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China Invests (Somewhat) More in the World

By Derek M. Scissors

New data published in the American Enterprise Institute–Heritage Foundation China Global Investment Tracker show that China continues to invest heavily around the world. Outward investment excluding bonds stood at $85 billion in 2013 and is likely to reach $100 billion annually by 2015. Energy, metals, and real estate are the prime targets. The United States in particular received a record of more than $14 billion in Chinese investment in 2013. Although China has shown a pattern of focusing on one region for a time then moving on to the next, the United States could prove to be a viable long-term investment location. The economic benefits of this investment flow are notable, but US policymakers (and those in other countries) should consider national security, the treatment of state-owned enterprises, and reciprocity when deciding to encourage or limit future Chinese investment.

Many headlines around the world proclaim the impending Chinese financial invasion. China is investing more outside its borders, but growth is solid, not dramatic. According to the American Enterprise Institute–Heritage Foundation China Global Investment Tracker (CGIT), China's overseas investment accelerated in 2013 to around $85 billion.[1]

The leading target for Chinese investors last year was the United States, at better than $14 billion. The US is now slightly ahead of Australia as the top recipient since 2005. By sector, it is no surprise that China invests most heavily in energy and metals. In addition, real estate became more prominent in 2013.

There are governance problems in certain countries, but Chinese investment is typically a voluntary transaction on both sides and beneficial to both. A complicating factor is the role of heavily subsidized Chinese state-owned enterprises (SOEs). While SOEs remain dominant, the Chinese private sector is becoming more active in outward investment. This may allow host country policymakers, such as those in the US, to focus on reciprocity when evaluating Chinese investment.

Derek M. Scissors (derek.scissors@aei.org) is a resident scholar at AEI.

The China Global Investment Tracker

The CGIT offers the only fully public data set of Chinese outward investment. It includes well over 500 investments of $100 million or more recorded from January 1, 2005, through December 31, 2013.

Key points in this *Outlook*:

- Last year alone, China invested more than $14 billion in the United States. The US is now the top recipient of Chinese investment over the past decade.
- Around the world, Chinese foreign investment growth accelerated in 2013 and annual investments approached $85 billion. The annual total should break $100 billion in 2015.
- Chinese investment benefits the US economy. Nonetheless, American policymakers should and will consider restrictions based on national security, the treatment of state-owned enterprises, and reciprocity.

It also includes more than 400 engineering and construction projects undertaken by People's Republic of China (PRC) enterprises overseas, which are a crucial part of the country's global footprint. Finally, the CGIT includes over 100 troubled transactions, in which projects or acquisitions were impaired.

Investment growth accelerated in 2013, and annual investments approached $85 billion. A slowdown is now likely, but the annual total should break $100 billion in 2015.

The investment totals in the CGIT are similar to those published by the PRC's Ministry of Commerce (table 1). The similarity of the two series is odd, as the sets of transactions included are not exactly the same. The CGIT is published first, is subject to revisions, and lists all the transactions counted. The Ministry of Commerce does not reveal transactions, and a list previously published by the National Development and Reform Commission was not useful. Last year saw the first notable divergence of data between the CGIT and Ministry of Commerce since 2008. The divergence may indicate the ministry is becoming more thorough in counting smaller deals not included in the CGIT.

Table 1
Chinese Outward Investment Since 2005: Two Views ($ billions)

	China Global Investment Tracker	PRC Ministry of Commerce
2005	10.1	12.3
2006	19.8	21.2
2007	30.4	26.5
2008	58.4	55.9
2009	55.9	56.5
2010	68.1	68.8
2011	74.2	74.7
2012	76.3	77.2
2013	84.5	89.7*
Total	478.7	482.8

Note: *Extrapolated from official figure for January–November.

Sources: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker (data set), January 2014, http://thf_media.s3.amazonaws.com/2014/xls/China-Global-Investment-Tracker-2014.xls; Ministry of Commerce of the People's Republic of China, National Bureau of Statistics of the People's Republic of China, State Administration, of Foreign Exchange, *2012 Statistical Bulletin of China's Outward Foreign Direct Investment,* China Statistics Press, August 2013; Ministry of Commerce of the People's Republic of China, "Brief Statistics," January 24, 2013, http://english.mofcom.gov.cn/article/statistic/foreigntradecooperation/201301/20130100011531.shtml; Li Jiabao, "Overseas Investing Sees Large Jump," China Daily, December 19, 2013, http://news.xinhuanet.com/english/china/2013-12/19/c_132979617.htm.

