

# ISSUE BRIEF

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## China's Steady Global Investment: American Choices

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The tidal wave of Chinese investment around the world predicted by some and feared by others has not materialized and is unlikely to. Various obstacles to overseas spending by the People's Republic of China (PRC) kept growth moderate in the first half of 2013. Energy was again the focus, but the dominance of state-owned enterprises has begun to ease.

Chinese investment in the U.S. was substantial in the first half of the year, continuing the performance in 2012. This trend indicates that certain American policy choices should be clarified. The U.S. benefits from Chinese investment, but there is little reason to heed Chinese demands for a more welcoming environment until there is progress on American investment interests in China.

**The China Global Investment Tracker.** The Heritage Foundation offers the only public dataset of Chinese outward investment.<sup>1</sup> The China Global Investment Tracker includes almost 500 investments of \$100 million or more recorded from January 1, 2005, through June 30, 2013. It also includes over 300 engineering and construction projects undertaken by Chinese enterprises overseas, which are a crucial part of the country's global footprint. Finally, the tracker includes over

100 troubled transactions, where projects or acquisitions were impaired.

The investment totals in the Heritage dataset are similar to those published by the PRC's Ministry of Commerce. After the dip and sharp rebound associated with the financial crisis, growth has been slow but steady. Investment could very well exceed \$80 billion in 2013 and is on course to breach \$100 billion by about 2016.

The coincidence between Chinese and Heritage figures is odd. A list of transactions published by the National Development and Reform Commission misses a number of deals and contains duplicates of others. The Ministry of Commerce, meanwhile, does not disclose which transactions it counts. Chinese sector breakdowns are unhelpful, as the categories, such as "business and leasing services," are nonstandard.

**Where China Invests.** Chinese data also diverge from Heritage data in the treatment of Hong Kong as a final destination rather than a transit point. China claims that Hong Kong receives 40–60 percent of Chinese investment annually, but that money is actually just passing through. The tracker uses corporate-level information to follow capital to its final destination.

At mid-2013, Australia had edged back ahead of the U.S. as the top recipient of investment—and with a much smaller economy. Trailing are Canada and Brazil, then, with another sizable gap, Britain and the Russian Federation. It is possible that a strong performance by the Russian Federation in the first half of the year heralds Chinese movement into West Asia or commodities producers as prices drop. The PRC has invested heavily in North America

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This paper, in its entirety, can be found at <http://report.heritage.org/ib3990>

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TABLE 1

### Chinese Outward Investment Since 2005: Two Views

IN BILLIONS OF DOLLARS	The Heritage Foundation	Ministry of Commerce
2005	\$9.9	\$12.3
2006	19.8	21.2
2007	30.4	26.5
2008	53.9	55.9
2009	50.1	56.5
2010	69.2	68.8
2011	76.2	74.7
2012	79.1	77.2
2013 through June	42.0	42.6*
<b>Total</b>	<b>\$430.4</b>	<b>\$435.7</b>

\* Extrapolated from official figure for January to May. This figure is more likely to be too low than too high.

**Sources:** The Heritage Foundation, China Global Investment Tracker dataset, updated July 2013, [https://thf\\_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.xls](https://thf_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.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, *2011 Statistical Bulletin of China's Outward Foreign Direct Investment*, China Statistics Press, August 2012; 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> (accessed July 5, 2013); and Xinhua, "China's FDI Up 0.29 Pct in May," June 18, 2013, [http://news.xinhuanet.com/english/china/2013-06/18/c\\_132464032.htm](http://news.xinhuanet.com/english/china/2013-06/18/c_132464032.htm) (accessed July 5, 2013).

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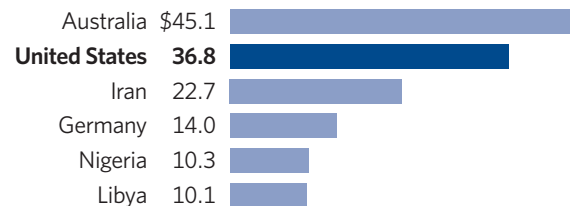
over the past 18 months, and in the past, periods of intense regional activity have not lasted more than two years.

Almost as important as overseas investment are engineering and construction services provided by Chinese firms and often implemented by Chinese workers. The list of contracts in the Heritage tracker is incomplete, but the value exceeds \$250 billion. Here the country leaders are Venezuela, Iran, Vietnam, and Algeria. By region, Chinese builders are active in two dozen countries in sub-Saharan

CHART 1

### Troubled Transactions with China: Top Five Nations

IN BILLIONS OF DOLLARS



**Source:** The Heritage Foundation, China Global Investment Tracker dataset, updated July 2013, [https://thf\\_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.xls](https://thf_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.xls).

