International Investment

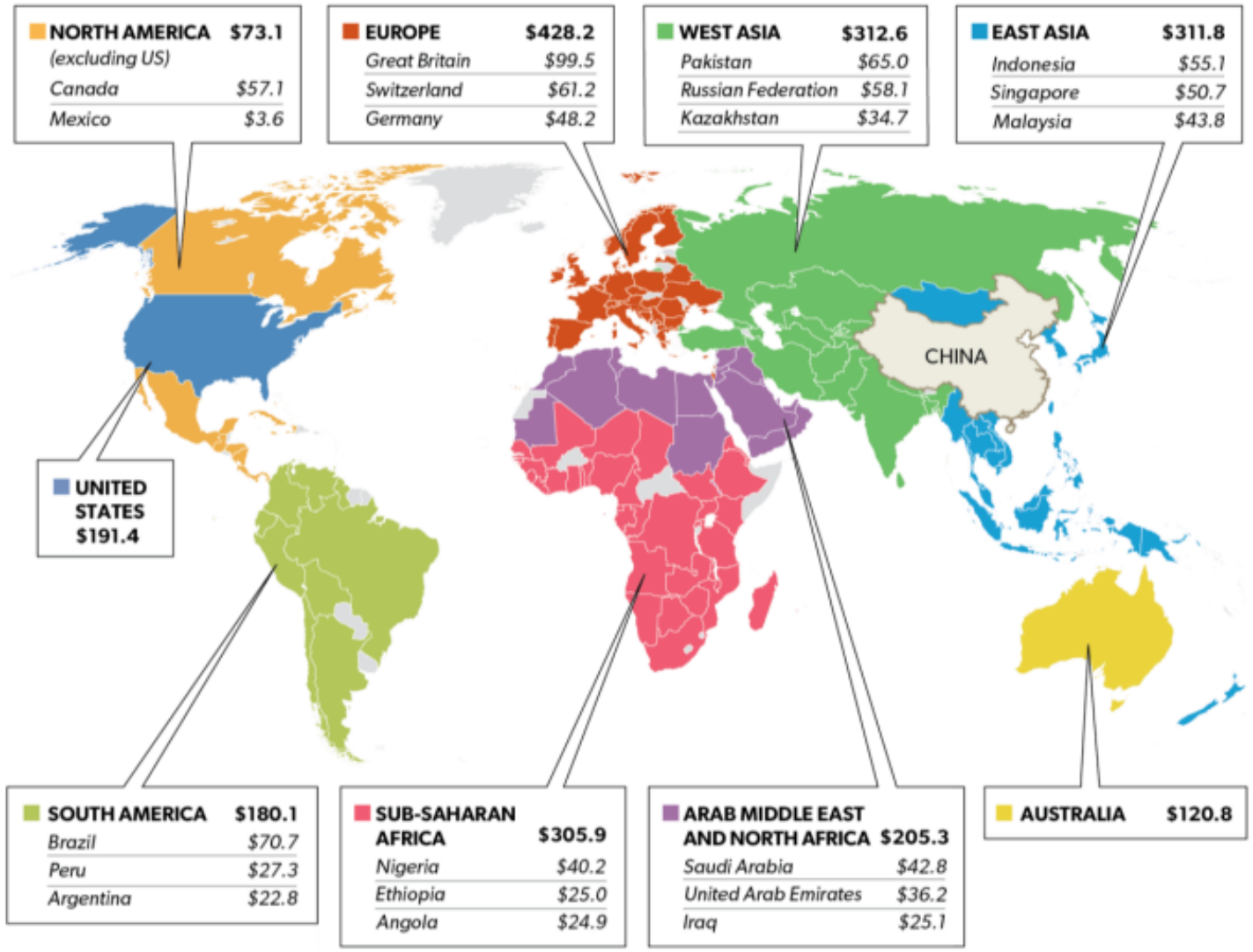
China global investment tracker

- https://www.aei.org/china-global-investment-tracker/

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2021, https://www.aei.org/china-global-investment-tracker.

Figure 3. China's Worldwide Reach

From 2005 through mid-2021, the combined value of China's global investment and construction exceeded $2.1 trillion. Historically rich economies receive the most investment, with the US the top country and Europe the top region. Pakistan and Saudi Arabia lead in construction activity. Investment and construction have slowed sharply during the pandemic.

