

KEY POINTS

- In 2012, the People's Republic of China (PRC) emerged as the third largest foreign direct investor in the world. This represented a continuation of the recent dramatic increase in the PRC's outward foreign investment flows.
- The PRC's outward foreign direct investment (FDI) is driven by state-owned enterprises eager for strategic assets and natural resources, and by privately owned enterprises seeking to relieve pressure from rising domestic labor costs.
- Asian countries are the largest recipients of the PRC's FDI, with 61% of the PRC's outward FDI flows in 2011 remaining within Asia.
- While the increase in the PRC's FDI provides important opportunities for developing countries, bilateral and multilateral negotiations are needed to address issues such as market access and host countries' concerns about unfair competition and national security.

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GOING GLOBAL: CAN THE PEOPLE'S REPUBLIC OF CHINA LEAD THE RECOVERY IN FDI FLOWS?¹

Minghai Zhou
University of Nottingham Ningbo
China
Minghai.Zhou@nottingham.edu.cn

Xianguo Yao
Institute for Public Policy of Zhejiang
University
cec_yaoxg@zju.edu.cn

1. Introduction

The 2008/09 global financial crisis weakened the risk appetite of United States (US) and European investors. The world is increasingly looking toward emerging economies such as the People's Republic of China (PRC) to make up for depressed investment flows from advanced economies in the post-crisis era. In this policy brief, we explore the characteristics of FDI flows from the PRC and ask whether they can drive a recovery in global FDI flows.

2. The PRC's Rise as an Emerging Global Investor

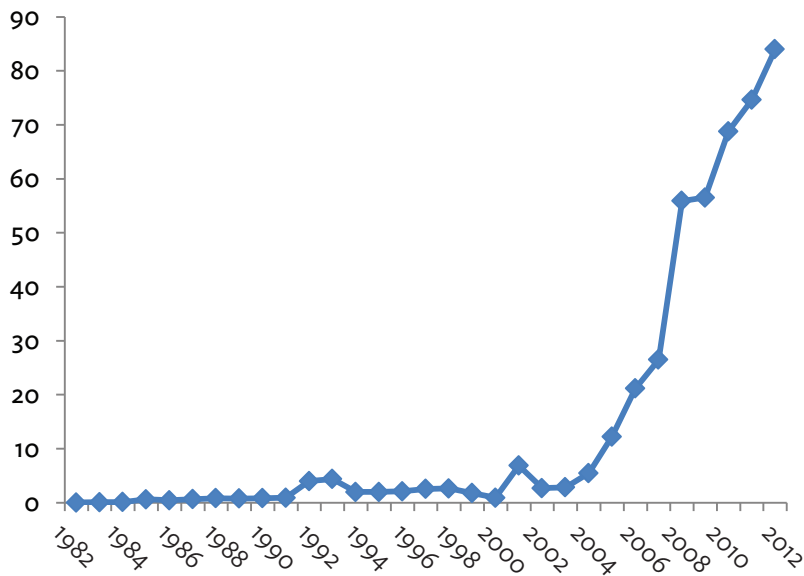
Between 2007 and 2012, foreign direct investment (FDI) emanating from developing and transitional economies rose from a share of 16% to 31% of total global FDI, and reached the highest nominal level ever recorded in 2012 (UNTCAD 2013). FDI from the People's Republic of China (PRC) has been a key component of this growth. Despite depressed FDI growth resulting from the 2008/09 global financial crisis, the PRC's multinational corporations (MNCs) have continued their decade-long buying spree, actively acquiring overseas assets in a wide range of industries and countries. This activity has resulted in the PRC becoming the third largest foreign investor in the world after the United States (US) and Japan (UNTCAD 2013).

¹ This policy brief is part of a series that highlights the competitiveness challenges that Asian countries face in the current economic environment where volatility has increased and trade is increasingly organized into regional value chains. It comes out of issues raised during the Asian International Economists Network (AIEN) Call for Papers Workshop, Trade Competitiveness in a World of Rapid Changes: Challenges and Opportunities for Asia, held at the Asian Development Bank (ADB), Manila on 22 March 2013.