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Africa; they are much less so in more developed economies.

**Why China Invests—or Fails To.** It is well understood that China is interested in owning commodities. Energy thus tops the sector list for investment. Metals and, to some extent, agriculture are also important. In terms of building contracts, energy (power plants) and transport (rail, road, port) lead, followed distantly by property development.

Technology is an area where the PRC would certainly like to invest more, but the high frequency of failure has discouraged attempts. Most of the failures are due to host government objections, particularly in the U.S. A number of financial acquisitions made in 2007 and 2008 have seen considerable losses. Mining has also seen an outsized number of setbacks. If all the troubled investments in the past nine years had proceeded smoothly, Chinese spending would have been almost \$200 billion higher.

There are six countries where investment or contract losses have breached \$10 billion. These six account for over three-fifths of the \$200 billion total for all countries. The numbers for Iran, Germany, and Australia include a single very large transaction that failed outright.

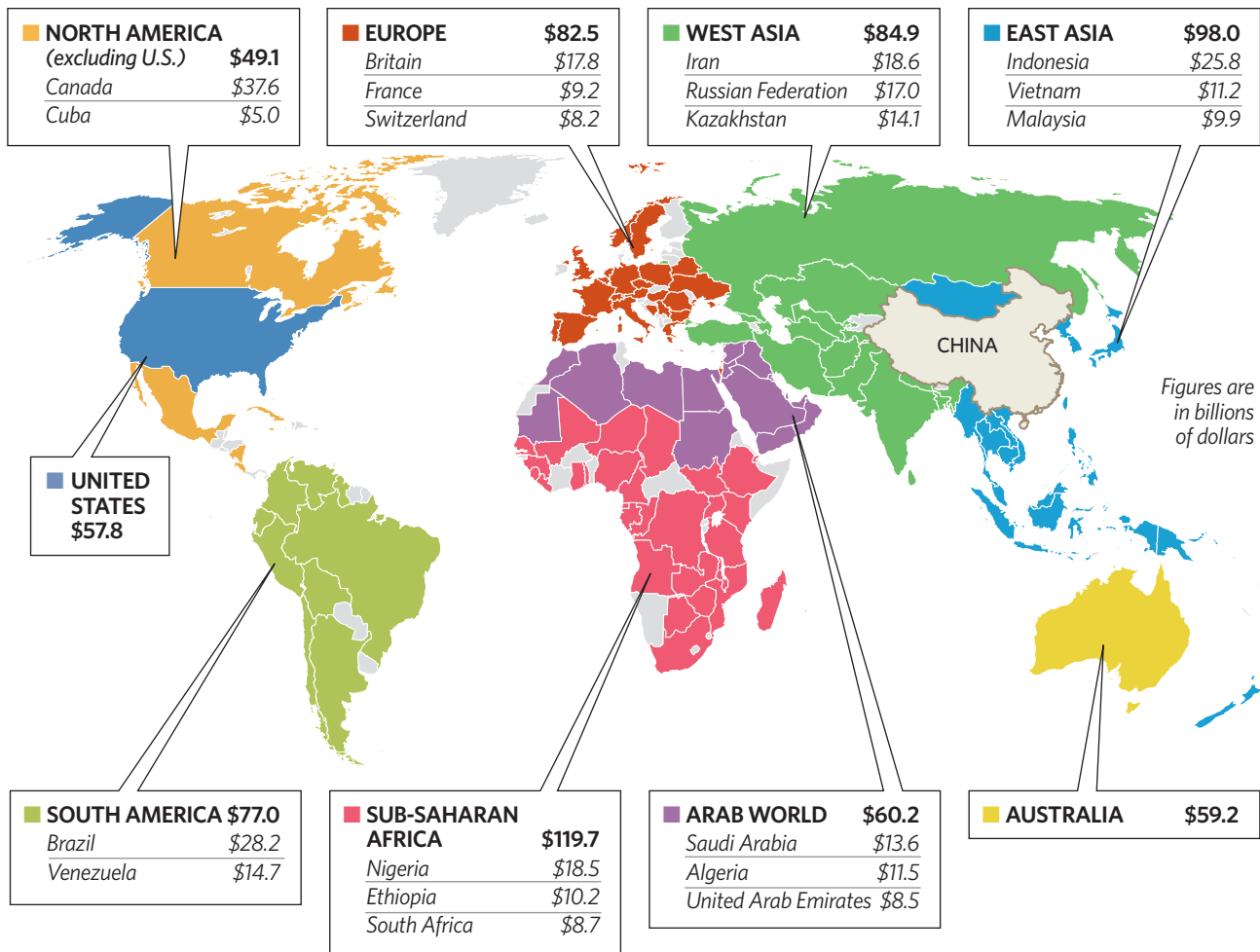
**Crunch Time for American Policy.** Recalcitrant host countries, badly timed acquisitions, and

1. The China Global Investment Tracker dataset, July 2013, can be found at <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>. The dataset is open to public use with the correct citation. The tracker does not include transactions valued at less than \$100 million, loans, aid, or bonds.