Where China Is Going

The CGIT is much superior to official data in the treatment of Hong Kong as a final destination rather than a transit point. The Ministry of Commerce claims Hong Kong receives 40–60 percent of Chinese investment annually, but that money just passes through. The CGIT uses corporate-level information to follow capital to its final destination.

The prime target for Chinese investment in 2013 was the US, boosted by meat-processing company Shuanghui's acquisition of Smithfield. The performance also pushed the US past Australia, at least for the moment, to the top of the 2005–13 country rankings. But the story is not the PRC's overwhelming interest in the American economy. Aggregate US wealth is approximately 10 times larger than Australia's, yet the level of Chinese investment is only a bit higher.[2] (See figure 1.)

While those two nations are the clear leaders, Canada and Brazil have also seen substantial Chinese investment over time. The PRC plainly prefers large, resource-rich countries.

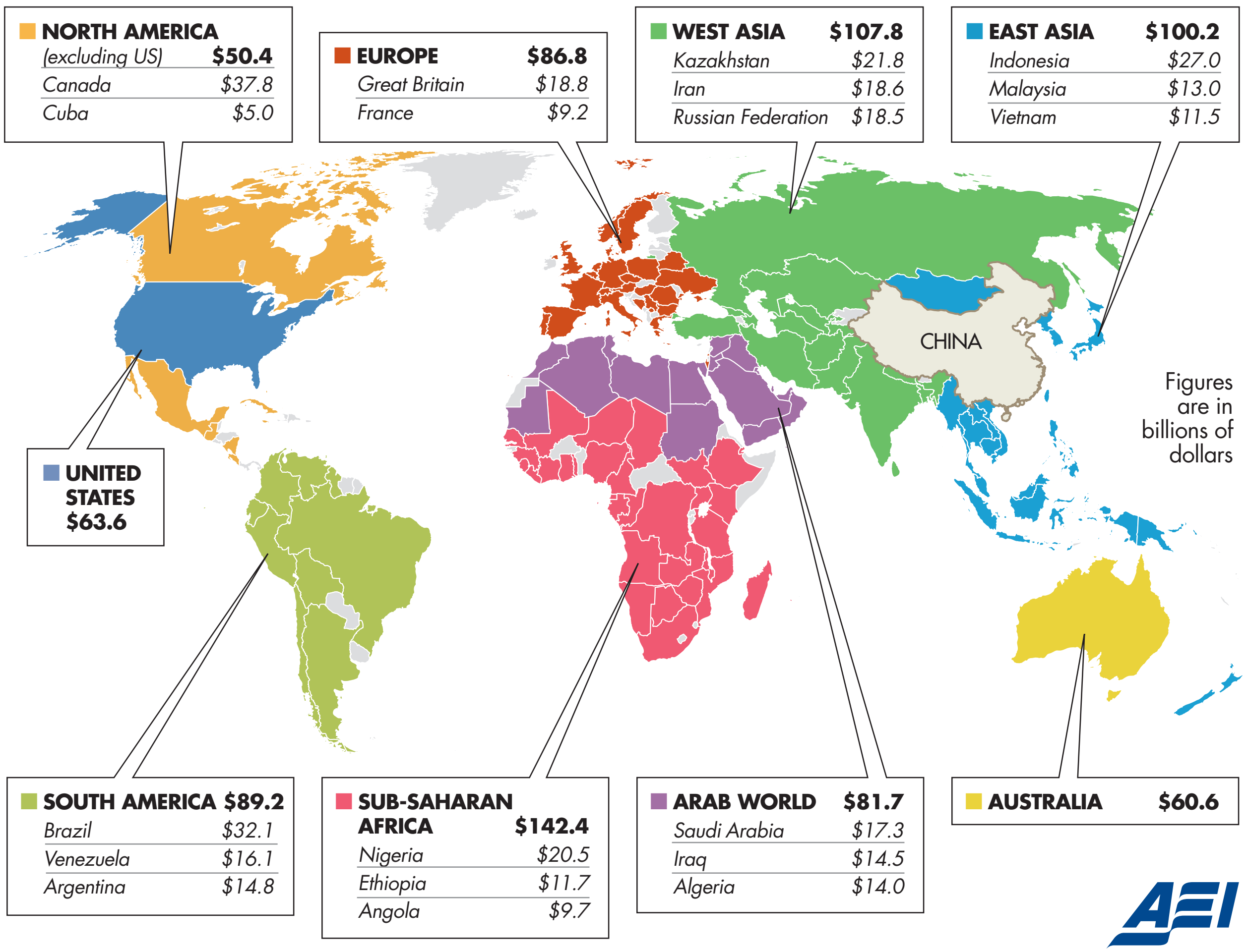
Last year, in particular, saw a number of transactions in the Russian Federation and a large investment in Kazakhstan. There has been a clear pattern among Chinese firms, where high regional activity lasts 18–24 months before they move to new targets. This occurs because the best projects have been snatched up and host countries have become uncomfortable with the flood of Chinese money. In 2012–13, activity was concentrated in North America. It could now move to West Asia. (There has also been a higher interest recently in Great Britain.)