Outward FDI from the PRC is proceeding at a “going global” pace. FDI from the PRC increased from less than US\$10 billion in the early 2000s to US\$84 billion in 2012, with an average annual growth rate of 47% since 2003 (Figure 1). This phenomenal increase has turned the direction of the PRC’s international

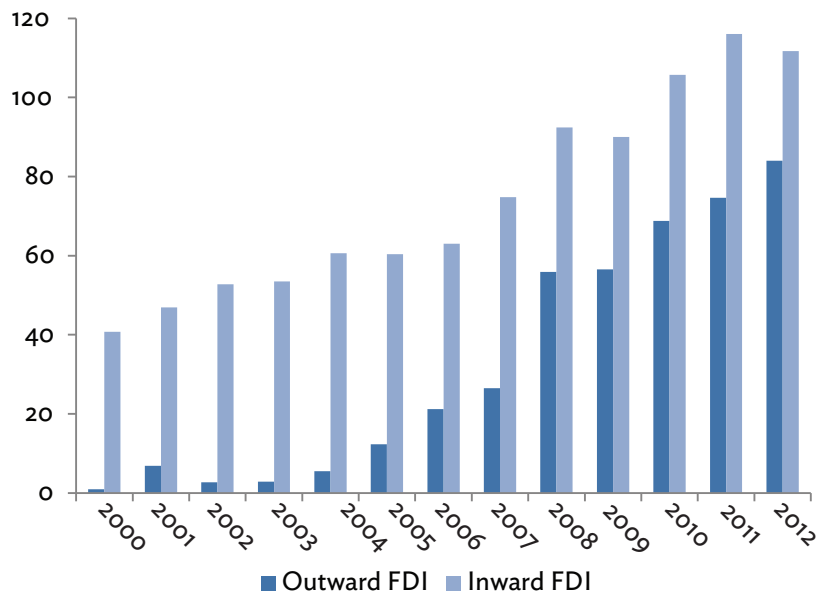
capital flows from one-way (inward) to two-way (outward and inward) FDI. In 2000, the volume of outward FDI was only 2% of the total volume of inward FDI. This ratio had increased to 75% of total inward FDI in 2012, creating more balanced international capital flows in and out of the PRC (Figure 2).

Figure 1: The PRC’s Outward FDI, 1982–2012 (\$ billion)



FDI = foreign direct investment, PRC = People’s Republic of China.

Figure 2: The PRC’s Inward and Outward FDI, 2000–2012 (\$ billion)



FDI = foreign direct investment, PRC = People’s Republic of China.
 Sources: Government of the PRC, State Administration of Foreign Exchange (SAFE). Balance of International Payments Database; Government of the PRC, Ministry of Commerce. Statistical Bulletin of the PRC’s Outward Foreign Direct Investment. Various issues. Beijing; Government of the PRC, National Bureau of Statistics. 2013. China Statistical Yearbook. Beijing.

3. New Trends in the PRC's Outward FDI

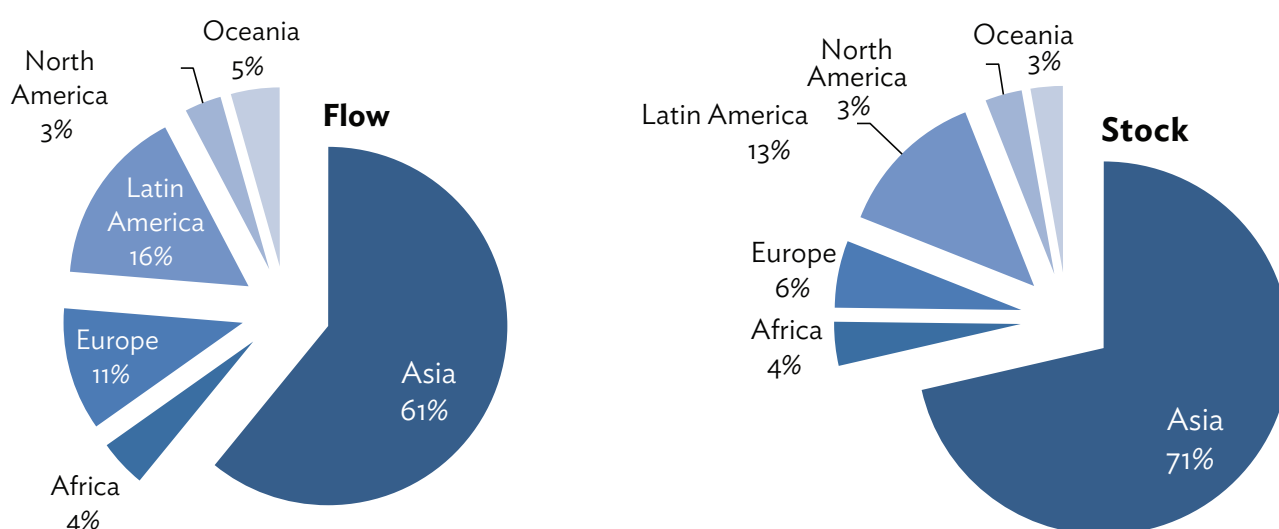
There are three characteristics of the PRC's outward FDI that make it distinct among developing country outflows.