MAP 1

## China's Worldwide Reach

*Sub-Saharan Africa sees very heavy Chinese construction activity. In investment, Australia holds a narrow lead over the U.S., followed by Canada and Brazil.*



Source: The Heritage Foundation, China Global Investment Tracker dataset, updated July 2013, [https://thf\\_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.xls](https://thf_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.xls).

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nervous Chinese regulators are some of the checks on the growth of the PRC's outward investment. Against that, foreign currency held by the government and state banks exceeds \$4 trillion, much of which is available to investors. There will be a substantial amount of Chinese spending—probably about \$1.2 trillion—over the next decade. America has everything the PRC wants in a host country: energy resources, land, technology, and a sound business environment. The U.S. would also benefit, but it needs to decide how to handle a steady stream of Chinese money.

A pivotal factor for American policymakers is the role of state-owned enterprises (SOEs). The Heritage tracker identifies the parent company of the investor, and state entities account for over 90 percent of investment by volume. This is a decline from previous years: The private role has surged since spring 2012, Wanda's multiple acquisitions overseas being an example. Still, for the foreseeable future, the bulk of large transactions will involve SOEs.

In terms of national security, ownership of Chinese firms does not matter. Rule of law in the

TABLE 2

## Sector Breakdown, 2005–June 2013

CHINESE BUSINESS ACTIVITY, IN BILLIONS OF DOLLARS

Sector	Investment	Engineering Contracts	Troubled
Energy and power	\$201.9	\$114.1	\$76.3
Metals	99.3	11.0	60.5
Finance	38.2	—	29.3
Real estate and construction	29.6	30.3	9.0
Transport	18.0	81.9	17.3
Agriculture	17.6	10.3	9.5
Technology	10.1	7.8	13.9
Chemicals	6.2	2.1	0
Other	9.5	0.3	0.3
<b>Total</b>	<b>\$430.4</b>	<b>\$257.7</b>	<b>\$216.1</b>

Source: The Heritage Foundation, China Global Investment Tracker dataset, updated July 2013, [https://thf\\_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.xls](https://thf_media.s3.amazonaws.com/2013/xls/China-Global-Investment-Tracker2013.xls)

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PRC is very weak: If a purely private firm is ordered by the central government to break American law, it has no recourse. No foreign entity of any type should be permitted to conduct business in a manner that harms American security. The Committee on Foreign Investment in the United States (CFIUS) should continue to bar these transactions, investigating quickly and with no political interference.

It is commercial behavior where state ownership matters. Chinese SOEs operate in a home environment where they are protected from competition, receive heavy financial subsidies and free land, and have other advantages. Will they adjust to a competitive market in the U.S.? Can they?

In principle, the decision to permit broad investment by SOEs is the right one. It requires, however, a variety of American regulators to increase monitoring efforts. On the Chinese side, entities operating in the U.S. must obey the law. The U.S. should provide a welcoming environment to PRC investors, but under no circumstances can Chinese law supersede American law.

Reciprocity is another issue. It should not be taken too far: The American and Chinese economies are very different, and it would make no sense to demand sector-for-sector access (for instance, allowing U.S. agriculture to be open to Chinese investment only if Chinese agriculture is open to

U.S. investment). Nonetheless, Beijing's anti-competitive policies are stark and long-standing. Given its open market, the U.S. has every right to expect general reciprocity in the PRC and to tie improvements in access to the American market to the overall economic relationship.

**What the U.S. Should Do.** The U.S. should:

- Continually state at the highest levels that Chinese enterprises that obey American law are welcome;
- Ensure that the Food and Drug Administration, the Securities and Exchange Commission, and other regulatory bodies closely monitor the behavior of Chinese state firms that are active in the U.S.; and
- Work to improve CFIUS so that its mandate to protect national security is sufficient and its actions are prompt and transparent.

**Deciding Wisely.** There is no flood of Chinese money on the way, but a sizable flow is likely. The U.S. should determine how much it wants to participate in Chinese investment and under what terms.

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