



The Concise Study of China overseas investment

Terife Aghamajidi , Mohammad Kadkhodaei

Abstract

Recognition of major investing countries with high level of power and enthusiasm in participating foreign investment activities provides the host country with the possibility of recognition and concentration on the investment fields in which the investing country is interested. For reaching this purpose and according to the importance of economic globalization especially in commerce consequently the increase of foreign investment and its direct influence on the economy the present research has been accomplished.

The present study through reviewing the available data analyzes China's foreign investment in recent nine years and introduces the foreign investment policies of China as a huge economy and active in foreign investment as well.

The results show that even though the developed countries with the high level of economic and politic stability enjoy the priority of China's foreign investment, there are some developing countries that in attracting China's foreign investment stand in the top ranks; for example, Algeria successfully attracted 64 billion \$ of China's foreign investment capital in 2006. Upgrading Iran's rank from 56 to 52 in the list of China's foreign investment target countries proves China's enthusiasm in investing in Iran and on the other hand shows Iran's high potential in attracting foreign investment.

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Key Words: Oversea Investment, China Oversea Investment Policy, Iran and China

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Introduction

The current wave of globalization has transformed the long-term perspective of business and has a significant impact on most of countries and their economies. No doubt that China's economic presence in the world stage becomes stronger day by day. Chinese companies have left their own tracks in all countries of the world and there is not almost any state that is deprived of the products and services of Chinese public and private companies. But does the investment also have the same status?

After executing China's investment strategy of "Go out Policy"¹, Chinese companies have been constantly scrambling to locate suitable investment places and foreign markets for investment. Even with the existence of the destabilization of the global economy and the complexities of choosing a suitable location for investment, Chinese companies insistently focus on the matter and despite the existence of the mentioned obstacles invest the capital oversea. Even when there is sometimes the lack of sufficient understanding of the investment location, but it cannot prevent Chinese investor from investing. Because China government and Chinese investors are insistently have sought to implement Go out policy, China's latest investment strategy. (Qun Song, 2013, P.58)

On the other hand, Iran constantly has been attempting to attract foreign investment especially in recent years. In this regard, through new legislation, it has tried to attract and support foreign investment. So the recognition of active countries in the field of foreign investment with plentiful financial resources is of utmost importance. Because understanding their policies and their chosen investment areas make the host country able to attract more foreign capital and investment.

The author presents a general view of China's oversea investment policies and introduces the characteristics of China's target countries for investment as well as investment areas that in recent years have attracted the most amount of capital from China.

China's oversea investment policies

¹ 走去去战略

In general, China's oversea investment policies and strategies after 1978 revolution can be divided into three different periods:

The first period is diplomatic strategy (the Strategy of 1978, before the Chinese revolution). The diplomatic strategy has been implemented for thirty years of time from the revolution in China. China's foreign investment under the impact of diplomatic strategy has been done in the form of foreign aid. The foreign aids have been provided by China in especial periods and under the especial situations that is the basis of China's foreign investment policy in this period. Because China is limited politically and diplomatically by the United States in this period and economically has been under blockade, so China's foreign investment policies were limited to the diplomatic policies and China's investment was mainly restricted to money lending and construction projects. For example, China and Mongolia on 7th April 1955 after signing of the "Agreement between China and Mongolia for sending Chinese labor in the manufacturing sector and construction", China dispatched 5500 people to Mongolia including expert workers and technicians. (Wong Tai Ping, 1999, p. 157) Before the Cultural Revolution due to China's improved economic situation, international exchange programs gradually increased so that China invests in some African countries in sixties. For example, in some countries such as Algeria, Egypt, etc., directly and indirectly invested and signed more than 13 agreements on economic and technical cooperation and financial assistance. During the period of the Cultural Revolution China's economy collapsed one more time. On the other hand, because of the international changes and different Revolutions that happened all over the world, China's investment in the form of foreign aids decreased significantly. For example, China awarded a financial grant equals 50 million RMB to Congolese government to complete industrial equipment between 1965 and 1969 for 5 years. (Ma chi Peng, 1989, p.95) In the coming years, the financial aids to Latin American countries gradually increased in the seventies. The financial aid in 1974, 1975 and 1976 equals 770, 530, 296 million RMB, but the amount increased in the coming years. (Wang Fei Ying, 2001, p. 46)

