment.

c. The import of an appropriate amount of products whose production in China consume high-energy and cause heavy pollution will help alleviate pressures to natural resources and the environment. These products mainly refer to nonferrous metals, precious metals, rare metals, metal products, synthetic rubber, fertilizer, sulphate, sulphur, chemical raw materials, dyes and media agents, chemical fertilizers and leather products.28

In fact, import of raw materials is closely connected with Chinese resources strategy, which emphasizes on ‘Two Resources and Two Markets’. ‘Two resources’ refers to resources in China and abroad. Trade and exploitation should be carried on at the same time when we take use of foreign natural resources. Attention should be paid to resources in short supply in China, and shift the attention to the neighboring countries and developing countries which are abundant in natural resources, while consideration should be given to developed countries with abundant natural resources as well. Some well-known Chinese scholar suggests that China should use ‘trade surplus’ to offset ‘forest deficit’, which means a further reduction of timber-felling in China and a sharp rise of importing timber and wood related products, so that China’s forests have 30 year time to recuperate and multiply. For instance, Yunnan Provincial government encourages local companies to exploit the forest resources in neighboring Vietnam, Laos and Burma.

B. Environmental Laws and Regulations on Foreign Investment

Environmental policies and regulations of China on FDI in terms of foreign-funded enterprises are generally loose compared with those of developed countries. Most of foreign investors can easily meet environmental requirements of China. However, environmental laws of China play a role in limiting those foreign companies, which do not have a good environmental performance. China’s program in the field of environmental impact assessment (EIA) has been evolving since the early 1970’s. Article 13 of the Environmental Protection Law of the P. R. China, adopted in 1989, states that “An environmental impact statement of a construction project shall include an assessment of the pollution and impact of the construction project on the environment and the planning department shall not approve the assignment study until the project’s environmental impact statement has been approved”. Circular on Improving EIA of Projects Financed by International Financing Organizations was promulgated in 1993, which standardizes the environmental protection of foreign-funded projects nationwide.

But the comprehensive Law of Environmental Impact Assessment of China was promulgated in 2002 and will take into effect in September 2003. Article 2 states that “EIA refers to a tool and mechanism which makes analysis, prediction and assessment of possible environmental impacts of civil layouts and construction projects when they are put into operation, raises plans and measures for precaution or mitigation of adverse impacts of the project, and carries out following supervisions.” ‘Construction projects’ refer to all the development and construction activities in the form of fixed assets investment, including state-owned economy, township and collective economy, stock companies, foreign-funded, Hong Kong, Macao and Taiwan funded, individual economy and other economy forms. Article 16 in Chapter Three contains provisions for categorization of projects, which follows the most commonly used international practice. Three categories, A, B and C:

**Category A**: An EIA report and an all-round environmental impacts assessment are required of constructions projects that are deemed to have significant environmental impacts;

**Category B**: An EIA form is required to make analysis and assessment of special items for construction projects that are deemed to have light environmental impacts;

**Category C**: Construction projects that have minor or no environmental impacts should fill the registration form of environmental impacts.

The applicant is responsible for the assessments. Article 17 prescribes the contents that an EIA should include:

China’s State Environmental Protection Administration (SEPA) promulgated Guidelines for the Implementation of EIA in 1997. With respect to the social impacts, an EIA should include (a) distribution of residence areas, population and density; (b) distribution of neighboring industrial enterprises, industrial structure, output, energy supply and consumption; (c) area of arable land, structure and output of grain crops and economic crops, total output of agriculture, present situation of land; (d) general situation of roads, railways and waterways in the area where the construction project is going to be carried out and their relations with the construction project; (e) culture relics and precious scenery.

Legal liabilities of the Law contains provisions of financial punishment for construction projects which start construction without submitting EIA or without approval and administrative sanctions for responsible personnel. Responsibility of EIA departments should be investigated and affixed in case of making fraud assessment. Similarly, governmental offices of environmental protection or responsible personnel should be investigated under law in case of approving EIA of construction projects illegally.


As a developing country, China has been concerned that certain environmental requirements may adversely affect access to the markets of developed countries. The environmental principle of life-cycle approach has not been widely accepted in China, which refers to the environmental impacts of a product’s entire life cycle should be considered: from raw material extraction to final disposal, through all manufacturing, transportation, use, and recycling steps. The application of such principles is mutual and from the perspectives of developing countries it brings more restrictions. For instance, the textile industry is the leading export industry in China. For China’s authorities, more impending tasks are to deal with stringent restrictions imposed by developed countries, such as measures for environmental and social purposes rather than focusing on formulation of countermeasures on import.

Generally speaking, China has adopted a strategy for attracting foreign investment with a focus on the scale and the speed as well as economic benefits, rather than on their environmental impacts and on integrated economic, social and environmental benefits. There were no clear restrictions on investment towards those heavy polluting sectors in China’s Industrial Cat-
alogue for foreign investment until 2001. Instead, some sectors even adopted policies to encourage such investment. This led to the establishment of many highly polluting joint ventures in some areas in the sectors such as tannery, dyeing, chemical industry and plastics, etc. Sectors are interpreted as allowable for production in China when they are not listed as restricted or prohibited in the catalogue. Cancerogenic, teratogenic, mutagenic material and products generating long lasting organic pollutants are prohibited in the 2001 Catalogue.

Another fact in China is that external pressures are lacking, such as public disclosure laws for monitoring and accountability of the transnational corporations. Circular on Improving EIA of Projects Financed by International Financing Organizations in 1993 for the first time states the principle of public participation in EIA process. “Public participation is an important component of EIA. It should be illustrated in a separate section in the EIA report so as to ensure interests of affected public or social groups be considered and compensated. Public participation can be carried on during the stage of planning and examining EIA outlines, and final examining of EIA report.” However, before submitted to international financing organizations and domestic environmental departments, the EIA report should be checked by a security committee of the concerned ministry, bureau, head-company or local government.

Until 2002 was the public disclosure provision contained in the very new Law of Environmental Impact Assessment, that is “Applying company or unit of a construction project which might generate significant environment impact is obliged to hold proof meeting, hearing or take other forms to solicit opinions from concerned units, experts and public except confidential projects in accordance with state regulations” (Article 21). However, the law doesn’t specify which are the confidential projects and the corresponding punishment if the company or unit doesn’t abide by this article. Practice of public participation in China usually means discussions and meetings among a small group of local representatives, representatives from concerned government offices, scholars and experts during the stage of examining outlines and report of EIA. Affected local people can only use forms of complaint letters, visits and even lawsuits to express their opinions when they suffer from adverse impacts of a construction project. Role of local environmental departments is quite limited with their administrative interference at this stage.

3.4.5 Policies and Law on Labor and Social Security

In the course of establishing and improving the market economy system, labor relations in China have become increasingly complicated and diversified. The guiding policy of the Chinese government is that labor standards must be in sync with the country’s level of economic and social development. China has established an initial system of laws and regulations with the Labor Law as the main body, including the labor contract and group contract systems, tripartite coordination mechanism, labor standard system, labor dispute handling system and labor protection supervisory system. Other than Law on Chinese-foreign Contractual Joint Ventures, Law on Foreign-capital Enterprises and Rules For The Implementation of the Law on Foreign-capital enterprises, the Labor Law also applies to labor relationship in foreign capital enterprises within the territory of China. Main issues include:

- Laborers’ right to participate in and organize trade unions to represent and safeguard their legitimate rights and interests, and the said enterprises shall provide the necessary conditions for the trade union to conduct their activities;
  - Labor contracts and collective contracts;
  - Working hours, rest and vacations;
  - Wages;
  - Occupation safety and health;
  - Special protection for female staff and work-
ers and juvenile workers;
- Social insurance and welfare by which laborers shall enjoy social insurance benefits: being retired, being ill or injured, being injured or disabled while on duty or contracted with occupational diseases, being unemployed or childbirth;
- Settlement of labor disputes and other issues.

