

# ISSUE BRIEF

No. 3656 | JULY 9, 2012

## Chinese Outward Investment: Acceleration Features the U.S.

*Derek Scissors, PhD*

Chinese investment could be a global economic force for decades to come. The potential was underlined in the first half of 2012, when investment climbed more strongly than in 2011.

The U.S. in particular saw a rebound. Policymakers should welcome this development by making the American review process quicker and more transparent. Washington should also seek better American investment access on a bilateral and multilateral basis, including in China.

**The China Global Investment Tracker.** The Heritage Foundation offers the only public dataset of Chinese outward investment and dates back to 2005.<sup>1</sup> The China Global Investment Tracker includes well over 300 investments of \$100 million or more from the beginning of 2005 through June 30, 2012. In addition to transactions valued at

less than \$100 million, the dataset does not include bond purchases, trade, loans, or aid.

Official Chinese government figures for outbound investment have a number of serious flaws—for example, treating Hong Kong as the final destination for almost two-thirds of outward investment, when it is almost entirely a transshipment point. The Heritage dataset provides far more useful information about the geographic and sector distribution of Chinese investment.

Heritage's investment figures are similar to those published by the Chinese Ministry of Commerce, though the transactions followed are not exactly the same. For 2011, the ministry reported very slow growth, while Heritage reported a deceleration but still double-digit growth. In 2012 thus far, the ministry reports rapid growth, while the Heritage dataset shows an acceleration but not to the same extent.

The Heritage dataset also contains more than 150 large engineering and construction contracts signed since the beginning of 2005, valued at more than \$170 billion. This list is incomplete, but it helps provide a more accurate picture of the PRC's global activity.

Finally, the Heritage dataset includes a list of nearly 90 failed or seriously disrupted transactions since 2005, valued at nearly \$200 billion. If fewer errors had been made by the various parties, China could have a considerably larger global footprint.

**Where China Invests.** Because Hong Kong and other financial centers are treated as final destinations, official Chinese data are not useful in determining the distribution of investment around the world. For example, they show Chinese investment in Britain at \$1.3 billion through 2010, while investment in the British Virgin Islands was supposedly \$23.3 billion. The Heritage series uses corporate-level information—not national—and identifies the true investment target.<sup>2</sup>

There has been much discussion of sharply rising Chinese investment in Europe. The data show that this has not yet materialized. China's acquisition of European-owned assets based in South America and the Middle East just continues previous practice. Instead, the U.S. led all countries in receiving new Chinese investment in the first half of 2012 (after receiving little in 2011). Indonesia was just ahead of several

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This paper, in its entirety, can be found at <http://report.heritage.org/ib3656>