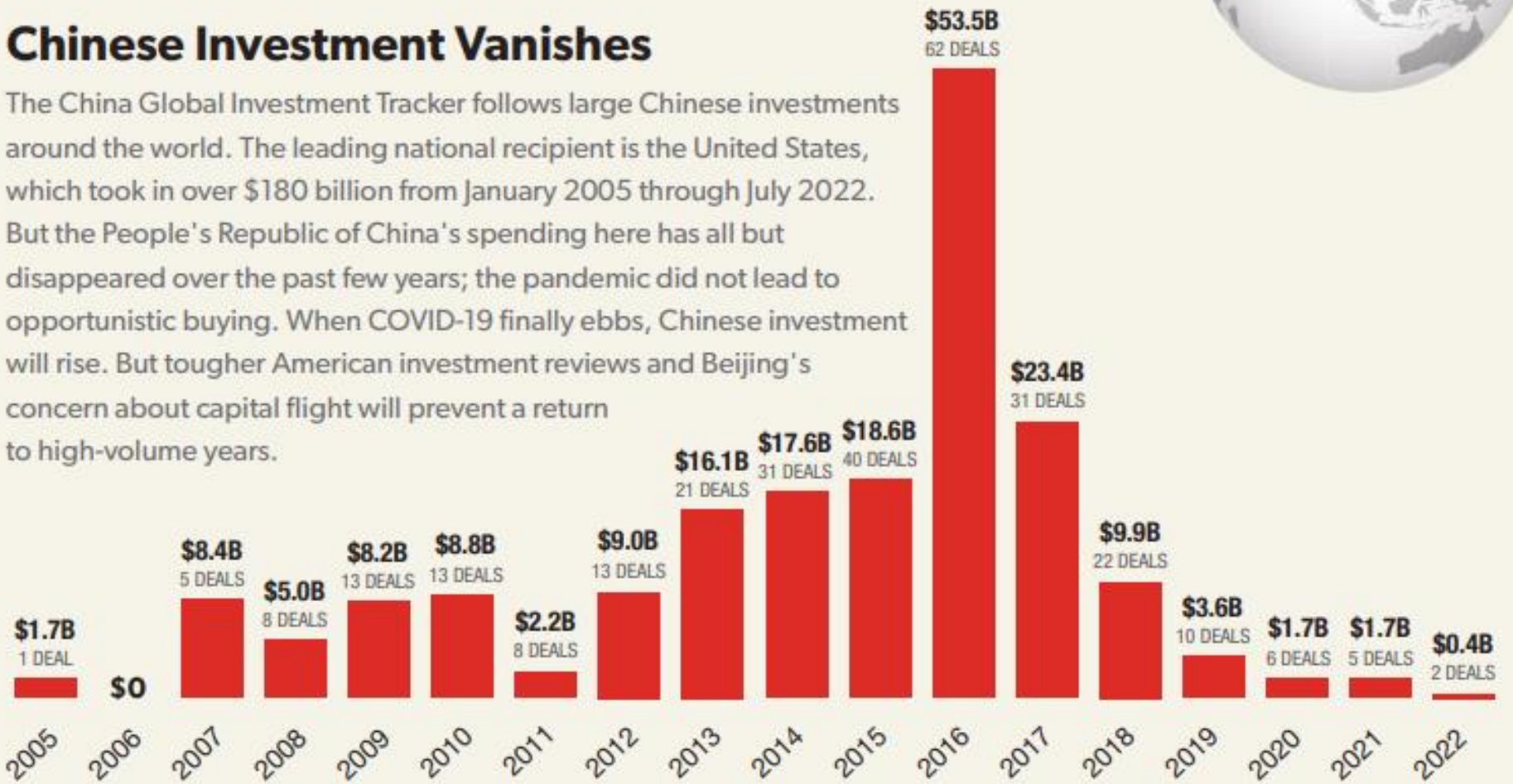


Note: Figures are in billions of dollars.
Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2021, https://www.aei.org/china-global-investment-tracker.