The second period is the “Reform and Opening Up Strategy”² that is the same as “Bringing in Strategy”³. The strategy implemented between 1978 and 2001. The diplomatic relationship between China and United States experienced a significant improvement and normalization of relations happened one more time. The international community also showed a positive reaction to China’s economy improvement. In economic viewpoint, because of the failure of the Bretton Woods system, United States could no longer maintain its dominance in the global economic system. On the other hand, China with abundant natural and human resources had an extraordinary attraction for United States. In the third meeting of China Central Committee, the strategy of “Reform and Opening Up Policy” was approved in 1978. The policy was determined to help China's economy development in harmony with the global economy. At that time, the Chinese economy was weak and China’s industrial products had a very poor quality. So the strategy of “Reform and Opening Up Policy” was relying on “Bringing In Policy” was followed in the economic field including oversea investment for over twenty years. Through following the strategy of “Bringing In Policy”, China’s foreign capital joined to global economic system and thereby the foundations of “Go out Policy” was created and general information about joining international system of economy was collected. But in order to acquire a comprehensive understanding of the global economy that in which direction moves, some components of China’s oversea investment such as size, type and speed of investment had a great importance. Therefore, the suitable investment areas must be correctly identified and the certain amount of capital must be flowed to the chosen point. During this period, China’s oversea investment mainly has been done in the form of direct investment. Since 1980 afterwards, China’s oversea investment increased 38.5% on average. But this amount is merely a very small part of global investment category. (Zhu Xu Hong, 2008, p. 67)

The third period is the strategy of “Go out Policy”⁴ (from 2001 up to now). In March 2001, at the third and the fourth session of the Ninth National People's Congress of China, the Chinese government officially announced the strategy of "Go out Policy". The strategy entered into the "Five-year Plan of National Economic and Social Development". Then the strategy officially

²改革开放战略

³吸进来战略

⁴走出去战略

interpreted in four major areas including export of goods, export of capital, export of energy and the export of Chinese Standard (Ibid).

It is obvious that China's investment strategy in the form of "Go out Policy" plays an important role in progressing the mentioned strategy and achieving the ultimate purpose of promoting "Chinese Standard".

After joining to the World Trade Organization (WTO), China's experience in fulfilling international affairs constantly increased, so China invested in different methods in most of the countries all over the world. Chinese foreign investment was marked by a very rapid progress during this period, so that China stood in fifth rank among developed countries in the foreign investment viewpoint. Along with the implementation of the strategy of "Go out Policy" and the profound reformation, China's economy experienced a significant boost and China increased its ability in conducting international affairs. On one hand, China's economic status changed from a capital importer country to a capital exporter one (Liu Wei, 2014, p. 124). But it still needs that China through focusing on foreign investment to expand and strengthen export markets. On the other hand, the adjustment and upgrading of industrial structure is also achievable through foreign investment. In addition, along with raising economic growth rate, the country would encounter with the lack of natural resources that merely can be remedied through foreign investment. Through attracting China's capital, Iran which is a rich country with abundant natural resources can both response China's resources needs and lead to Iran's local economic boom. For achieving the mentioned goal it is suggested that Iranian scholars attempt to recognize and understand China's oversea investment strategy. According to the fact that Chinese strategists are updated in consistent with the needs of economy with a deep look into the future to promote economic goals, it is necessary for Iranian economic affairs officials to become aware of China's current investment strategy that focus on encouraging the outflow of capital which is in line with Iran's current investment strategy of attracting foreign investment and pave the way of achieving this goal that leads to economic boom.

China's foreign investment and target countries

The capital outflow from China has been very close to the flow of foreign capital into China and it is expected that by 2017 China become a full investor country (Economist, 2015). China's foreign investment has been constantly rising that annually increase 35% in average. China's foreign investment was equivalent to 123billion dollar in 2014 that after United States and Japan has been the highest amount of foreign investment in the same year. Generally speaking, China's foreign investment is mainly attracted by African countries. In nine-year period of time China has flowed more than 1433 billion dollar to Africa. The African countries have attracted this enormous amount of capital from 2005 to 2013. Algeria has been able to attract more than 64 billion dollars of the whole amount solely. In 2007, countries with high social, economic and political stability and rich in natural resources such as America, Canada and Australia have priority in attracting foreign investment. BRICS⁵ countries, especially Brazil and Russia have not been deprived of foreign exchange reserves of China and huge amount of investment has been flowed into these countries. (National Bureau of Statistics of China, 2015)