Almost as important as investment are engineering and construction services provided by Chinese firms and often executed by Chinese workers. The CGIT list of such contracts is incomplete, but the captured value nonetheless exceeds $300 billion. Here the dominant players are developing, not developed, countries. Indonesia is the leading national recipient and sub-Saharan Africa, topped by Nigeria, the leading regional recipient. The Arab world also sees most of its Chinese business activity in the form of construction contracts.

FIGURE 1

CHINA'S WORLDWIDE REACH

The US has a narrow lead over Australia in drawing Chinese investment. Construction activity is concentrated in developing countries in sub-Saharan Africa and the Arab world.



Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, January 2014, http://thf_media.s3.amazonaws.com/2014/xls/China-Global-Investment-Tracker-2014.xls.

What China Wants

The sector breakdowns in official Chinese data, with categories such as "business and leasing services," are unhelpful. The CGIT uses conventional industry designations. The PRC's interest in commodities is well-known, and energy easily tops the list of sectors for both investment and construction (power plants). Metals are next for investment, while transport is second for construction (roads, rail lines, and port terminals). (See table 2.)

Annual real estate investments broke the $10 billion mark for the first time last year. Real estate purchases signify a more mature set of investors. They also can signify money spent merely for the sake of a higher profile, not for commercial value.

The PRC does not always get what it wants. Host countries frequently balk at what are perceived to be sensitive acquisitions, typically of land and natural resources. Some Chinese investors lack the capacity to close deals, even when contracts have been signed. A few completed financial transactions have seen notable losses, and the same could easily prove true for the recent rush of property purchases. If all the troubled transactions in the past nine years had proceeded smoothly, Chinese investment would have been almost $200 billion higher.

In six countries, investment and construction impairment surpasses $10 billion in value, accounting for over 60 percent of the total (table 3). Unsurprisingly, the headliners in terms of problems are the countries that see the most investment: Australia and the US. International sanctions against Iran halted several large Chinese projects there. The results for Germany and Nigeria are due to single large failures, and Libya's result is due to construction stopped by its civil war.

Table 2
Sector Breakdown, 2005–13 ($ billions)

Sector	Investments	Engineering and Construction Contracts	Troubled Transactions
Energy and power	225.9	144.1	82.3
Metals	103.1	11.5	60.3
Finance	39.1	—	27.3
Real estate and construction	37.9	36.4	9.1
Transport	23.7	87.3	22.9
Agriculture	23.4	11.0	9.5
Technology	11.1	10.3	13.9
Chemicals	6.4	2.1	0
Other	8.2	0.1	0.3
Total	478.7	302.7	225.6

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker (data set), January 2014, http://thf_media.s3.amazonaws.com/2014/xls/China-Global-Investment-Tracker-2014.xls.

A Trillion More?

Investment growth is notable but not spectacular. The bullish case on Chinese outward investment stems from the $4.6 trillion in foreign currency held by the government and state banks.[3] A good deal of this money is available to SOEs for desired projects in resources or technology. As a result, there will be on the order of $1.25 trillion in Chinese outward investment over the next decade. That number poses a question for host countries: how much of a Chinese presence do they want?