Laborers’ right to participate in and organize trade union only exists inside the All-China Federation of Trade Unions (ACFTU), which is strictly controlled by the Chinese Communist Party (CCP). This was reaffirmed when the Trade Union Law was revised in October 2001. Article 10 of the Trade Union Law establishes the ACFTU as the “unified national organization”. Under Art.11, the establishment of any trade union organization, whether local, national or industrial, “shall be submitted to the trade union organization at the next higher level for approval”. Trade union organizations at a higher level “shall exercise leadership” over those at lower level. The law also empowers the ACFTU to exercise financial control over all its constituents. For instance, establishment of trade unions in foreign-funded factories, which are located in develop zones, should be approved by the administration office of the zone. The administrative office is in essence a branch office of the local government. In this respect, the local government plays a role both as the judge and as the athlete.

Right to strike is not protected under the law either. The right to strike was removed from China’s Constitution in 1982 on the grounds that the political system in place had “eradicated problems between the proletariat and enterprise owners”. But both the Trade Union Law and the Labor Law deal with labor disputes. China has ratified 22 international labor conventions, but neither of the two fundamental ILO Conventions on freedom of association, the right to organize and to bargain collectively (ILO Conventions No. 87 and 98).

**Laborers are strictly controlled in China.**
3.5 Finnish Export Credits and Concessional Credits Toward China

Major concerns of Finland’s policy on relationship with developing countries include:

The Finnish aim is to harmonize its foreign and security policy, trade policy and development co-operation;

Development policy aims at: i) promotion of global security; ii) reduction of widespread poverty; iii) promotion of human rights and democracy; iv) prevention of global environmental problems; v) promotion of economic dialogue.

Finland supports the harmonization of trade and environmental norms in co-operation with the developing countries.

Finland shares similar interests to the developing countries in the co-ordination of commercial and environmental issues.

Finland promotes coherence and complementarity between participating international organizations... Finland is striving to increase coherence and co-ordination in the preparation of its own measures and policy perspectives in order to be better able to influence the work of these organizations.

3.5.1 Main Finnish institutions involved in export credits and guarantees

Finnish exports to developing countries have been growing rapidly since 1990’s. The most important fields of exports are metal industry and machinery, forest and chemical industry, telecommunications, energy technology, shipbuilding industry and electronics. Export Credit Agencies and Investment Insurance Agencies, commonly known as ECAs, provide government-backed loans, guarantees and insurance to corporations seeking business opportunities in developing countries or emerging markets that are considered too risky (commercially or politically) for conventional corporate financing. ECAs are usually national, public or government-mandated agencies that promote national exports and help national industries with business abroad. In Finland, export credits are channeled through regular banking institutions, but certain financing functions are divided between some government-owned agencies.

A. Finnvera, Plc and Fide Ltd

Entirely owned by the Finnish state, Finnvera plc is a financing company specialized in offering risk financing services to promote the domestic operations, exports and internationalization of Finnish enterprises. Fide is Finnvera’s fully-owned subsidiary. They are supervised by the Ministry of Trade and Industry. Finnvera cooperates with banks and other domestic and international partners to develop competitive customer-driven financing solutions and products. It offers loans, securities and export guarantees and has a portfolio of products covering all stages in the life cycle of a company, ranging from loans to start up a new business to export guarantees for large companies. The OECD Consensus is the most important convention governing export credits and guarantees.

Finnvera plc was founded in 1999, when the Kera Corporation and the Finnish Guarantee Board merged. The guarantees in 2002 cover political and/or commercial risks pertaining to 41(37 in 2001) countries. The number of new guarantee offers was 258(250) and their value totaled EUR 1,708.8 million. Of the outstanding commitments (current guarantees plus offers given), one third pertained to Asia. Out of the guarantees that came into effect in 2002, the telecommunications sector accounted for 72% and the wood-processing in-
dustry for 2%, or EUR 12.6 million. In the wood-
processing sector, the largest guarantee granted
applied to exports to China and Chile. Because of
very low transparency, almost no information on
its projects in China is accessible.

**B. Finnfund**
The Finnish Fund for Industrial Development Co-
operation, Ltd. (Finnfund) was established in 1979.
It is a limited liability company with the Finnish
government as a majority shareholder (79.9%) and
other two shareholders are Finnvera (20%) and the
Confederation of Finnish Industry and Employers
(0.1%). It operates under the administrative auspic-
es of the Development Policy Unit of the Ministry
of Foreign Affairs. Finnfund’s mission is to promote
economic and social development by financing,
on a self-supporting basis, socially responsible and
profitable private projects in developing countries
and certain transition economy countries. The
fund works in collaboration with Finnish and for-
egn firms, investors and finance companies.

Finnfund helps to finance enterprises, mainly
small and medium-sized enterprises (SMEs) by
taking a minority shareholding in them, and also
by providing long-term loans and guarantees. Its
investment services cover such aspects as the
preparation of projects, the arrangement of fund-
ing, and fund management. The money granted to
Finnfund in the national budget is used to pay
interest subsidies on loans received from the fund.
The maximum amount of interest subsidization
that is permitted corresponds to the difference be-
tween the interest costs incurred on these loans
and an interest rate of two per cent. While most of
its investments are in manufacturing, Finnfund
also invests in other sectors, especially power gen-
eration, telecommunications and services.

Thirteen new financing commitments were
made in 2002 with a sum of EUR 31 million. At the
end of 2002, Finnfund had arranged 60 funding
agreements. China is still the priority area with
altogether 11 financing commitments. (Table 7)

<table>
<thead>
<tr>
<th>No</th>
<th>Investment Projects</th>
<th>Production</th>
<th>FF %</th>
<th>EUR Mil.</th>
<th>Finnish Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Beijing Elcoteq Electronics Co. Ltd.</td>
<td>Electronics</td>
<td>6.8</td>
<td></td>
<td>Elcoteq Network Oy</td>
</tr>
<tr>
<td>2</td>
<td>Beijing Novo Information Technology Co. Ltd.</td>
<td>IT/ IT map applications</td>
<td>20</td>
<td>0.2</td>
<td>Novo Group Oy</td>
</tr>
<tr>
<td>3</td>
<td>Kaiyuan Greentech Chemical Recovery Co. Ltd.</td>
<td>Effluent treatment Fertilizers</td>
<td>26</td>
<td>2.8</td>
<td>Kemira Agro Oy</td>
</tr>
<tr>
<td>4</td>
<td>Kemira Compound Fertilizer (Zhanjiang) Co. Ltd.</td>
<td>Water cleaning chemicals</td>
<td>11</td>
<td>0.4</td>
<td>Kemira Chemicals Oy</td>
</tr>
<tr>
<td>5</td>
<td>Kemwater (Yixing) Co., Ltd.</td>
<td>District heating pipes</td>
<td>40</td>
<td>0.7</td>
<td>Oy KWH Tech Ab</td>
</tr>
<tr>
<td>6</td>
<td>KWH Pipe (Dalian) Co. Ltd.</td>
<td>Capacitors</td>
<td></td>
<td></td>
<td>Evox Rifa Group Oy</td>
</tr>
<tr>
<td>7</td>
<td>Nantong Evox Rifa Electrolytics Co. Ltd.</td>
<td>Burners</td>
<td></td>
<td></td>
<td>Oilon Rifa&amp;FF 80%</td>
</tr>
<tr>
<td>8</td>
<td>Oilon Burners (Wuxi) Co., Ltd.</td>
<td>Industrial gears</td>
<td>39</td>
<td>3.4</td>
<td>Componenta Oy</td>
</tr>
<tr>
<td>9</td>
<td>SEW Industrial Gears (Tianjin) Co., Ltd.</td>
<td>Edgeboard</td>
<td></td>
<td></td>
<td>Eltete Oy Ab</td>
</tr>
<tr>
<td>10</td>
<td>Shanghai Eltte Packaging Technology Co Ltd.</td>
<td>Dental chairs</td>
<td>13</td>
<td>0.3</td>
<td>Fimet Oy</td>
</tr>
<tr>
<td>11</td>
<td>Shanghai Fimet Medical Instrument Co.</td>
<td>Paper machinery</td>
<td>8</td>
<td>0.7</td>
<td>Metso Paper Oy</td>
</tr>
</tbody>
</table>

Source: Finnfund Annual Report 2002 and incomplete date collection
In 2001, 24 (including Finland) out of the 26 member countries in the OECD Working Group of the Export Credit and Guarantee Agencies approved the agreement stating that the environmental impacts of projects must be assessed in export credit and guarantee operations. Finnvera proclaims in its annual report that “Finnvera’s environmental policy, consisting of environmental principles and a process for assessing environmental effects, meets the OECD’s environmental principles. The environmental policy is an essential element of Finnvera’s responsible approach to export credit guarantee operations (Annual Report 2001). Finnvera follows the same practices as export credit agencies in Finland’s main competitor countries”. Finnfund also emphasizes social and environmental issues through impact assessment and the conditions attached to its financing.

