

# *Analysis and Research on the Functions and Characteristics of Local Governments in Attracting Investment*

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**Abstract:** This article elaborates the development of investment promotion and capital introduction in our country, on this basis, summarizes the leading position of local government in investment promotion and capital introduction in our country, sums up the operating characteristics and achievements of local government in investment promotion and capital introduction, analyzes the political, economic and social hazards caused by this leading function orientation, and puts forward effective ways for local government to change the leading function orientation of investment promotion and capital introduction. The research provides certain reference for the future transformation of local government functions, scientific attraction of investment, and promotion of sustainable local economic development.

## **1. Introduction**

"Attracting investment refers to the activities of local governments (or development zones established by local governments) to attract investment (mainly non-local investors). It is the sales behavior of local governments (development zones) that mainly shows the situation by persuading investors to accept land or lease factories and aims at the investment environment of a region [1]. Attracting investment once became the main work of local governments at all levels, and appeared in government reports and work plans at all levels. According to market rules and business rules, in essence, it should be handed over to enterprises or other market subjects because it is a kind of business behavior and market behavior. However, the socialist market economy is different from that in the West. It did not grow freely, but grew up with the development and changes of China's planned economy, and its appearance time was not very long, and its perfection was not too high, that is to say, it grew up in the primary stage of market economy development. This market economy in the early stage of growth itself is a kind of "market economy dominated by the government" and retains its original superscript: [2]. While the local economic policy is controlled by the local government. In addition to the decision of development planning, most of the economic resources in the region are controlled by the local government in a direct or indirect way. Therefore, the political advantage lies in the local government, and the regulation and control ability lies in the local government, so it can be used casually, and the activities of attracting investment and attracting investment can still be carried out, and very obvious results can still be achieved.

## 2. The evolution of the function of attracting investment of local governments in China

After the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China in 1978, China implemented the policy of reform and opening up, and proposed to actively develop active cooperation based on equality and mutual benefit on the basis of self-reliance. China has gone through the following stages in attracting investment. One is the embryonic stage. Since the first stage in 1980, the symbol of attracting investment is based on four special economic zones, and the implementation of the central government's investment policy mainly depends on local governments. Its characteristic is that the investment promotion policy is formulated by the central government, and local governments must implement the investment promotion policy. Leading investment is the central government, and the executor is the local government. In 1980s, the central government decided to set up special economic zones, namely Shenzhen, Zhuhai, Shantou and Xiamen, which are "regional export-oriented economy based on market economy adjustment". In February of the following year, the Yangtze River, Pearl River Delta, Xiamen-Zhangzhou-Quanzhou region, Jiaodong and Liaodong Peninsula were further opened. With the further development of the economic open zone, the largest Hainan Special Economic Zone was established in April 1988. The establishment of special zones and coastal open cities has really started the development of China's export-oriented economy and provided an effective platform for attracting investment.

The second stage is the primary stage. Since the mid-1990s, the new round of investment promotion climax in recent 15 years is the second stage of investment promotion development. The degree of local government's participation in attracting investment has gradually increased. At present, attracting investment is dominated by the central government, but the role of local governments is becoming more and more important and their participation is getting higher and higher. In the course of 20 years' economic development, the eastern coastal areas have gradually established a relatively perfect export-oriented industrial system, completed the initial accumulation of capital, and realized the transformation from labor-intensive industries to technology-intensive industries and capital-intensive industries. With China's entry into WTO and economic globalization, it has effectively participated in international economic integration and adopted diversified and flexible ways to attract more capital and high-end industries into industrial parks. The pace of China's reform and development has been greatly accelerated, forming a pattern of opening up from coastal areas to provincial capitals along the border, along the Yangtze River and inland. China has initially formed a multi-level, wide-ranging and all-round opening mode, including special zones, economic and technological development zones, bonded zones, bonded belts, high-tech industrial development zones and border trade zones. Hundreds of industrial parks (development zones) have mushroomed in provinces and cities. According to statistics, as of February 2005, there are 6896 industrial parks with a planned area of 38,700 square kilometers. As of December 2005, only 2,053 parks have been planned, including 222 national development zones and 1,831 provincial development zones and below. Industrial communities have been established in many towns. The focus of these development zones is to attract capital inflow and enterprises to settle in and promote economic growth.