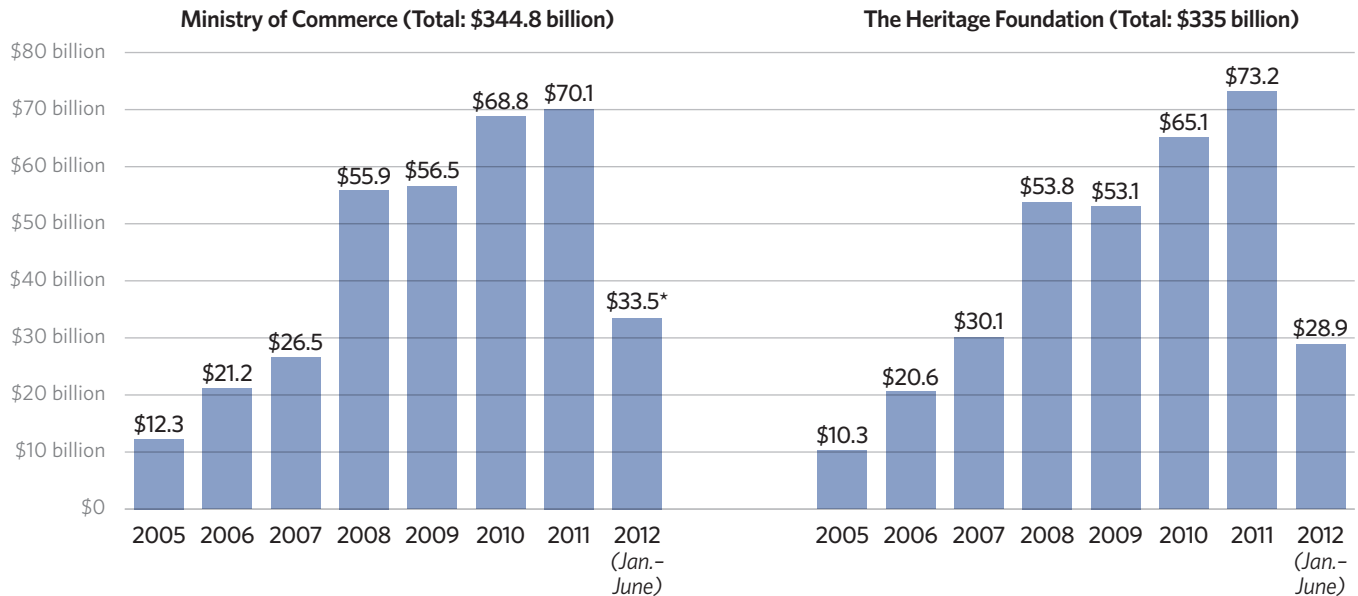
Produced by the Asian Studies Center

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CHART 1

## Chinese Outward Investment Since 2005: Two Views



\* Figure based on reported growth of 40 percent through May 2012.

**Note:** The Heritage Foundation dataset does not include transactions valued at less than \$100 million, trade transactions, bonds, loans, or foreign aid.

**Sources:** The Heritage Foundation, China Global Investment Tracker dataset, updated July 2012, [https://thf\\_media.s3.amazonaws.com/2012/xls/China-Global-Investment-Tracker2012.xls](https://thf_media.s3.amazonaws.com/2012/xls/China-Global-Investment-Tracker2012.xls); Ministry of Commerce of the People's Republic of China, Department of Outward Investment and Economic Cooperation, "2010 Statistical Bulletin of China's Outward Foreign Direct Investment," September 2011, <http://hzs.mofcom.gov.cn/accessory/201109/1316069658609.pdf> (accessed July 2, 2012); *China Daily*, "China's Non-Financial ODI Totals \$60.07b," January 19, 2012, [http://www.chinadaily.com.cn/business/2012-01/19/content\\_14473967.htm](http://www.chinadaily.com.cn/business/2012-01/19/content_14473967.htm) (accessed July 5, 2012); Xinhuanet.com, "China's Non-Financial ODI Jumps 40 Pct," June 26, 2012, [http://news.xinhuanet.com/english/china/2012-06/26/c\\_131677495.htm](http://news.xinhuanet.com/english/china/2012-06/26/c_131677495.htm) (accessed July 5, 2012).

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others for second, well behind the U.S.

A fuller picture comes from including engineering and construction contracts (e.g., in Nigeria). When these are added, the Western Hemisphere, excluding the U.S., retains its place as the featured region for Chinese investment since 2005, and Australia remains the leading country. However, both saw fewer new transactions in the first

half of 2012, due perhaps to fewer assets being available. This is why projections of very fast investment growth were wrong in 2011: The PRC's money does not guarantee a deal.

### Sectors, Setbacks, and SOEs.

Official Chinese data are also unhelpful in determining which sectors are receiving the most investment. The largest category, "leasing and business services," is difficult to interpret.

On the Heritage tally, unsurprisingly, energy leads.