Finnfund promises to enhance accountability through the public disclosure of as much information as possible, especially regarding the environmental impacts of the projects financed. It published some information on a few selected projects in priority countries, such as Savor’s new plant in Beijing, China. Another Finnish official ECA, Finnvera believes that one of its goals was transparency of operations when it was founded.\textsuperscript{31} Ironically, it refuses to give any information that would make it possible to identify a client without the client’s permission, because of its obligation to maintain confidentiality as credit institutions are.

Thanks to the NGO campaign and painstaking efforts of the Finnish civil society to raise the transparency level of ECA, at the beginning of 2002, Finland adopted the environmental outlines approved jointly by the OECD countries, which require that, in keeping with the Finnish legislation on publicity, Finnvera must annually publish information about projects in environmental classes A and B to the extent allowed by company confidentiality.

3.5.2. Concessional Credit

The Finnish concessional credit program has been in operation since the beginning of 1987. A concessional loan is a financial arrangement where an export credit is supported by an interest subsidy. The interest subsidy is paid out of Finland’s development cooperation budget. The recipient of the credit pays either zero interest or the interest rate is clearly below the market reference rate of interest. The main objective of this program is to increase financial flows from Finland to creditworthy low- and middle-income developing countries into projects with high developmental effects. The administration of concessional loans is regulated by the Act no. 1114/2000 and the Government Decree no.1253/2000. The projects have to be economically, environmentally and socially sustainable and meet the objectives set in the strategy and policy on Finland’s development cooperation and relations with developing countries as well as on the Decision-in-principle on the operationalization of development policy objectives compiled by the Government. According to these Decisions-in-principle, concessional loans should be mainly targeted to projects focusing on the environment, health and the social sector. Finland’s Policy on Relations with Developing Countries lays emphasis on the economic interaction between Finland and developing countries. Finland has recently carried out a comprehensive evaluation of the concessional credit scheme, but the effectiveness of the scheme in terms of poverty reduction is unclear.

Between 1987–1998, about 100 projects were financed with concessional credits. A significant part of these concessional credits are concentrated in Asia, with China and Thailand as the main recipients. The credits are tied to exports which originate for about 80% from Finland. In 2001, the ODA (Official Development Aid) component was EUR 14 million, representing 4% of total ODA. These subsidies have kept China among the top 10 recipients of Finnish aid over the last decade.

\textsuperscript{31} Finnvera Annual Report 2001, P40
though it is not identified as a long-term partner country.

In 2001, guarantee applications concerning the concessional credit scheme provided by the Ministry of Foreign Affairs for projects in developing countries are submitted to Finnvera, which acts as the guarantor of these credits. Finnvera helps assess the eligibility of projects for guarantees and concessional credits. The Ministry of Foreign Affairs assesses the projects and decides whether an interest subsidy is granted. During the year of 2002, Finnvera received 21 such applications (16), the total value of which amounted to EUR 181 million (250). With one exception, all applications involved transactions planned to take place in Asia. An important project involving a concessional credit to China was the agreement to sell Valtra Inc’s tractors to China. In line with a rural development project, during 2002, Valtra delivered 140 tractors to farms located in Xinjiang, northwest part of China. The value of the transaction was USD 9.6 million with the help of Finnvera’s Buyer Credit Guarantees.

Concessional credit scheme for China favors fields of pulp, paper, timber processing, central heating system, telecommunication, cable manufacturing, energy, environmental protection, dairy processing and medical equipment. Borrowers of concessional loan don’t pay interest. The repayment period is 10 years with an extra 2 years of construction period. Finnish concessional loan covers 85% of the project’s investment and the Chinese borrower is responsible for the rest 15%. In case of extreme poor areas in China with a priority project, the loan can cover the total investment. No less than 70% of the equipment should be imported from Finland. Other fees, such as Financier’s arrangement fee (0.37%) and commitment fee (0.5% per year) and guarantee premium (4%-5%), should be paid by China’s borrowers. The appraisal of the project and the final financing decision is the responsibility of the Ministry for Foreign Affairs of Finland. The appraisal is mainly based on reports prepared by an expert team during a visit to the project site. Most appraisal teams consist of an economist and a technical expert. Sometimes an environmental expert is also included. Only in very few cases, an EIA has been carried out. After final approval by the Ministry and before signing the necessary agreements, the OECD notification procedure has to take place. This procedure consists mainly of a check on commercial viability of the project.

3.6 Impact of Finnish Trade and Investment on China

POSITIVE IMPACT ON CHINA

In the past, the purpose of China’s trade with foreign countries was to regulate surplus and deficiency. Later it was served to earn foreign exchange. At present, foreign trade has become an important component of Chinese national economy and functions as an indispensable force of accelerating economic growth, increasing revenue and employment, balancing international revenue and expenditure, says Mr. Shi Guangsheng, Minister of the Commerce of China comments on the importance of foreign trade.

3.6.1 Foreign Trade

Foreign trade has promoted foreign economic exchange and created a large amount of hard currency for China. The ratio of imports and exports from foreign-funded businesses to China overall foreign trade grew from 17.4% in 1990 to over 50% in 2002. Within overall foreign trade, the ratio of foreign-funded exports to total exports rose from 12.6% in 1990 to 52.1% in 2002. Meanwhile, the ratio of foreign-funded imports was 53% in 2002, up from 23.1% in 1990.

The exact data of imports and exports from Finnish-funded businesses is not available. Among about 60 Finnish-funded production plants in mainland, China, telecommunication and electronics enterprises are the leading exporters. Among the top 500 China’s enterprises in
import export in 2001, six of them are Finnish-funded production enterprises. (Table 8) By the end of 2001, sales volume of Nokia in China reached EUR 3.4 billion and its export volume exceeded EUR 2.5 billion, winning China’s number one exporter in the telecommunication industry. Export volume of Beijing Capital Nokia mobile Telecommunications made one forth of the total export volume of Beijing in 2001, thereby keeping itself the biggest exporter of Beijing from 1998 to 2001.32

3.6.2 Job Opportunities

Foreign-funded businesses play an increasingly important role in creating job opportunities for the Chinese. Foreign-funded businesses now employ about 23 million people, up from 2 million people in 1990, accounting for 10% of the national urban working population. The capacity of providing employment of Finnish-funded companies in China is not very outstanding compared with other foreign companies. In Shanghai Waigaoqiao Free Trade Zone where Wärtsilä NSD (Shanghai) Engine will these children get a job in a foreign enterprise?