Table 3
Most Troublesome Countries, 2005–13

Country	Troubled Transactions, $ billion
Australia	44.1
United States	39.9
Iran	22.7
Germany	13.9
Libya	11.2
Nigeria	10.3

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker (data set), January 2014, http://thf_media.s3.amazonaws.com/2014/xls/China-Global-Investment-Tracker-2014.xls.

Each country will answer differently from others, and differently at different times. But only one offers everything the PRC wants in a host: clear property rights, land, energy resources, technology, and the size to absorb $50 billion in investment annually. The one country that could end the pattern of Chinese firms changing locations every two years is the US.

Foreign investment is good for the American economy, among other things for job creation. American policymakers might nonetheless consider restricting Chinese investment for three main reasons: national security, the role of SOEs, and reciprocity.

The security issue is vital but fairly simple: the Committee on Foreign Investment in the United States (CFIUS) should be charged with halting Chinese business activity, including but not limited to acquisitions, that poses a risk. It should conduct its evaluations quickly and as transparently as possible. Congress should be informed of and periodically review CFIUS performance.

National security is an incontrovertible objective; how to treat SOEs provokes more disagreement. The CGIT identifies the parent company of each investor. It turns out there is a clear split between the US and the rest of the world. Outside the US, SOEs account for approximately 94 percent of investment by value. The number was essentially 100 percent in 2010, so it is falling, but slowly.

In the US, the SOE share is only 68 percent and falling more quickly. Shuanghui is a private company, as are other investors like Fosun. Nonetheless, SOEs have far more money at their disposal than private firms, and it is likely that they will account for most spending in most years, even in the US. For example, in 2014, state-owned developer Greenland may start spending $3.5 billion on a project that has been announced for New York.

Perhaps surprisingly, ownership status does not matter much to national security. China's rule of law is weak—a purely private firm under orders from Beijing is under almost as much compulsion as an SOE. This is the rationale behind President Obama's rejection of a private firm's acquisition of land near a military base in Oregon (though the case should have been decided much more quickly).[4]

Ownership status matters more on the commercial side. At home, SOEs receive various extremely heavy subsidies.[5] Chinese firms here draw on parent company revenue, making the subsidies an intrinsic threat to competitive markets in the US. Further, some SOEs may be unable to meet American regulatory requirements. It would be self-defeating for the US to block an investment merely because an SOE makes it. However, regulators need to monitor the US operations of SOEs carefully, especially at the outset.

Finally, the encompassing issue is reciprocity. It should not be applied too strictly. It would make no sense to demand mirror access—our sector is open only if your same sector is open—as the two economies are very different.

But reciprocity should mean that since American firms do not steal the intellectual property of Chinese firms, the reverse should also be true. Chinese firms that steal from American firms should lose their right to invest freely in the US. Reciprocity should also mean that, while a few Chinese sectors may be closed to American participants, the vast majority should see American companies able to freely expand and win market share. If this is not the case, it will be increasingly difficult to make the argument that the US should be open to Chinese investment.

Notes

1. American Enterprise Institute and Heritage Foundation, Chinese Global Investment Tracker, January 2014, www.heritage.org/research/projects/china-global-investment-tracker-interactive-map. The data set is open to public use with appropriate citation. It excludes transactions of less than $100 million, bonds, aid, and loans.

2. Credit Suisse AG, *Global Wealth Report 2013*, October 2013, https://publications.credit-suisse.com/tasks/render/file/?fileID=BCDB1364-A105-0560-1332EC9100FF5C83.

3. Grace Zhu, "China November Forex Purchases at CNY 397.9 Bln," *Wall Street Journal*, December 17, 2013, http://online.wsj.com/article/BT-CO-20131217-701363.html.

4. Mayer Brown Practices, "President Obama Divestiture of Chinese Investment in US Wind Farms; Investor Mounts Unprecedented Legal Challenge," Legal Update, October 5, 2012, www.mayerbrown.com/files/Publication/8edd72a7-af37-4c56-a4d6-1a3b71b0bd50/Presentation/PublicationAttachment/6f12b9c6-a7aa-4171-b6df-40399050be51/UPDATE-DivestitureofChineseInvestment_1012.pdf.

5. Derek Scissors, "The Importance of Chinese Subsidies," (testimony before United States Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Economic Policy, Hearing on Rebuilding American Manufacturing, December 11, 2013), www.aei.org/speech/foreign-and-defense-policy/regional/asia/the-importance-of-chinese-subsidies/.