A. Managing Risks in Developing Countries

The direction of the PRC's FDI (flows and stocks) indicates the ability of PRC firms to manage high levels of risk in developing countries. By the end of 2011, more than 13,500 of the PRC's

domestic investing entities had established about 18,000 overseas enterprises in 177 countries representing global coverage of 72%. Most of the PRC's FDI was distributed in Asian and Latin American developing countries, which accounted for about 80% of the PRC's total FDI flows in 2011 (Figure 3). Although developing African countries were the recipients of only about 4% of the PRC's total outward FDI flows in 2011, they accounted for an only slightly larger share of total world FDI flows in Africa in 2011 at about 7%. Furthermore, the PRC ranks as the fourth largest investor in Africa (UNCTAD 2012).

Figure 3: Regional Distribution of the PRC's Outward FDI by Flow and Stock, 2011 (%)



FDI = foreign direct investment, PRC = People's Republic of China.

Source: Government of the PRC, Ministry of Commerce. 2013. Statistical Bulletin of China's Outward Foreign Direct Investment (2012). Beijing.

B. Strong Role of State-Owned Firms

Recent trends and features of the PRC's FDI show that central level enterprises (CLEs) and state-owned enterprises (SOEs) still dominate, but with a decreasing share of the total volume of the PRC's FDI stock.² Table 1 illustrates that CLEs and SOEs accounted for 81% and 70%, respectively, of the PRC's FDI in 2008. By 2011, these shares had decreased to 76% and 63%, respectively. Table 2 shows that the average value of FDI stock of CLEs and SOEs were considerably larger than the FDI stocks of other types of enterprises. For example, the average FDI stock of CLEs was about 70 times larger than that of provincial level enterprises (PLEs), while the average FDI stock of SOEs

was about 10 times larger than that of non-SOEs.

In reality, these central and state-owned firms now engage in large-scale merger and acquisition (M&A) activities seeking strategic assets (e.g., information technology) and natural resources (e.g., oil and other raw materials) in developed and resource-rich countries. As the main stakeholder of SOEs, the Government of the PRC has effectively involved and supported, both directly and indirectly, the process of international investment decision-making, such that the term "firm-specific advantage" can now be reframed as "country-specific advantage" (Pei and Fan 2010). The geographic and psychological distance features of these MNCs are at odds with some aspects of the standard model of FDI of other developing countries whose FDI mostly locates in neighboring developing countries with a similar culture and customs (Buckley et al. 2008).

² CLEs refer to SOEs that are supervised and governed by the central government of the PRC. The classification of ownership type is based on the registration status of enterprises. See http://www.stats.gov.cn/english/classificationsmethods/definitions/t20020419_402787585.htm

Table 1: Share of the PRC's FDI Stock by Ownership Type, 2008–2011 (%)

	2008	2009	2010	2011
Total Value (US\$ billion)	184.0	245.8	317.2	424.8
Central vs. Provincial				
Central Enterprises	81.3	80.2	77.0	76.2
Provincial Enterprises	18.7	19.8	23.0	23.8
State-Owned vs. Non-State-Owned				
Domestic-Owned Enterprises	99.1	99.4	99.2	98.9
State-Owned Enterprises	70.0	69.5	66.4	62.9
Non-State-Owned Enterprises	29.1	29.9	32.8	36.0
Foreign-Owned Enterprises	0.9	0.6	0.8	1.1

FDI = foreign direct investment, PRC = People's Republic of China.

Notes: The value of the PRC's outward FDI refers to the non-financial sector. Data for state-owned enterprises and collective-owned enterprises were merged, as were data for foreign investment and investment from Hong Kong, China; Macau, China; and Taipei, China.