Table 8. Finnish-funded Enterprises Among the Top 500 China’s Enterprises in Import and Export (2001) US$ 10,000

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Name</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Beijing Capital Nokia Mobile Telecommunications</td>
<td>101617</td>
<td>95513</td>
</tr>
<tr>
<td>32</td>
<td>Dongguan Nokia Mobile Phones</td>
<td>83255</td>
<td>40563</td>
</tr>
<tr>
<td>91</td>
<td>Beijing GKI (Elcoteq)</td>
<td>8</td>
<td>54119</td>
</tr>
<tr>
<td>97</td>
<td>Beijing Nokia Hangxing Telecommunications Systems</td>
<td>7224</td>
<td>41955</td>
</tr>
<tr>
<td>122</td>
<td>Nokia Suzhou Telecommunications</td>
<td>23603</td>
<td>18326</td>
</tr>
<tr>
<td>330</td>
<td>Dongguan Elcoteq Electronics</td>
<td>4496</td>
<td>12765</td>
</tr>
</tbody>
</table>

Source: http://www.chinamarket.com.cn/C/invest/500_index.html

Will these children get a job in a foreign enterprise?
Co. Ltd., Dynea Shanghai, Metso Automation and other 6,000 enterprises are located, Philips alone employees over 10,000 workers. Finnish-funded enterprises employ about 15,000 local employees in whole China. Most of them are small-sized companies except for several large corporations. Secondly, investment from Finland focuses mainly focus on non-labor-intensive industries. Some of the big Finnish employers include: Nokia, Elcoteq, Kone and UPM-Kymmene. (Table 9) However, the significance of large sized Finnish companies increases to the labor market in smaller Chinese cities and guide the need for local vocational education. UPM-Kymmene Changshu Paper Mill cooperates with Changshu Secondary Specialized School and provides financial support to set up two special classes of papermaking. About hundred students are studying there and supposed to be employed by the paper mill after graduation. It is the first time for the local education government to cooperate directly with foreign-funded enterprises on education.

### 3.6.3 Tax Payment

In 1992, foreign-funded businesses paid RMB 12.2 billion in taxes to the Chinese government. Ten years later, they paid RMB 348.7 billion (about EUR 40.4 billion). The ratio of tax income (customs and land-use fee exclusive) from foreign-funded businesses to the overall tax income of China increased from 4.25% to 20.52% in the same period. Finnish-funded companies in general pay taxes according to the Chinese laws. Kone Elevator Company in Kunshan, Jiangsu Province, for instance has been awarded as ‘Excellent Tax Payer’ by Kunshan Township government for many times.

### 3.6.4 Environmental Impact

China started taking foreign governmental loans in 1979 and has developed such relationship with 24 countries and organizations. From 1979 to 2000, the amount of governmental loans from Germany, France and Spain ranked the top three. Among 1,746 projects financed by the money borrowed from developed countries, 1,654 have been carried out and the other 92 are still under construction. Over two thirds of the projects are invested in central and west parts of China. While witnessing the rapid economic growth in China, some international financial organizations reduced the concessional credit projects to China. Nordic states, including Finland, Norway, Sweden and Denmark have become the most active countries in granting concessional credits to China.

The Finnish credit program acts in line with the agreed Helsinki Package, and as a result the project portfolio has changed drastically since 1992. After this year, selection procedures were mainly focused on the selection of projects which are not commercial viable. Since 1996 concessional credit projects should be concentrated on the transfer of environmental technology and on the social sector according to another Decision-in-principle. However, it can be observed that the credits were more directed to energy, medical equipment and agriculture sector. Quite many

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Table 9. Number of Employees of Finnish-funded Enterprises in China (>700 people)

<table>
<thead>
<tr>
<th>Name</th>
<th>Employees (approximately)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elcoteq (Beijing, Shenzhen &amp; Dongguan)</td>
<td>3,500</td>
</tr>
<tr>
<td>Kone Elevators</td>
<td>1,000</td>
</tr>
<tr>
<td>Nokia</td>
<td>5,000</td>
</tr>
<tr>
<td>Metso Valmet-Xi’an Paper Machinery Co. Ltd.</td>
<td>1,300</td>
</tr>
<tr>
<td>Stora Enso (Suzhou and Hangzhou)</td>
<td>740</td>
</tr>
<tr>
<td>ACP Electronics (Suzhou)</td>
<td>950</td>
</tr>
<tr>
<td>UPM-Kymmene Changshu Paper Mill</td>
<td>700</td>
</tr>
</tbody>
</table>

32 "Nokia as No.1 Exporter in Telecommunication Industry of China", *China Economic Times* (Zhongguo Jingji Shibao), June, 6, 2002

33 Employees number of Nokia in China is obtained from website of Finpro (http://www.finpro.fi/print.asp?Section=54&Item=13691), but reservation is kept on this figure.
projects financed by Finnish concessional loans in China generate positive environmental effects, but should be seen as individual cases instead of being considered representative for the whole project portfolio.

Contribution of Finnish concessional loans in improving environmental situation in China in summary shows in fields such as natural disaster prevention and control, energy-saving technology of community heating system, upgrading of urban sewage treatment and recycling of pollutant discharge. The Yellow River Flood Control project (1994–1996) introduced by the Ministry of Water Resources with US$ 8.1 million concessional loans from Finland has a positive effect because of the prevention of flood damages. Another successful case is the Nanjing Xiaguan Power Plant, which imported LIFAC (Limestone Injection into the Furnace and Activation of Calcium) desulfuration technology from Fortum with Finnish concessional loan. Thereby, Xiaguan Power Plant was awarded “Project of Excellent Environmental Protection” by the Finnish government. The new technology not only decreases pollution of sulfur dioxide but saves RMB 23.5 million (EUR 2.7 million) annually for the plant.  

NEGATIVE IMPACT ON CHINA

To keep average annual economic growth rate at seven percent, this ambitious economic target set by the Tenth Five-Year Plan (2001–2005) determines that China’s ardor in pooling in foreign investment will go on. To sustain a competitive edge compared with other developing countries, China has to keep incentives in its foreign trade policies while at the same face rising problems and conflicts resulted from the large infusion of foreign investment. The most critical problems are proper-
ty assessment, industrial and regional monopolies, pollution shifting, trade friction, extranational treatment, non-abidance by China’s Labor Law, and the expanding income gap between coastal and inland areas.

3.6.5 Trade Friction
Trade friction increases when labor-intensive production transfers to China from abroad. The rise in China’s trade imbalance as a whole is intensifying frictions with importing countries. Japan, the U.S. and Europe are all seeing surges in their trade deficit vis-à-vis China, and calls are mounting for the yuan’s revaluation. Meanwhile, China has been the most frequent target of antidumping measures. However, in some individual sectors, for example imports of paper products, China initiates its own antidumping investigation against imports.

China’s paper industry is seen as the ‘morning sun’ industry attributing to its drastic growth of consumption and production. Demand for middle and high graded paper has made China the most profitable market for big paper multinationals from Finland, Japan, and the United States. The trade friction and competition between domestic companies and foreign importers at the same time increases, following the rise of paper imports. In December 2001, Gold East (Jiangsu) and other three domestic paper companies applied for antidumping investigation on coated art paper imported from South Korea, Japan, U.S and Finland. Stora Enso and M-real were the two Finnish companies accused of dumping actions. In the end the Ministry of Foreign Trade and Economic Cooperation of China ceased the antidumping investigation on Finnish companies, because the ratio of their imports of coated art paper was less than 1.5% of the total. The case reflects that the conflicts and keen competition between China’s paper producers and Finnish producers are getting tenser.

3.6.6 Gap Expanding between Coastal and Inland Areas
Many scholars have shown that the penetration of global forces often leads to the increase of regional inequality in developing countries. FDI tends to be urban-biased and located in major Third World cities and core regions, as these places tend to have higher investment returns, are more open to the international markets, enjoy better infrastructure facilities, and have a better-educated labor force. The spatial concentration of FDI often leads to a polarized process of urbanization and reinforces regional inequality. Foreign investment has had a great impact on China’s regional development. FDI has been concentrated in China’s coastal provinces and has become an important source of investment for them.

Since economic reforms were launched in 1978, rapid growth and dramatic changes have taken place in China. Uneven regional development based on comparative advantage was considered as necessary to achieve rapid and efficient economic growth. A spatially balanced pattern of development is no longer emphasized, although the idea has never been totally discarded and has been re-emphasized lately. The ambitious strategy to develop the western China (Xibu da Kaifa) is the latest manifestation of this idea. Interregional inequality has risen further, and its increase during the past decade was substantial. About 87% of FDI cluster at eastern region and only 13% choose the central and western regions. (Table 10) In 2002, per capital income of rural residents in Guangdong Province in the east was RMB 3,912, compared with RMB 1,710 in Qinghai Province in the west. The core–periphery structure established during China’s semi-colonial period has persisted after four and a half decades of socialism.