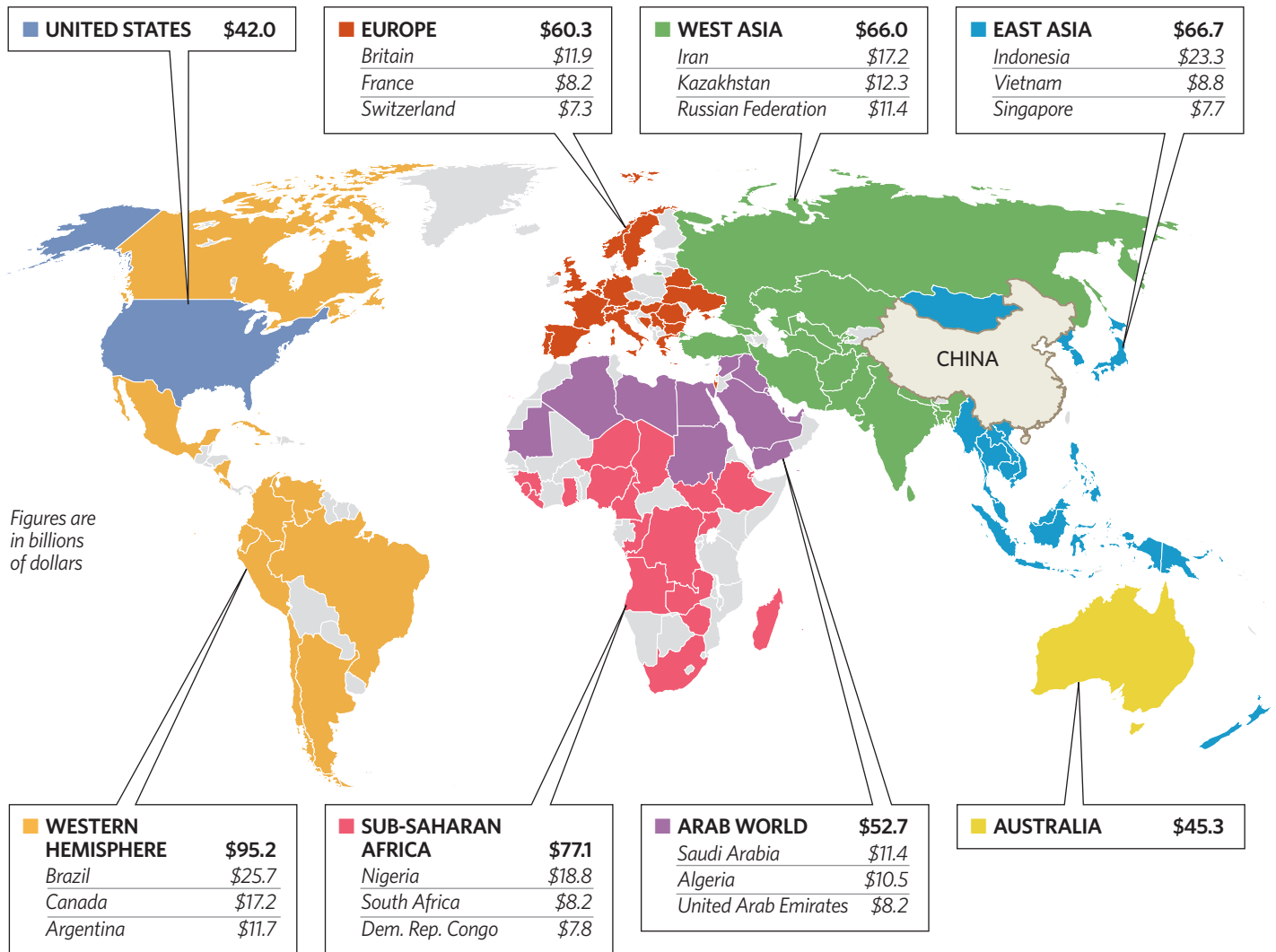
Chinese business activity began to recover from the financial crisis in late spring 2009. It also changed in nature to some extent. Traditional commodities still predominated, but energy investment and construction moved away from oil somewhat toward gas and alternative energy. In the second tier, finance faded in favor of real estate spending and

1. The Heritage Foundation's China Global Investment Tracker dataset (July 2012) can be found at [https://thf\\_media.s3.amazonaws.com/2012/xls/China-Global-Investment-Tracker2012.xls](https://thf_media.s3.amazonaws.com/2012/xls/China-Global-Investment-Tracker2012.xls). An interactive version can be found at <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>. The dataset is open to public use with appropriate citation.
2. There are still quandaries. For example, an Australia-based fund holds notable stakes in large Japanese companies, such as Marubeni. There appears to be Chinese mainland involvement, most likely the State Administration for Foreign Exchange. However, it is not yet possible to determine the mainland's ownership share in the vehicle.

MAP 1

## China's Worldwide Reach

*The Western Hemisphere continues to draw the most attention from Chinese companies, but growth is occurring more rapidly in the U.S. for investments and the Arab world for engineering contracts.*



Source: The Heritage Foundation, China Global Investment Tracker dataset, updated July 2012, [https://thf\\_media.s3.amazonaws.com/2012/xls/China-Global-Investment-Tracker2012.xls](https://thf_media.s3.amazonaws.com/2012/xls/China-Global-Investment-Tracker2012.xls).

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transportation contracts. The PRC became more interested in agriculture and achieved slow progress. It also became more interested in technology but as yet has little to show.