Source: Government of the PRC, Ministry of Commerce. Statistical Bulletin of the PRC's Outward Foreign Direct Investment. Various Issues. Beijing.

Table 2: Average Value of the PRC Enterprises' Outward FDI Stock by Ownership Type, 2008–2011 (\$ million)

	2008	2009	2010	2011
Average Value	21.50	20.36	24.40	31.55
Central vs. Provincial				
Central Enterprises	249.89	270.73	310.45	493.64
Provincial Enterprises	3.41	3.45	4.87	6.58
State-Owned vs. Non-State-Owned				
Domestic-Owned Enterprises	22.50	21.28	25.53	33.20
State-Owned Enterprises	85.51	96.91	143.38	164.03
Non-State-Owned Enterprises	8.11	7.56	9.58	13.87
Foreign-Owned Enterprises	3.65	2.49	3.75	5.78

FDI = foreign direct investment, PRC = People's Republic of China.

Notes: The average value of enterprises' outward FDI equals the total value of outward FDI divided by the numbers of domestic investing entities. The classification of different types of enterprises is the same as in Table 1.

Source: Government of the PRC, Ministry of Commerce. Statistical Bulletin of the PRC's Outward Foreign Direct Investment. Various Issues. Beijing.

C. The Increasing Role of Privately Owned Enterprises

Meanwhile, the same “going global” strategy has resulted in a more liberal framework for FDI in which the government acts as an indirect supporter encouraging privately owned enterprises to invest abroad. Since 2003, provincial level enterprises (PLEs)

and non-SOEs have dominated FDI, with an increasing trend in terms of the number of domestic investment entities. Table 3 shows that PLEs and non-SOEs accounted for 94% and 73% of the PRC’s total number of outward investing entities in 2008, respectively, and their shares increased to 96% and 84% by 2011. It can also be inferred from Table 2 that these PLEs and non-SOEs are primarily small-scale investors setting up new

Table 3: The PRC’s FDI Enterprises by Ownership Type, 2008–2011 (%)

	2008	2009	2010	2011
Number of Enterprises	8,557	12,072	13,000	13,462
Central vs. Provincial				
Central Enterprises	5.6	4.9	5.0	4.1
Provincial Enterprises	94.4	95.1	95.0	95.9
State-Owned vs. Non-State-Owned				
Domestic-Owned Enterprises	94.5	94.7	95.1	94.8
State-Owned Enterprises	21.5	17.6	14.6	11.3
Non-State-Owned Enterprises	73.0	77.1	80.5	83.5
Foreign-Owned Enterprises	5.5	5.3	4.9	5.2

FDI = foreign direct investment, PRC = People’s Republic of China.

Notes: The average value of enterprises’ outward FDI equals the total value of outward FDI divided by the numbers of domestic investing entities. The classification of different types of enterprises is the same as in Table 1.

Source: Government of the PRC, Ministry of Commerce. Statistical Bulletin of the PRC’s Outward Foreign Direct Investment. Various Issues. Beijing.

manufacturing plants to take advantage of low labor costs in neighboring countries. The growing importance of non-SOE investors indicates that psychological proximity is increasingly driving the motives of the PRC’s new MNCs, which is consistent with classical international investment theory (Dunning 1980 and 1981).