As previous section 2.3 shows, investment from Finnish companies is more unevenly distributed in China. Beijing, Shanghai, Tianjin, Guangdong and Jiangsu Province have attracted

Table 10. Provincial Distribution of Foreign Direct Investment (US $ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Region</td>
<td>536</td>
<td>92.9</td>
<td>3,045</td>
<td>93.9</td>
<td>32,641</td>
<td>87.7</td>
<td>35,963</td>
<td>86.9</td>
</tr>
<tr>
<td>Beijing</td>
<td>76</td>
<td>13.1</td>
<td>277</td>
<td>8.5</td>
<td>1,080</td>
<td>2.9</td>
<td>1,975</td>
<td>4.9</td>
</tr>
<tr>
<td>Tianjin</td>
<td>5</td>
<td>0.8</td>
<td>83</td>
<td>2.6</td>
<td>1,521</td>
<td>4.1</td>
<td>1,764</td>
<td>4.38</td>
</tr>
<tr>
<td>Hebei</td>
<td>1</td>
<td>0.2</td>
<td>39</td>
<td>1.2</td>
<td>547</td>
<td>1.5</td>
<td>1,042</td>
<td>2.58</td>
</tr>
<tr>
<td>Liaoning</td>
<td>7</td>
<td>1.2</td>
<td>248</td>
<td>7.6</td>
<td>1,425</td>
<td>3.8</td>
<td>1,061</td>
<td>2.63</td>
</tr>
<tr>
<td>Shanghai</td>
<td>11</td>
<td>1.9</td>
<td>177</td>
<td>5.5</td>
<td>2,893</td>
<td>7.8</td>
<td>2,836</td>
<td>7.04</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>9</td>
<td>1.5</td>
<td>141</td>
<td>4.3</td>
<td>5,191</td>
<td>13.9</td>
<td>6,077</td>
<td>15.07</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>3</td>
<td>0.4</td>
<td>48</td>
<td>1.5</td>
<td>1,258</td>
<td>3.4</td>
<td>1,232</td>
<td>3.06</td>
</tr>
<tr>
<td>Fujian</td>
<td>16</td>
<td>2.8</td>
<td>290</td>
<td>8.9</td>
<td>4,044</td>
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Liaoning: FDI in the harbor city of Dalian accounts for 76% of the total amount in Liaoning Province.
Chongqing: Chongqing was detached from Sichuan Province as a municipality directly under the central government in 1997.
the majority of investment from Finland. As the largest investor among all the Finnish companies, only one out of nine joint ventures of Nokia is located in Chongqing, central China. The eastern region attracts more Finnish companies because of its closeness to the end market, more highly educated labor force and better logistics and strong support from the local government. The eastern region has benefited more than the interior from the increase FDI from Finland in China. The significance of FDI is further compounded by the fact that China’s economy is still largely investment-driven.

3.6.7 Industrial Monopoly by Foreign Investment

In the early stages of openness, the Chinese government required the Chinese side of a joint venture to hold a majority of the shares. In the 1990s, however, foreign investors have demanded more shares and the policy was forced to change. More and more projects today are fully owned by foreign companies. In 2001, the ratio of newly established wholly foreign-funded enterprises was 60% among all the foreign-funded enterprises. The ratio went up to 65% in 2002. Some foreign investors have purchased an entire industry or most of the companies in an industry in certain geographic areas. Gradually, foreign companies have monopolized in sectors of production of electronics and telecommunication equipment, detergent, plastic products, beverage and production of transportation vehicles. Almost all of China’s detergent companies have joined with foreign companies. The trend of industrial monopoly by foreign investors is quickly spreading to other sectors such as textile and garment, electrical machinery, rubber products and pharmacy.

Domestic enterprises are retreating in defeat when encountered with competition from foreign enterprises, because the latter possess abundant funds, more advanced technology, mature and effective management system. Many foreign companies obtained their monopoly status by increasing their shares significantly in the joint ventures. Structure of capital shares determines the final control of a joint venture. During the early stage, a joint venture helps foreign investors to take use of Chinese partners’ sales network, good social relationship and cheap labor force. Meanwhile, Chinese partners are obliged to share risks in developing the market, advertisement and research investment, even loss in line with their shares. In time of rapid growth of the joint venture, foreign investors often ask for increase of shares. When Chinese partners fail to add investment pro rata, their shares are in fact diluted. Foreign investors pick up the ‘ready fruit’ to successfully enter the Chinese market, while Chinese partners are either kicked out or keep minor shares within the joint venture. Their original purpose of entering into the international market with the help of foreign partners are never to be realized.

Before China’s accession into WTO, the government had more authority to regulate foreign investment in order to ensure it brings modern technology into China. The Law on Foreign-Capital Enterprises prescribed before its amendment in the end of 2000 that “enterprises with foreign capital shall use advanced technology and equipment. All or majority of the products are for export.” Chinese government carried out taxation incentives to encourage technology investment. But in order to fulfill the rules of WTO, compulsory articles were eliminated in the new Law. Instead, “Enterprises with foreign capital shall be established in such a manner as to help the development of China’s national economy. The State may encourage the establishment of foreign capital enterprises that are export-oriented or technologically advanced” (Article 3). Chinese government agreed in Protocol On The Accession of People’s Republic of China to WTO that “China shall ensure that the distribution of import licences, quotas, tariff-rate quotas, or any other means of approval for importation, the right of importation or investment by national and
sub-national authorities, is not conditioned on: whether competing domestic suppliers of such products exist; or performance requirements of any kind, such as local content, offsets, the transfer of technology, export performance or the conduct of research and development in China”. (Article 7, iii) Nokia’s move to merge four of its joint ventures to gain a majority in shares in China early this year indicates its intention to get rid of constraints from Chinese partners which by the new rules of WTO has lost their significance as bridges or licences in a more open Chinese market.

There are about 370,000 foreign-funded enterprises in China, among which 250,000 are registered in Chinese taxation departments. However, 60% of the foreign-funded enterprises declare operating in red with a total loss incurred RMB 120 billion (EUR 14 billion). Price Transfer is one of the common used methods to evade tax in China. Price transfer or internal price, is the central management of one multinational set prices for intermediate goods, technology, fund or labor force which are transferred from one division to another. Transferred prices are mainly used to maximize the multinational's total profit. In China, multinationals are skillful at using transferred price to evade tax, reduce risks of political factors and foreign currency, minimize regulation for foreign currency and gain a competitive edge in the joint ventures. They are taking advantage of loopholes in present Chinese taxation law system. In addition, 500 professional and 300 part-time auditors are far from satisfying the demand for professional auditing work in China. In 2001, Stora Enso has acquired Purple Charta Investments’ 20% shareholding in Stora Enso Suzhou Paper Co. Following this acquisition, Stora Enso owns 80.87% of the coated fine paper mill, and the local Suzhou Hua Sheng Paper Mill and Suzhou Handicraft Industry Cooperative (under Suzhou Light Industry Group) the remaining 19.13%. Suzhou Paper Mill operated in red since it started up production in 1996. Stora Enso acquired the majority shareholding (61%) in 1998. One local financial press suspected that the price
of imported pulp purchased by Stora Enso for Suzhou paper mill was obviously higher than the average price in the international market in 2001. The huge loss forced Chinese partner, Suzhou Light Industry to sell its shares to pay back bank loans. Stora Enso thereby obtained the priority of acquisition. Stora Enso kept a very low profile toward the accusation when its joint project of an industrial-scale plantation and integrated pulp and paper operations with Guangxi Zhuang Autonomous Region Government was in process.\(^{35}\)

3.6.8. Negative Environmental And Social Impacts

The inconsistency between foreign trade policies and environmental protection policies lie in the inappropriate guidance of foreign trade policies that cause resources deterioration and increased pressures to the ecological environment in China. Indeed, developing countries do not have rigorous legislation protecting the environment. Environmental standards are much looser than those of developed countries. Thus, the cost of pollution control is much lower. These differences stimulate some foreign companies to transfer their production to developing countries such as China. According to a survey, a considerable number of companies from both developing and developed countries, and some from Hong Kong, Macao and Taiwan, transfer pollution to China to make profits through FDI by taking advantage of loose environmental regulations and standards in China. For these companies, Chinese environmental policies and regulations play their role in reviewing and approving the establishment of joint ventures and foreign-invested companies in China; and in implementing EIA and “three simultaneity action”.