From 1992 to 2005, the local government was in the rapid development stage of attracting investment, that is, it established its leading position in attracting investment. Since the reform of China's economic system and the decentralization of central power, local governments have virtually strengthened their economic responsibilities and interest motives. Therefore, local governments have formulated a large number of policies to attract funds, such as various preferential tax policies and land use policies, and local governments have played a leading role in attracting investment. In 1992, Comrade Deng Xiaoping inspected the South and delivered an important speech, vigorously promoting the in-depth development of investment promotion. In 1992, with Pudong in Shanghai as the leader, six cities along the Yangtze River, such as Wuhan and Chongqing, and the Three Gorges Reservoir Area were opened, and the economic policy of opening coastal cities and regions was implemented. Meanwhile, four border and coastal provincial capitals, Harbin, Changchun, Hohhot and Shijiazhuang, will also open. Driven by the tide of reform and opening up, the export of

"foreign-funded" enterprises increased significantly in 1992, with an annual export value of US \$17.4 billion, an increase of 44.1% over the previous year. The scale of utilizing foreign capital has greatly increased. In 1992, the amount of new foreign investment agreements was US \$68.5 billion, an increase of 2.5 times over the previous year; By the end of 1992, the number of "foreign-funded" enterprises registered in China had increased by 847,000 and 47,000 compared with the end of the previous year. In 1996, the scale of foreign capital utilization grew steadily, and the actual utilization of foreign capital was US \$55.27 billion, an increase of 14.2% over the previous year. The structure of foreign investment was further optimized, and the number of infrastructure, basic industries, pillar industry projects and capital and technology-intensive projects increased. In 2000, with the implementation of the western development strategy, the opening to the outside world was further expanded to the western region of Guangxi. This year, 22,347 foreign investment projects were newly approved, an increase of 32.1% over the previous year; The contracted investment was 62.4 billion US dollars, an increase of 51.3%; The actual utilization of foreign direct investment is 40.7 billion US dollars. So far, China's all-round and multi-level pattern of attracting investment has taken shape.

The fourth is the standardization phase. Since 2006. Great changes have taken place in China's utilization of foreign capital, cooperation mode, focusing on supporting industries and adjusting regional structure. The key to improve the quality of utilizing foreign capital is to introduce advanced technology, cultivate high-quality talents and advanced management experience during the Eleventh Five-Year Plan period. To a certain extent, the improper behavior of local governments in attracting foreign investment is limited by these measures, and the functions of local governments in attracting foreign investment are gradually weakened or faded out. During this period, the local government started the investment process for more than 20 years, which set off a wave of reform, transformation and development. It is worthy of recognition that its development direction, but in the field of investment, the core of its investment is the government, and even its investment period model has returned to extensive manufacturing. At this stage, investment in local governments has not been relaxed. At the same time, service outsourcing projects began to be introduced by local governments through low threshold or even no threshold, and even took out fiscal revenue and introduced various tax reduction and exemption policies. In order to attract service outsourcing projects to settle down, the government has provided a large amount of funds for subsidies. In the stage of manufacturing investment, the government only made the policy of abandoning tax, land money, reducing levy or preferential levy. For service outsourcing investment, some local governments not only implement the previous preferential policies, but also "subsidize" various outsourcing projects and generate fiscal revenue. Therefore, the author believes that this stage is only another government-led investment from manufacturing to service outsourcing, which cannot be regarded as the conclusion that the local government has changed its correct function orientation in attracting investment.