4. Impacts of the PRC’s FDI on Neighboring Asian Countries

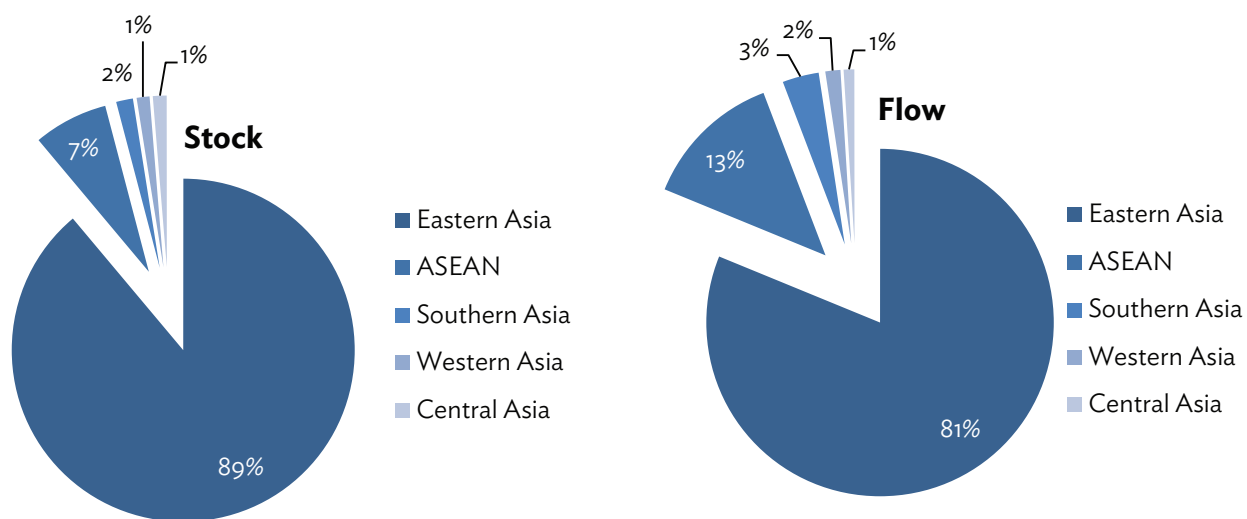
A. Asia as the Major Destination of the PRC’s Outward FDI

Asian countries are the largest recipients of FDI from the PRC, with their stock of FDI from the PRC expanding 41% between 2007 and 2011. Much of the PRC’s FDI within Asia goes to East Asia, especially Hong Kong, China, which has become the major destination for PRC investors (Figure 4). Meanwhile, the Association of Southeast Asian Nations (ASEAN) is attracting

an increasing share of the PRC’s FDI, receiving about 13% of the PRC’s FDI flows in 2011, ranking it second among all Asian subregions. These investments are mainly in the form of market-seeking FDI that is responding to increasing labor costs and other factors that limit future growth opportunities at home. By contrast, countries located in South Asia, West Asia, and Central Asia collectively received only 6% of the PRC’s FDI flows in 2011. These investments are largely in the form of FDI seeking to improve the PRC’s supply of natural resources from resource-rich countries.

B. Benefits from the PRC’s Increasing Investments in Asia

Table 4 shows that the PRC’s FDI has become increasingly important to Asian countries as a share of their total foreign investment. Between 2007 and 2011, the share of FDI from the PRC in the total stock of FDI in Asia increased by almost 6 percentage points. Among Asian subregions, the rate of growth of this share is highest in East Asia, particularly Hong Kong,

Figure 4: Distribution of the PRC's Outward FDI in Asia by Flow and Stock, 2011 (%)

ASEAN = Association of Southeast Asian Nation.

Source: Government of the People's Republic of China, Ministry of Commerce. 2012. Statistical Bulletin of the People's Republic of China's Outward Foreign Direct Investment (2012). Beijing.

Table 4: The PRC's FDI Enterprises by Ownership Type, 2008–2011 (%)

	2007	2008	2009	2010	2011
Total Share	2.8	5.2	6.2	6.5	8.3
East Asia	4.8	10.2	12.8	13.5	17.2
Hong Kong, China	5.8	14.2	17.6	18.3	23.0
South Asia	0.9	1.1	1.0	1.3	1.8
Southeastern Asia (ASEAN)	0.6	0.9	1.2	1.5	2.0
Myanmar	4.4	7.2	12.4	23.5	23.9
West Asia	0.2	0.3	0.3	0.4	0.6
Central Asia	1.7	2.8	2.6	2.8	3.4

Sources: Government of the People's Republic of China, Ministry of Commerce. 2012. Statistical Bulletin of the People's Republic of China's Outward Foreign Direct Investment (2012). Beijing; UNCTAD database.

China. ASEAN, particularly Myanmar, has also experienced a steadily increasing share of FDI from the PRC in its total stock of FDI.

5. Policy Implications of the PRC's Rise as a Global Investor

The PRC is emerging as a powerful new source of investment in the region and the world. According to the World Bank, the PRC is expected to be the world's largest source of FDI in 2030, accounting for 30% of total world investment (World Bank 2013). With the PRC's SOEs eager for strategic assets and resources, and its privately owned enterprises coping with rising labor costs, the PRC's going global strategy not only serves as an important way for the PRC to restructure the domestic economy and sustain long-run economic growth, but also supports global investment and economic growth recovery in the post-financial-crisis era.

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Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444 information@adb.org
www.adb.org/documents/briefs

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