There is no data on application of environmental protection by Finnish-funded enterprises in China. In 1997, in six coastal provinces and four municipalities directly under central government, State Environmental Protection Administration and Ministry of Foreign Trade and Economic Cooperation carried out a joint check-up for the application of EIA and “three simultaneity action” by foreign-funded enterprises, which had been set up since 1993 and whose investment is smaller than US$ 5 million. The check-up results show that ratio of implementation of EIA by foreign-funded enterprises is much lower than that of domestic enterprises. The gap in 1996 was even 23.4%. The ratio of implementation of “three simultaneity action” by foreign-funded enterprises was only 63.2% since 1993, 20% lower than that of domestic enterprises. One Finnish company which has a wholly-owned production plant in China replies in its feedback of questionnaire that they even don’t know there are local regulatory mechanism and safeguards with regard to environmental risky projects. Strengthening environmental requirements in environmental policies and regulations for foreign-invested companies is the key for coordinating environmental policies and foreign investment policies.

As China’s open door policies were spatially and sectoraly uneven, regions receiving more preferential policies tend to have advantages in attracting FDI and promoting international trade. This unfairness has generated much conflict among regions, among sectors and between central government and local governments. The importance of FDI in revenue and income generation has stimulated the competition among local governments. To attract FDI, local governments have offered more preferential policies by providing more land, improving infrastructure, protecting the interests of foreign investors and forming local-global alliances. Some local governmental officials have used the amount of foreign investment inflows as sole criteria for judging the level of openness in a region, or used foreign capital as an effective means to solve problems like unemployment, poverty alleviation and lack of capital without considering environmental and social impacts. Some local governments

\(^{35}\) Financial Times (Caijing Shibao), September 28, 2002
even adopted preferential policies for attracting foreign companies to invest in polluting projects, considering only the short-term local interest at the expense of long-term sustainable development.

Concessional credits used in health sector have caused increased price of the health care which hit the poor people and increase their poverty, not decrease as the main purpose of the development cooperation should be.

**A. Decline of Cultivable Land**

Numerous open districts have been established and huge agricultural lands have been converted to urban and industrial use, leading to the rapid decline of cultivable land in China, especially in the coastal provinces where the problem of land shortage is even more serious. In addition, to secure suburban farmland for industrial use, local governments used whatever measures they could to take over the land from farmers, often without proper compensation.

**Jiangsu**, situated at the center of the eastern coast, stretches on both banks of the lower reaches of the Yangtze River and boards the Yellow Sea in the east. Its coastline extends some 1,000 km. The province links Anhui and Shandong provinces in the northwest and borders with Shanghai and Zhejiang Province in the southeast. It covers a total area of 102,600 square km, making up 1.06 percent of China’s total territory. But it’s densely populated with 75.81 million people and per capita cultivated land is less than one *mu* (666.7 m²), lower than the national average of 1.2 *mu* and very close to the 0.8 *mu* warning line of UN. Jiangsu has been a very important agriculture region in China. With a warm climate and plentiful rainfall, the fertile farmlands there abound in agricultural products of various kinds. However, its export-oriented economy and industrial production are taking the lead and attention in the past several years. By the end of 2002, 85 industrial development zones of various kinds have been established in Jiangsu. All these Zones have taken away **460 square kilometers** of cultivated land. Provincial and local government have invested altogether RMB 77.8 billion (EUR 9 billion) for infrastructures construction of the Zones, which refer to turn cultivated land into asphalt roads, build production plants on filled and leveled fishing ponds and pay compensation to farmers. Between 1990 and
1995, the implementation ratio of EIA of state-level and provincial level development zones was only 21% and 50% respectively, many among which were performed afterwards. Foreign-funded enterprises purchased the right of using the land in the zone for 50 to 70 years and the management committee, in fact a representative office organized by the municipal or township government provides necessary infrastructure such as road, electricity, water, sewage, telecommunication. Industrial zones in different towns, cities and province are in more intense competition in attracting foreign investment because of similar incentives. The management committee of one development zone in Jiangsu even promises to give the land to foreign investors for free if they invest more than US$10 million.

About one fifth of all Finnish-funded enterprises are located in Jiangsu and the majority of them choose to open up their production plants in development zones. Nokia (Suzhou) Telecommunication, UPM-Kymmene (Suzhou) Forest Industry, and Efore Electronics are settled down in Suzhou Industrial Park; Stora Enso Suzhou Paper, ACP Electronics Suzhou, Filtronic Suzhou Electronics in Suzhou National New and High-technology Industrial Development Zone; Kone Elevators in Kunshan High-technology Industrial Park, UPM-Kymmene in Changshu Economic Development Zone; Valmet Technology Center and Metso Paper Machinery (Wuxi) Co. Ltd. in Wuxi Science and Technology Intensive City.

Up to now, development zones of all kinds in China have occupied about 2,000 sq km cultivated land and the majority of them are fertile farmland in densely populated coastal areas. Abandoned land due to industrial factors and polluted land by industrial production are not counted in above-mentioned figure. Given the severe shortage of cultivated land and its very unevenly distributed feature in China, expansion of industrial zones is destroying our future.

B. Waste And Pollution of Water
China is a country in short of water. Per capita water resource is only 2,500 cubic meters, which barely reaches one quarter of the world average level. Additionally, China’s water resources are extremely unevenly distributed. Over 80% of the overall water resources are distributed along the Yangtze River and its southern area. The supply and demand conflict of water resources is very obvious in nine provinces of northern China, with average level per capita is less than 500 cubic meters. For more than 60 million people living in some dry mountainous and pasturing areas, clean and enough drinking water is still a dream. The issue of water resources is very complicated involving many aspects, such as economy, society and environment. On one hand, the development of industry and agriculture is restricted by insufficient water resources to a great extent in most areas of China. Among 620 cities of the whole country, approximately 320 cities are short of water and 110 are in serious shortage. On the other hand, there exists the phenomena of water and energy waste in some other areas. The energy consumption per 10,000 dollar GNP in China ranks first in the world, which is 2.2 times more than that of India, 4–6 times that of developed countries.

Owing to its favorable soft and hard investment environment, Jiangsu Province has become one of the most important paper making bases in China. Some of the largest and most influential global paper tycoons have set up their paper mills there, such as Finnish wholly owned UPM-Kymmene Changshu Paper Mill with US$600 million investment, and Stora Enso Suzhou Paper Mill and Gold East Paper (invested by Asia Pulp & Paper Co. Ltd.). Policy of attracting foreign investment of Changshu local government is made at the expense of environment deterioration and enormous waste of water resources. Quoted from the local report, "success of the local government attributes to its attention to pool in foreign projects which
consume large amount of water, electricity, land and transportation. ... Indeed, competition in attracting foreign investment has stepped to a higher level. Local government should build up a stage where influential customers (referring to global TOP 500 corporations) are able to perform well. Heavy industries that demand electricity, water and land extremely much were ignored and avoided before. They are now becoming main actors in the economy along the Yangtze River and contribute to the rapid growth of foreign investment in Changshu. In this sense, foreign investors don't have to be concerned about relocation of local people, financial compensation by occupying peasant’s farmland and houses, constraints on water consumption, and disputes with neighboring residents. All the possible frictions and conflicts have been moved away with the help of local authority. What they need to do is purchasing the land-use right and prepare an EIA report on constructing a plant in the Zone. After the plant is put into operation, most of the foreign-funded production plants can pass regular or irregular pollutant discharge tests organized by the local environment offices, which is partly due to the less stricter environmental standards applied both to domestic and foreign enterprises, and partly due to the lack of know-how and professionals of environmental management and monitoring.