### **3. Ways and types of investment promotion by local governments in China**

#### **3.1 Establishment of Development Zones**

Development zones are commonly called practical economic special zones in the world. They are the general names of free port areas, various economic free zones or free economic zones in the world today. Generally, they refer to specific areas where a country or region draws a certain range and implements special policies and management means in order to attract external production factors and promote its own economic development [3]. It mainly includes free ports, free trade zones, bonded zones, export processing zones, scientific development zones and other types. The rise of China's development zones is marked by the central government's decision to establish four special economic zones: Shenzhen, Zhuhai, Shantou and Xiamen in 1980. By constantly improving the soft and hard environment in the region, the development zone has created good conditions for scientific and technological innovation and industrialization development, formed various competitive high-tech enterprise clusters, and became a new pillar for revitalizing the urban economy. Practice has proved

that development zones have developed into an important field to attract foreign investment and promote economic and social development in China. Most of the development zones in various places have become new growth points of local economic development and important bases and windows for opening to the outside world.

### **3.2 Provide one-stop service for investment promotion**

In order to promote investment promotion, local governments have set up various institutions responsible for investment promotion, such as China Merchants Bureau, Foreign Investment Service Center and so on. In addition to setting up a special investment promotion department, "one-stop" service has emerged, that is, a one-stop service department set up by the government, which embodies the government's "pro-business" service, providing various services such as setting up, starting construction, construction and recruitment for investment enterprises, and special service personnel tracking the projects of various procedures. Investment enterprises are fully aware of policies and regulations, business information, workflow, government approval procedures, etc., so that they can fully enjoy the efficient and convenient services provided by the local government.

### **3.3 Introduce various preferential policies**

Attracting investment under the leadership of the government has become the lifeline of local development zones, and relevant preferential policies have become an important part of local economic development. In order to increase the intensity of attracting investment, all localities are competing to introduce preferential policies in attracting investment, which involve all aspects, and some local governments give certain subsidies and preferential policies. In addition, the local government also provides all-round infrastructure facilities, such as water and electricity supply, communication network and even road construction in factories, so that all the costs that should be borne by enterprises are paid by the local government. This practice sacrifices local interests in exchange for investment indicators, which exists more or less in various development zones, especially in small and medium-sized development zones, which damages more than contributes to local economic development.

### **3.4 All kinds of investment promotion activities are held**

"Going out, bringing in" is strongly advocated by governments at all levels and various development zones, and the number and frequency of visits are even regarded as one of the indicators of investigating work performance in investment promotion departments. Every year, various departments within the government regularly set up and lead teams in batches to go to various domestic and overseas investment promotion activities, and through publicity materials investment production, various types of investment promotion activities are held, such as investment promotion meetings, project negotiation meetings, investment promotion groups, knocking on the door through investment promotion personnel, etc. Based on "stagnation", change "cursory" type of investment promotion to "take root" type of investment promotion, hoping to find and attract investors [4]. In addition, relying on the construction of large-scale economic and trade negotiation activities and investment promotion platform, we carefully build, plan and organize major investment promotion activities, seek a commercial investment promotion mechanism focusing on large enterprises, large projects and industrial parks, and create conditions to attract them to invest and buy their own homes.

## **4. Analysis of the functional characteristics of local government attracting investment**

### **4.1 Create a good environment for attracting investment**

The construction of the investment environment includes both physical and non-physical aspects.