CHINESE INVESTMENT IN THE US

Chinese Investment Vanishes

The China Global Investment Tracker follows large Chinese investments around the world. The leading national recipient is the United States, which took in over $180 billion from January 2005 through July 2022. But the People's Republic of China's spending here has all but disappeared over the past few years; the pandemic did not lead to opportunistic buying. When COVID-19 finally ebbs, Chinese investment will rise. But tougher American investment reviews and Beijing's concern about capital flight will prevent a return to high-volume years.



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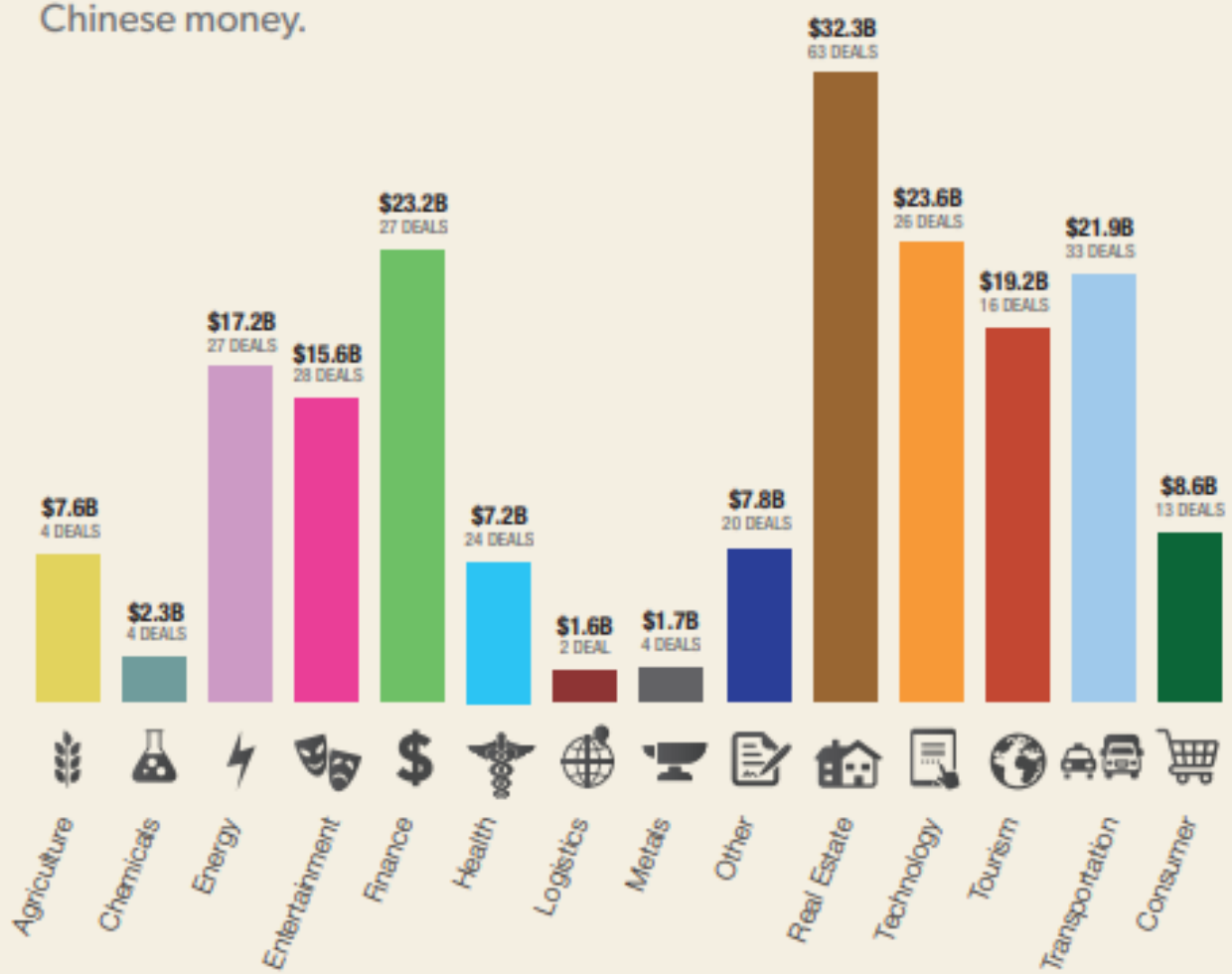
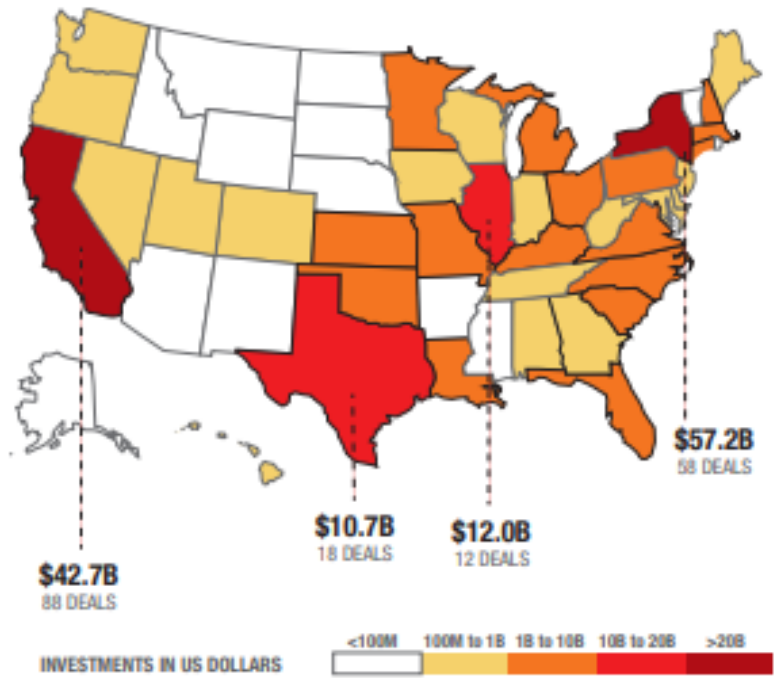
Diversified Across Sectors