In 2013, China's investment in Australia has been \$ 71 billion, equivalent to 5% of Australia's GDP. In the same year, Ethiopia, another African country has been successful in attracting Chinese investment capital equivalent to 65 billion dollars. It has been a significant amount of capital that is equivalent to 14% of Ethiopia's GDP. (Ibid) What must be noted here is that Ethiopia does not enjoy the political and economic stability such as Australia yet has been able to attract a considerable amount of capital from China. Ethiopia's the only advantage to attract foreign investment is the country's rich natural resources that our country is rich enough in this regard. By removing the obstacles on the way of Chinese investment, Iran can paves the way for attracting China's abundant capital. Figure 1 shows China oversea investment growth between 2005 and 2013. You can see how the amounts increase from tens of billions dollars in 2005 and 2009 and reaches the hundreds of billions in the years 2010 onwards.

⁵ BRICS: Brazil, Russia, India, China, South Africa

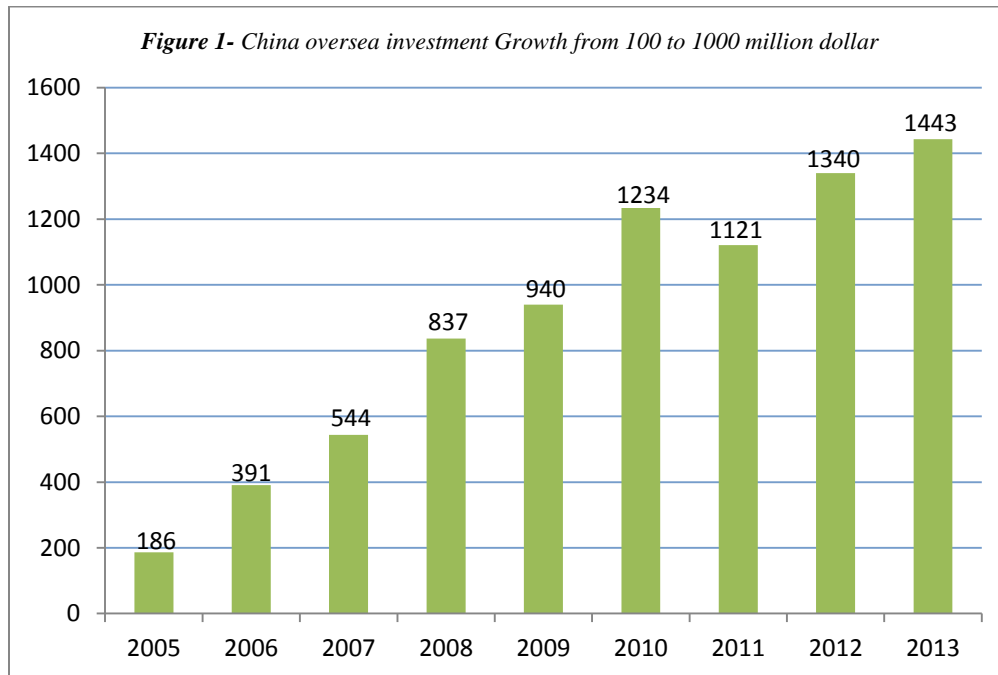


Figure 1- China Oversea Investment Growth from 100 to 1000 billion dollars

Source: Organization of Chinese FDI www.coiun.com

China Foreign Investment Area

Another important point that cannot be ignored in the field of China's overseas investment is the investment areas that have been attractive for China in recent years. Through recognizing China's chosen investment areas, the host country can focus on strengthening the infrastructure the investment areas to make them attractive for Chinese investors.

In the past nine years, China's priority in overseas investment has been in Energy and Transportation sectors. According to the fact that Iran has a very favorable condition in natural resources such as oil and gas that is the first choice of Chinese investor can be very successful in attracting Chinese capital. If the international sanctions on Iran are removed, the foreign investor especially Chinese investor will enjoy a huge profit from investing in Iran's energy sector. (Tu Jin Pin, 2015, p.14) Because Iran has already possessed very rich sources of gas and oil and on the other hand China that is among the major industrial countries with high consumption of gas and

oil is in need of high amount of energy resources. The average of China's annual consumption is growing at a rate of 5.77%. (Li Rong, 2015 page 140) In order to meet the future energy needs of the country, Chinese policymakers have changed their policy from importing gas and oil to investing on energy resources, so Iran can attract a very high amount of capital from China.