It is necessary to create a favorable social order and investment environment, foster a positive social atmosphere, and protect the legitimate interests of investors from infringement. At present, under the increasingly fierce competition for attracting investment, all localities are actively building infrastructure, striving to create and improve a good investment and financing environment, and insisting on full service for each imported project to help enterprises solve the problems encountered in project construction. First, to create an efficient government environment, we should focus on improving work efficiency around the requirements of "three new and one high", establish the concept of "management is service", improve the systems of social supervisors, comprehensive evaluation, morals evaluation, listing and reporting by the masses, and consciously accept the supervision of all parties. The second is to create a fair law enforcement environment: strengthen the supervision and inspection of law enforcement personnel and staff in key departments and industries, seriously investigate and deal with violations of discipline and law, and promote administration according to law and clean politics. It is necessary to severely punish people and things that eat and take cards, abuse power for personal gains, collect arbitrary charges and destroy the environment for economic development. The third aspect is to create a high-quality service environment. We should adhere to providing excellent services and comprehensive support, strengthen post-construction services for projects, overcome the tendency of placing more emphasis on attracting investments rather than providing services and management, and establish a comprehensive and end-to-end customer service network. This will promote the improvement, acceleration, and efficiency enhancement of work in various departments, shifting the focus from competing for policies to competing for services and environment.

#### **4.2 Create high-level parks and platforms**

Local governments should integrate various resources for enterprises and actively and comprehensively establish information platforms and service platforms for project entry. They should widely promote the local investment environment and investment attraction measures, provide economic and trade information to enterprises, enhance their ability to collect, process, transmit, and provide feedback on information, improve network terminals, and provide timely, accurate, and convenient information and business services to enterprises. It is the duty of governments at all levels to formulate legal policies for attracting investment that are suitable for local actual conditions. It is necessary to collect and analyze relevant information and formulate investment attraction policies that are practical and in accordance with laws and regulations. These may include industrial policies, preferential policies, and other related policies for investment attraction. It is important to stay updated with dynamic information on the domestic and international economic trends, such as industrial adjustments. Additionally, collect information on local natural and social resources, including basic information of industrial parks, the composition of key industries, park management and service information, investment attraction projects, and the workflow of investment attraction projects [5].

#### **4.3 Strengthen the supervision of investment promotion**

Supervision of investment promotion is an important part of the government's performance of economic management functions, which has a direct impact on the effectiveness of investment promotion. After enterprises and intermediary organizations become the main drivers of investment attraction, it is essential for governments at the provincial, municipal, and county levels to strengthen supervision and strictly prevent illegal activities, disciplinary violations, and cover-ups, thus preventing petty corruption. It is important to establish relatively independent, efficient social management agencies and create an efficient pattern of approval and administrative procedures. Additionally, it is crucial to establish a sound mechanism for interest distribution in local and park management institutions. Functional departments should be urged to fulfill their daily regulatory

responsibilities effectively. Strict adherence to the law, avoidance of favoritism and fraud, and the prevention of national policies and regulations being overridden by personal affairs are vital. Furthermore, supervision and protection in areas such as environmental protection and land resources must be enhanced.

## 5. Terminology

With the development of economy and society, as the leading role of attracting investment, local government plays an increasingly prominent role, which plays an important role in accelerating the establishment and perfection of the socialist market economic system. Defining the function orientation of local government in attracting investment is directly related to how to do a good job in attracting investment, the expansion of opening to the outside world and how to give full play to the promotion of attracting investment to local economy. Therefore, local governments at all levels of provinces, cities and counties must grasp the functional orientation, not only to maintain the image of the government in the whole process of economic function transformation, but also to escort the investment promotion work at this stage.

## 6. Conclusion

In conclusion, through in-depth analysis and research on the functions and characteristics of local governments in attracting investment, we can draw several conclusions. Firstly, local governments play a crucial role in attracting investment, as their proactive policy support and complementary measures can effectively attract external capital into the region and promote economic development. Secondly, there are variations in the functions and characteristics of different local governments in attracting investment, and corresponding strategies and measures need to be formulated based on specific circumstances. Finally, local governments need to fully leverage their resource integration and service support capabilities in attracting investment, establish a favorable investment environment and institutional safeguards to attract more investors and projects to the region. Through thorough research and continuous improvement, local governments can enhance their ability to attract investment and make greater contributions to the economic development of the region.

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