The guiding strategy of Changshu government is against the National Tenth Five-Year Plan for Environmental Protection, which aims at guiding industrial enterprises and industrial zones to reduce consumption of energy and resources and pollution to take a win-win path of economic growth and environmental protection. One investigation on ‘visits and letters involved with environmental issues by region’ shows that in the year 2000, total number of letters on disputes on environmental pollution concerned on water, air, solid waste and noise, working style, inventions and suggestions in Jiangsu Province ranked number three after Guangdong and Zhejiang.

C. Natural Resource Exploitation of Some Industries
During the early stage of paper trade between Fin-
land and China, Finnish companies profited considerably from exporting fine paper to China. Since the operation of more local fine paper mills, Finnish paper companies shifted their strategy to setting up paper mills in China. UPM-Kymmene’s wholly owned Changshu Paper Mill was ready in 1999 and Stora Enso bought a joint venture in 1998.

The forest coverage in China is only 16.55%, with 10.45% lower than the average level in the world. The total consumption of paper started to exceed production in 1996 in China. Per capita paper consumption is 26 kilos, only half of the average level in the world. However, Chinese consume the second largest amount of paper and paperboard in the world and will demand about 370 million cubic meters in 2005. The value of China’s forest imports in 2001 was US$ 6.64 billion and forest imports became the third largest goods of using foreign currency. It is estimated that in the near future (2005–2015), the gap between supply and demand will reach 120 ~ 170 million cubic meters in China.39 To satisfy the market demand, China’s government has three times lowered customs duties of timber and timber products significantly. The fact is the huge and continually rising demand for pulp from China’s market has caused exploitative deforestation of Indonesian tropical forests.

The first stage of UPM-Kymmene Changshu Paper Mill was equipped with a paper machine which has an annual capacity of 350,000 tons of fine paper. Its following project is to add a second production line with an annual capacity of 400,000 tons of fine paper. The EIA report has been approved by China’s SEPA. UPM-Kymmene established strategic alliance with APRIL in 1997 by loaning US$121 million to the latter and in return APRIL provides Changshu Paper Mill with cellulose from its branch company Riau mill (called RAPP, Riau Andalan Pulp & Paper) in Indonesia. The vast majority of the fiber for APRIL’s Riau mill is mixed tropical hardwood obtained through the clearance of natural rainforest in Sumatra. Riaupulp’s deforestation in Indonesian Teso Nilo national park has been causing irreversible damage to tropical forests and local biodiversity. In 1998 a US$ 250 million export credit was granted to APRIL Changshu Paper Mill, which was jointly owned by APRIL and UPM-Kymmene. However due to non-disclosure, there is no proof that Finnvera guaranteed this credit, but it would be odd deviation, if that would not have been the case. In 2000 APRIL sold 51% interest in jointly-owned Changshu fine paper mill to UPM-Kymmene and it became a 100%-owned subsidiary of UPM-Kymmene. Thanks to the extensive and continuous protests and campaigns by international and Finnish NGO activists, UPM-Kymmene has stated that it won’t buy raw material for Changshu Paper Mill’s second paper machine from APRIL because of its unaccountability.40

Both UPM-Kymmene and Stora Enso have been actively involved in large projects of tree plantation in South China to solve the problem of raw material for China’s market. The main planted forest establishment efforts are concentrated in southern and eastern China with clear focus on collective regions in southern China such as Guangxi and Guangdong Provinces where the most favorable overall site conditions exist. Stora Enso is investing US$ 1.6 billion for an industrial-scale plantation and integrated pulp and paper operation in Guangxi. At the same time, UPM-Kymmene’s integrated pulp and paper project is going on in Zhanjiang, Guangdong Province. UPM-Kymmene, China Fuxing Pulp and Paper Co. Ltd and Guangdong Finance Investment (Holding) will jointly invest altogether RMB 9 billion (about EUR 1 billion) with 45%, 45% and 10% shares respectively. China Fuxing Pulp and Paper Co. Ltd is a state-owned invest-

40 Helsingin Sanomat, December 18, 2002
ment company for pulp and paper industry, while Guangdong Finance Investment (Holding) Corporation Ltd is an investment company owned by the Guangdong provincial authorities. The new pulp mill will become the largest pulp project in China with a yearly capacity of 700,000 tons. In the first phase UPM-Kymmene will concentrate on forestry operations in Zhanjiang region. The role of planted forests in the South China is particularly important for the supply of cellulose fiber to China’s market. However, management of planted forests can only be sustainable and have positive impacts when it is carried out properly. According to the International Tropical Timber Trade Organization Guidelines for the Establishment and Sustainable Management of Planted Tropical Forests, natural forest should not be cleared for the establishment of planted forests unless it is proved to be essential to justify retaining the land under forest cover. Necessity, feasibility and desirability of replacing existing natural or secondary forest by planted forest should be comprehensively and professionally assessed in manner which ensures independence of judgment. The assessment should include the full range of economic, social, ecological and environmental implications and their long-term consequences. Community consultation and discussion should be involved to make sure that forest management decisions meet community needs and are socially acceptable. The feasibility investigation and research of Zhanjiang pulp project mainly highlights economic gains while ignoring its social impacts and not to mention community consultation and discussion at all.

“A large-sized pulp project has been one of the industrial projects Zhangjiang city strives to have for years. The plan for a 500,000 tons capacity or 700,000 tons was not decided by investors before the workshop. After four-day-long field study and discussion, experts agreed unanimously that forest resources in Zhanjiang, project’s location, transportation, water and electricity, environmental protection and technical design suit for a pulp mill with a 700,000-ton capacity. It
will have a more competitive edge, stronger anti-risk capability and more profits. Experts also provided valuable advice and recommendations on supply of water, electricity, fire control and fulfillment of forest land."

— Zhanjiang Daily

The forest sector is tragically notorious due to issues such as corruption, vested interests, rent-seeking behavior, parochial attitudes and lack of transparency in the allocation of resource rights.

D. Cheap Labor Is Treated Cheaply
Social economic impacts assessment is required in Guidelines for an EIA in China (see 3.4.4). The interpretation of the concept “environmental impact” is narrower in the Finnish ECA institutions. The Finnish cases emphasize the emission of a project and the direct impacts on the natural environment. No consideration of alternatives is included in the assessments.

One of the factors to attract foreign investors is cheap labor force in China. State cradle-to-grave security is fading away, and new private-sector bosses don’t always offer their workers an alternate safety net. For many employers, Chinese labor isn’t only cheap, it is treated cheaply. Even though the Labor Law of China (1995) prescribes labors shall enjoy social insurance which include medical insurance, retirement insurance, childbirth, unemployment insurance, injury and disability on duty or contracted with occupational diseases, many foreign-funded enterprises, especially Hongkongese and Taiwanese ventures avoid taking out any employer’s liability coverage. For example, up till 1998, enterprises in Suzhou National New and High-technology Industrial Development Zone didn’t pay medical insurance for their workers. 41 Most large foreign capital ventures insure themselves at low levels, reflecting local Chinese indemnity standards. In Shanghai Waigaoqiao Free Trade Zone, Shanghai workers enjoy five basic social insurance items, while the rest 40% workers from other cities enjoy a commercial insurance package which only covers three items of the five. China has promoted a group contract system. However, signing group contracts through consultation between the trade union and the enterprise has not been adopted by most foreign-funded enterprises. Workers are weak and vulnerable in the labor relationship with employers because they can’t participate in the drafting of labor contract concerning wages, social securities, working hours and so on.

It is very common that foreign employers extend working hours without any consultation with laborers and the trade union. Workers have no right to strike under Chinese laws. The surplus of cheap labor in China further deteriorates the bargaining power of laborers and compels them to stand the miserable situation. Governmental labor departments solve labor disputes through afterwards measures such as educating employers and taking fines, which cannot solve the problems completely. In many cases, governmental labor departments refuse to disclose information on badly-performing foreign plants with the excuse of protecting rights of foreign investors.

Some other social problems in joint ventures are associated with Chinese partners. For instance, budget for primary and middle schools affiliated with state-own enterprises were counted within production costs or allocated by government offices in the planned economy. But under new finance regulations, education budget is no longer counted before taxation. Valmet–Xi’an Paper Machinery Co. Ltd. is a joint venture between Metso Machinery (Valmet) and Xi’an Paper Machinery Factory. Valmet’s refusal to share the social obligation and finance affiliated schools has caused them serious difficulty.