Seven industries have drawn at least $15 billion in investment, topped by real estate. With spending now so low, no sector sees much new Chinese money.



Concentrated on the Coasts

New York leads in total investment attracted, while California leads in the number of deals. No other state is close on either dimension.



Source: China Global Investment Tracker.

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Overview of China's oversea investment

- in 2016, China was the third largest source of overseas investment
- has been an especially welcome source of foreign capital to developing countries
  - contributing significantly to infrastructure development in areas such as construction and information technology
  - views on the quality of Chinese goods and services are mixed
  - cases of Chinese investors cutting corners have damaged the country's reputation in some recipient countries.
- leading global investor in renewable energy infrastructure, particularly solar and wind
  - China's success abroad is attributed in large part to the strong domestic manufacturing capacity that it first built up at home

Economic impacts

- Infrastructure Development
- Economic Development
- Linkages with Local Industry
- Market Competition
- Technology, knowledge and skill transfer

Infrastructure Development

- Chinese activities in developing countries contribute needed infrastructure development to the host economy and improve local residents' access to basic infrastructure (Alden & Alves, 2009; Grimsditch, 2012; Schiere & Rugamba, 2011; SIPA, 2007; Urban et al., 2012)
- Chinese investors are willing to invest in countries with poor investment environments, indeed often where traditional investors and donors are cautious of investing (Cissé, 2012b; Corkin, Burke & Davies, 2008; Urban et al., 2012).
  - China's direct investment in the construction of roads, bridges, railways and hydropower, etc., has increased local communities' access to transportation and electricity in developing countries
- concerns with the quality of Chinese services, especially in the ICT and construction sectors (Corkin et al., 2008; Dalton, 2014; Gagliardone & Geall, 2014; Konjin, 2014; New Security Learning, 2011; Zhao & Zhang, 2014).