About transportation investment area that China focuses on in the recent years, fortunately it completely matches China's "Go out" policy. China that stands in the first rank of the high-speed train industry mostly invests in rail transportation and nuclear industry. Investment in the railway sector has been constantly increased in recent years, so that from 580 billion Yuan in 2011 reached to 800 billion Yuan in 2014. According to official statistics, the rate of foreign investment in China will reach more than 800 billion Yuan in the coming years. (China Oversea Investment Network, 2016) Figure - 2 shows China's priority in various fields of investment.

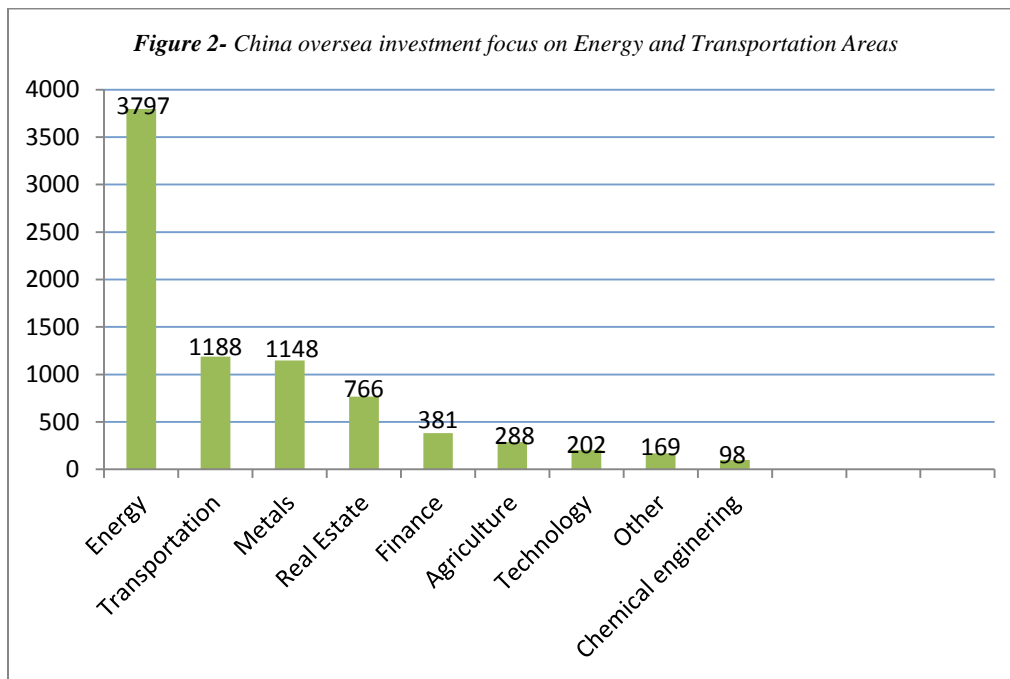


Figure 2. China's foreign investment focus on energy and transportation sectors

Source: Organization of Chinese FDI www.coiun.com

In a released report by the Economist on China's oversea investment, the investee countries are classified in four major sections according to two factors of investment opportunity and investment risk. (Ministry of Commerce of China, 2015)

The first group: The first group is the countries with low level of risk and high level of investment opportunity. For Chinese investors, the developed countries with favorable investment environment and high economic stability are the first investing options. The high level of property protection and a very low risk of investment in these countries easily attract Chinese investors. The United States still stands at the forefront of the developed countries of the first group in attracting China's capital. Because of the high level of education and social welfare, the United States is the first choice of Chinese investors.

The second group: The countries with high level of potential in investment opportunity but with a high level of investment risk are classified in the second group. Countries such as Russia, India, Vietnam, Saudi Arabia, Egypt, Libya, etc., are in this group.

One of the important matters that investors in general and Chinese investors in particular are considering in foreign investment is the investee country's level of investment risk. Because the low level of investment risk in investee countries as well as the safe political, economic and legal environment affect the success and progress of investment projects. (Shi Xiao Li and Qi Hon, 2009, page 192) The majority of the reports on China's oversea investment warn the Chinese investors from investing in developing countries with instable political environment. The countries where the ethnic and religious minorities have a severe conflict such as Egypt and Libya have a negative effect on Chinese investor only because of the political instability the investment environment.