41 Suzhou Statistical Year Book, 1999
4. Conclusion
The last decade witnessed a rapid growth of trade between China and Finland. Inspired by commercial success of big Finnish companies in China, more and more small- and medium-sized Finnish companies have opened up market in China. Many of them are receiving export credits or guarantees from Finnish export credit institutions. Meanwhile, provided by the Ministry of Foreign Affairs of Finland, concessional loans tired to exports are concentrated in China in the latest years.

Indeed, bilateral trade activities such as import and export, use of concessional loans, FDI have benefited two countries. From the stand of China, imports and FDI from Finland increase foreign currency reserve, job opportunities and tax payment, update technology in fields of telecommunication, papermaking and nonferrous metallurgy. Projects financed by Finnish concessional loans contribute to mitigation of environmental pollution, improvement of urban public facilities. Nevertheless, FDI is profit-driven and its ultimate goal is to maximize profit wherever it goes. The change of discourses in Europe and globally at the same time shows that, despite the fact that the state occupies a crucial, determining role in the development of all modern, industrialized economies, the myth of laissez faire is given a new life by Michael Porter. Concentration of Finnish FDI on eastern coastal areas exacerbates the polarized process of urbanization and reinforces regional inequality. Industrial sectors with strong competitive advantages such as telecommunications and papermaking are occupying China’s market and undermining domestic industries. Bound by WTO rules, China’s government can do less and less to protect fledging domestic industries.

Taking advantage of China’s urge to attract a large quantity and fast rise of foreign investment, large construction projects that have significant adverse environmental impacts, for example paper mills, power plants and fertilizer plants can easily obtain approval of their EIA reports from Chinese local or central department of environmental protection. Due to non-transparency practices, strict censorship on media, and lack of democracy in China, especially at local levels far from monitoring of central government, affected communities and other vulnerable minorities, as well as other interested parties are not adequately and freely informed, not to mention being consulted before the approval and throughout the life of a project. Strict enforcement of environmental laws and rules has to be subordinated to local economic interests.

Currently EIA of Finnish export credits or guarantees do not include information disclosure nor human and social impact assessment. EIA is conducted by then experts hired by the company. ECA’s support for paper and pulp mills without application of the life cycle analysis (LCA) has been accompanied by destruction of forests in Indonesia and local people’s rights to land and livelihood resources. On the other hand, fully-government owned Finnish export credit issuing institutions belong to the group of ECAs that supports the lowest level of transparency, although Finnfund has revealed some information on some past funding decisions. Finnish civil society thereby has scarce resources to supervise ECA’s decisions with regard to environmentally and socially risky projects.

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42 Harvard professor Michael Porter is the author of Competitive Strategy, Competitive Advantage and The Competitive Advantage of Nations and an adviser to President Reagan.
43 Leila Mustanoja, Transparency or High Risks?, Finnish ECA Reform Campaign, P27
Given the negative impacts of Finnish trade activities in China illustrated in previous chapter, and China’s status as one of the most important recipient countries of Finnish export credits and guarantees and concessional loans, what can be done by both sides?

**BY FINNISH SIDE:**

a. Finnish ECAs are to ensure that local affected people, particularly peasants and other vulnerable minority ethnic groups, non-governmental organizations in China as well as other interested parties are freely and adequately informed and can bring to the environmental, social, cultural and economic impact assessment and monitoring processes.

b. All environmental, social and human rights impact assessments and all project-related information should be disclosed in Chinese and Finnish and accessible to Chinese and Finnish public prior to decision made by the board of ECA;
c. When EIA is carried out, loss of biological diversity and the interrelated social-economic, cultural and human health aspects relevant to the impacts should be addressed. EIA should look beyond the impacts of an individual project and use strategic environmental assessment to assess their cumulative and global effects, including on biological diversity.

d. EIA guidelines of Finnish ECA’s or organizations of trade promotion should encourage a study of the requirement by China’s legislation by Finnish companies in the fields of environmental protection and labor rights;

BY CHINESE SIDE:

e. From the perspective of Chinese side, the ideology of pursuing the large quantity and fast growth of trade should be changed. Fully implement the basic environmental protection policy to obtain comprehensive benefits of foreign trade, in terms of environmental, trade and developmental gains;

f. Update China’s foreign trade policies and regulations along with the changing environment both at home and abroad. Develop a framework to facilitate the assessment of the environmental impact of trade policies, taking into account the special needs and conditions of China;

g. Update environmental regulations and rules governing foreign trade activities. In accordance with EIA Law and Guidelines for assessment, establish a regulatory regime with regard to environmentally and socially risky imports and foreign-funded construction projects. The regulatory regime requires transparency of decision-making and strict implementation and enforcement of regulations. Departments of environmental protection at central and local levels should be ensured more power and be more actively in the process of approving new establishment of foreign-funded projects.

h. Chinese public, local affected people, non-governmental organizations shall be freely, accurately and adequately informed and can bring to the EIA and monitoring processes conducted by local or central departments of environmental organizations. EIA reports and monitoring results should be easily accessed by the Chinese public.

i. Management of special economic zones, technology development zones, high-tech development zones and economical open zones (where most foreign companies are located) should be strengthened from a perspective of sustainable development.

j. Chinese government should ensure its consistency with international environmental treaties it has signed, for instance, UN Convention On Biological Diversity. Chinese government always proclaims that China is the biggest developing country in the world. Therefore, China’s economic growth should not be at the expense of natural destruction or degradation of neighboring and African countries.


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Ms. Yun, Ge, the author of this report, is at present pursuing her Ph. D degree in the Department of Political Science, Faculty of Social Sciences of University of Helsinki. She obtained her Master degree of Law from Beijing University, China. Her Ph. D thesis will focus on the changing role of NGO’s in the Chinese system transformation.


Loppupäätelmissään kirjoittaja toteaa, että suomalaisetkin ovat Kiinassa vain maksimoidakseen voittojaan, ja näiden yhteisön hyödyntä Kiinalle ovat vähintäänkin kyseenalaiset. Suomalaisryhmit käyttävät muiden mukana hyväkseen Kiinan kovaa tarvetta houkutella ulkomaisia investointeja.

Kiinaan investoitien ja vievien suomalaisyritysten ja tätä rahoittavien tahojen tilaisuus on keskittynyt kiinnostajiin toimia täysin avoimesti ja taata paikallisten ihmisten kuuleminen ennen suuria investointihankkeita. Ulkomaankaupassa tilaisuus käyttää yhtä korkeita ympäristö- ja sosiaalistarpeita kuin kotimaassa. Myös Kiinan tulisi tarkemmin valvoa ulkomaisten yritysten toimintaa ja vaatia niiltä korkeatasoista ympäristö- ja sosiaalista vastuuta.
Kansalaisjärjestöjen kampanja
vientiluotto- ja takaulaitosten uudistamiseksi

Kampanjan tavoitteet
Kansalaisjärjestöjen vientiluottokampanja ajaa ekologisesti ja sosiaalisesti vastuullista julkista vienninmishitä. Vientiluottojen ja -takuiden ei pitäisi osallistua lahjontaan, kehitysmaiden lisääntyvään velkaantumiseen eikä ympäristön tuhoutumiseen, eikä niiden pitäisi viedä mahdollisuksia kestävään kehitykseen tulevaisuudessa.

Vientiluottolaitoksilla on oltava sitovat ympäristö- ja sosiaaliset ohjeistot sekä standardit, ja niiden päätöksenteon on oltava täysin läpinäkyvää. Eräät teollisuudenalat, kuten asekauppa, ydinvoima ja fossiilisten polttoaineiden voimalat on jätettävä vientiluottotuksen ulkopuolelle. Suomen vientiluotto-kampanjan kohderyhmänä ovat kaikki asianosaiset: vientiluottolaitokset ja muut vastaavat laitokset, kansalaisjärjestöt, suuri yleisö, poliittiset päättäjät sekä tiedotusvälineet.

Kampanjointi


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