Chinese outward investment as a global phenomenon arguably started with a failure: the attempt to buy Unocal in 2005. The Heritage

dataset includes transactions that have been rejected, collapsed, or suffered sizable financial losses. In dollar terms, five countries account for the majority of troubled transactions. Australia leads largely because Chinalco botched a nearly \$20 billion acquisition of a stake in Rio Tinto. That aside, the U.S. easily leads in

the value of troubled Chinese business deals. Germany's position is also based on one large failure.

The Heritage dataset identifies the investors, enabling measurement of the role of state-owned enterprises (SOEs). More private firms are breaching the \$100 million minimum, and the simple number of

TABLE 1

## Post-Crisis Sector Patterns

CHINESE BUSINESS ACTIVITY, MID-2009 TO MID-2012, IN BILLIONS OF DOLLARS

Sector	Investment	Engineering contracts	Troubled
Energy and power—total	\$98.7	\$58.4	\$24.0
Energy and power—oil only	35.8	18.7	2.5
Metals	36.0	0	18.8
Real estate and construction	18.1	12.0	3.6
Transport	9.2	38.5	7.1
Agriculture	9.2	2.1	2.4
Finance	6.9	n/a	0.8
Technology	5.6	1.8	6.8
Chemicals	5.2	1.7	0
Other	4.9	0	0
<b>Total</b>	<b>\$193.8</b>	<b>\$114.5</b>	<b>\$63.5</b>

Source: The Heritage Foundation, China Global Investment Tracker dataset, updated July 2012, [https://thf\\_media.s3.amazonaws.com/z2012/xls/China-Global-Investment-Tracker2012.xls](https://thf_media.s3.amazonaws.com/z2012/xls/China-Global-Investment-Tracker2012.xls).

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private investments has risen strongly in the past few years. In terms of the large deals, though, SOEs absolutely dominate. SOEs accounted for 96 percent of the dollar value of Chinese investments from 2005 to the middle of 2012. The private role has been minimal.

**Implications for the U.S.** The obvious question for America with regard to Chinese investment is how much it wants. The first half of 2012 saw three deals, each comparable in size to the whole of Chinese investment in the country in 2011. Is this great success or a danger?

The right answer is closer to success. There should be some security-driven restrictions on Chinese investment, as well as post-deal monitoring, but the current level of investment is tiny compared to American gross domestic product, and far more could be easily and beneficially absorbed. This is happening in real estate,

where most deals are too small for the Heritage dataset, and it is bolstering the market. Strongly made but vague political objections should become a thing of the past.

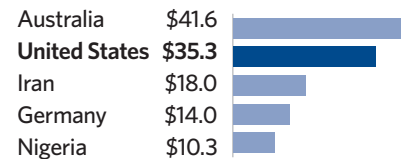
The PRC government and Chinese firms have their own agenda for market access, but their positions should be ignored until access to the Chinese market is considerably improved. Strict reciprocity is inappropriate, because the economies are so different, but American negotiators should decline discussion of easing Chinese investment unless there are prospects for improved treatment of American investment.

Finally, the volume of American investment around the world outweighs the PRC's by more than a factor of 10. If the U.S. wants to maintain this disparity, it must make investment access a core objective in bilateral and multilateral negotiations. Therefore:

CHART 2

## Troubled Transactions with China: Top Five Nations

IN BILLIONS OF DOLLARS



Source: The Heritage Foundation, China Global Investment Tracker dataset, updated July 2012, [https://thf\\_media.s3.amazonaws.com/z2012/xls/China-Global-Investment-Tracker2012.xls](https://thf_media.s3.amazonaws.com/z2012/xls/China-Global-Investment-Tracker2012.xls).

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- To draw the desired Chinese investment, the U.S. should make the approval process as transparent and quick as possible under the oversight of the Committee for Foreign Investment in the United States;
- To win more access to the PRC, the U.S. should press in the Strategic and Economic Dialogue and other interactions for the ability of American investors to enter some sectors now reserved for the state; and
- To compete with Chinese outward investment, the U.S. should ensure that the Trans-Pacific Partnership and bilateral negotiations feature improved market access for American investors of all sizes.

**Sustaining the Rally.** After a disappointing 2011, this year has started well for Chinese investment around the world and in the U.S. in particular. But the long list

of troubled deals and partner objections show that Beijing, especially, must work to continue the strong performance.

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