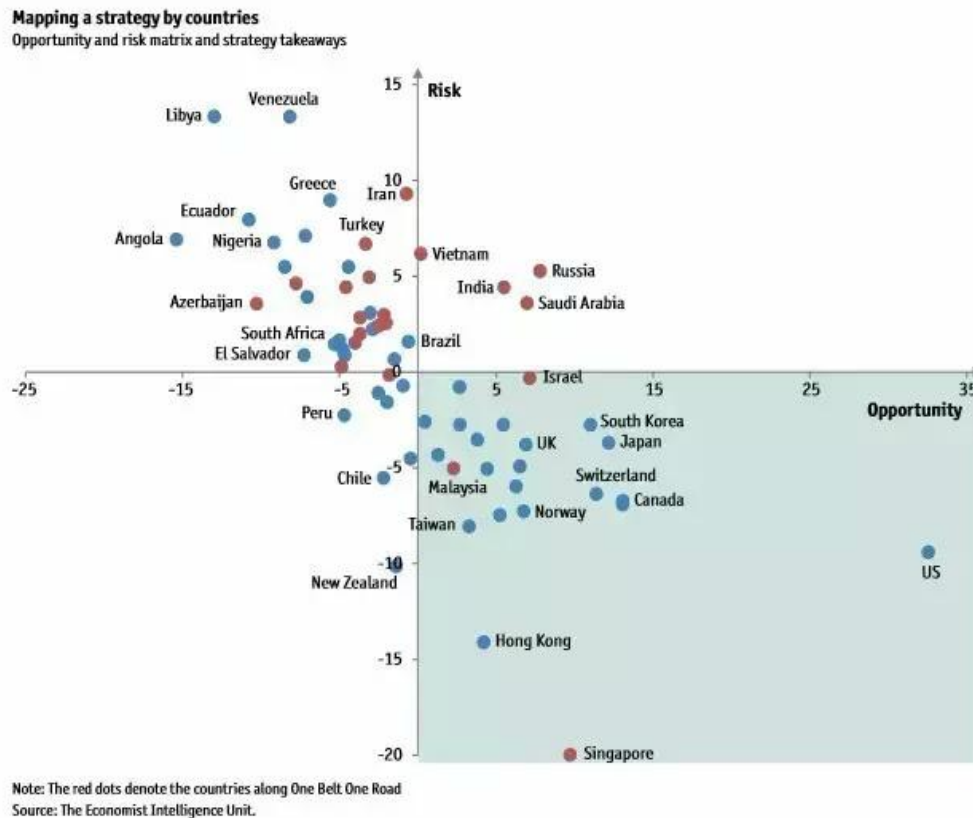


Figure 3- Mapping a strategy by countries (opportunities and risks matrix and strategy takeaways)

Source: Economist Intelligence Unit

The third group – some other countries with high level of investment risks and the low level of investment opportunities are classified in this group. Countries such as Iran and other Middle Eastern countries are the fallen down in this group.

The fourth group – the countries with low level of investment risk but the low level of investment opportunity such as Peru and Chile are in this group.

Despite of the classification by the international economic bases that introduces Iran among the countries with high investment risk and low investment opportunity, but china continuous to invest and outflow capital into Iran eagerly.

The Economist in another report shows China's oversea investment target countries ranking. Iran's rank from 56 in 2014 improved 4 steps and reached 52 in 2015. It is a very hopeful change

for Iran in attracting Chinese investment. But still remains a long way to reach the real potential of Iran in attracting the foreign investment.



Figure 4- China Going Global Investment Index

Source: The Economist Intelligence Unit

Conclusion:

Recognition of active countries involved in foreign investment and familiarity with their investment policies remarkably help investee countries to attract more foreign capital. And thus gradually lead to economic development and economic and social welfare. Therefore, for achieving the mentioned goal, China's oversea investment policies are examined in the present study. China is a very active country in the field of oversea investment with a very high amount of foreign currency reserves. Chinese investors through following China's latest investment policy, "Go out" policy support the enforcement of the policy and increase the annual oversea flow of capital. On the other hand, Iran by upgrading four ranks in attracting China's foreign capital has worked successfully in this regard. But in compare with other developing countries, because of possessing the high potential of the investment attraction there is still a long way for Iran to achieve the ideal goal. In this regard, the following issues are suggested to the Iranian authorities in charge of economic affairs in Iran:

- 1- Instead of treating China as a trading partner and rely on it as a source low-quality exporting goods in compare with the international standards, it is better to focus on the country's high potential in attracting Chinese investment capital and pave the way for flowing of Chinese rich capital into the country. What a huge capital that is attracted by the countries those have much lower potential in compare with our country in providing investment opportunities, but they have been more successful in attracting foreign capital in general and Chinese investors in particular.
- 2- According to the indicators of macroeconomics in economic functions, it is recommended to the related authorities to take the actions to promote economic stability that is a key factor in attracting foreign investors.

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