Economic Development

- investment, infrastructure and growing trade with China
  - contribution to economic growth is most often noted in relation to developing countries
  - has also been noted in OECD countries such as Australia
  - a synchronization of GDP growth rates between China and its trading partners in Africa and Latin America since 2000
- concerns about trade imbalances

Linkages with Local Industry

- Concern of low levels of local economic linkages
- low value-added procurement vs. high value-added product procurement
- the absence of local networks of specialized suppliers or, where they do exist, the high cost and often poor quality of goods means that many Chinese firms simply turn to the reliable, tried and tested, and cost-competitive established suppliers back in China (Gu, 2009)
- cultural and language distance imply higher transaction costs involved in a foreign subsidiary-domestic firm's relationship compared to those with the headquarters or other input providers in China (Amendolagine et al., 2012)

Market Competition

- Concerns have been raised about competition between Chinese goods and local industries
  - especially in the manufacturing and agricultural sectors, which may target the domestic markets of host countries
  - Joint ventures with local or international companies, as Chinese ODI often have in Argentina, do not increase competition in the local market

Technology, knowledge and skill transfer

- large-scale positive instances of technology transfer through research and development, on-the-job training and establishing training centres, such as in the ICT and natural resource sectors and the agricultural sector
- skill development
  - Chinese construction companies do provide employees with on-the-job training, focusing particularly on machine operation
  - five African host countries (Liberia, Ethiopia, Rwanda, Nigeria, and Zambia) does not find substantial technology transfers from Chinese investments

Community Impact

- Employment creation (income inequality, income generation)
  - evidence of job creation in host countries
  - a trend of increased workforce localization with time
  - quality of the jobs: increased hiring of local managers and technical staf
- Local residents welfare (food security, dislocation)
  - Particular concerns relate to large-scale projects in infrastructure, extractives and agriculture
  - engage in community development projects
    - individual companies building local facilities, donating to local causes and sponsoring education
- Employment conditions (labor relations)

Environmental Impact

- Environmental pollution and ecosystem destruction
  - investments in mining, infrastructure, forestry and agricultural projects
  - adoption of international standards on health, security and the environment
- Renewable energy
  - at least 124 investments in solar and wind industries in 33 countries over the past decade by 2013
  - Drivers:
    - 1) excessive manufacturing capability
    - 2) Chinese government policy support
    - 3) host countries' policies such as feed-in tariffs

Impact on Governance

- Governance, corruption and transparency
  - Corruption
  - investments in countries ruled by weak or authoritarian regimes

Causes of Impacts

- Host country characteristics and policies
  - level of economic development, the size of the economy, resource endowment, knowledge and skill base, composition of local labor supply, and the social, political and cultural characteristics of the host country
- Bilateral Investment Treaties
- Cultural Conflict and Chinese Companies' Lack of Experience

The enterprise system in China

State-Owned Enterprises Vs. Private Firms

- the basic story of the reform era has been the steady retreat of state-owned enterprises in favor of the private sector
  - a large and fast growing private sector, accounts for the majority of economic output and employment. But private firms are, on average, small.
- an extraordinarily state-dominated economy, SOEs command a far larger share of national assets than in other countries, and the vast majority of large firms in almost every economic sector are state-run
  - majority of the largest companies in China are state-owned
  - state firms dominate virtually all capital-intensive sectors.
  - The SOEs are often used as instruments of macroeconomic policy and industry regulation

Aims of SOE Reform

- lack of market prices meant that it was impossible to know whether a “work unit” was really creating economic value.
- this absence of knowledge about true economic value meant that work units did not face “hard budget constraints.”
- the production of any given product was fragmented into dozens, hundreds, or even thousands of separate work units throughout China=> impossible to achieve efficiencies from economies of scale
- no separation between producers and regulators

Reforms on SOE

- A comprehensive on in 1995
  - Clean up the nonperforming loans
  - Let private firms have more space in certain industry such as retail shops and restaurants
  - Set up several competing enterprises in key “national” industry
- Creation of subsidiaries suitable for listing on overseas stock markets
  - Package the most commercially attractive assets in the listing vehicle
  - No more than 20% of shares were sold to the public
  - Establishment of state-owned assets supervision and administration commission (SASAC)
    - Appointing senior management and holding them accountable for meeting financial targets
    - Maximizing the aggregate value of state assets
    - Gradually reducing the number of centrally controlled business groups to under 100—globally competitive

Structure of SOE business groups

- Top layer: unlisted parent group entity, controlled by the government via SASAC.
- Second layer: corporate subsidiaries wholly or majority-owned by the group entity.
- Third layer: minority-controlled subsidiaries and joint ventures, which usually enable the group to take an interest in peripheral activities.
- Fourth layer: companies that have no equity relationship to the group entity or its subsidiaries, but are bound by various contractual relationships
- SOE business groups typically operate within a single industrial sector
- most SOE groups have an in-house finance company

Impact of SOE reforms in the 1990s

- the number of SOEs was slashed, from 262,000 in 1997 to 110,000 in 2008, by consolidation, privatization, and bankcruptcy
- employment in the SOE sector fell from 113 million, or nearly 60% of total urban employment in 1995, to 64 million (20% of urban jobs) in 2007.
- Improved financial performance of SOEs
  - The average return on assets in state firms soared from 0.2% in 1998 to 5%in 2007.
  - SOEs' profits rose from just 0.3% to 6.6% of GDP in the same period

Size of state sector

- the largest state sector, relative to GDP, of any major economy
- in 2013 China had about 150,000 SOEs, with combined assets of around US$16.8 trillion, or 177% of GDP
- 1/3 controlled by the central government
- 2/3 controlled by provincial and other local governments

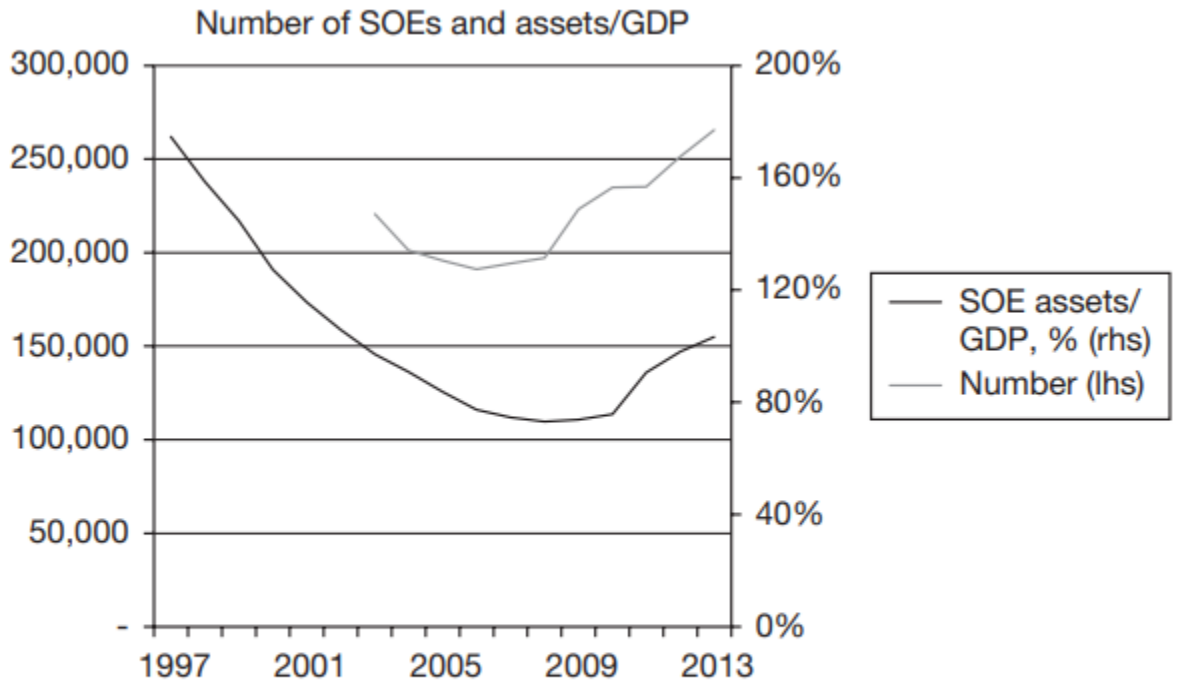

Figure 5.1 SOE Numbers and Assets

Source: Ministry of Finance.

Table 5.1 The World's Biggest State Sector: SOE Assets and Revenues, percent of GDP, 2011

Country	Assets (%)	Revenues (%)
China	145	26
India	75	16
Russia	64	16
South Korea	48	7
Brazil	51	12
France	23	8
Indonesia	19	3

Source: OECD 2011.