

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Leonard K. Cheng, Hong Kong University of Science and Technology

TITLE: China's Outward Foreign Direct Investment

TIME: 11:30-1:00 P.M.

DAY & DATE: Friday, 12th December 2008

PLACE: Seminar Room 2.

Abstract:

In this paper we provide a systematic analysis of the size and composition of China's outward foreign direct investment (FDI) in 2003-2006. Despite the attention given to China's recent outward FDI, its FDI flow in 2006 accounted for about 1.74% of the world's total FDI flow in that year, and its FDI stock by the end of that year accounted for only 0.73% of the world's total FDI stock. Its FDI flow and stock are smaller than the leading developed countries as well some small industrial economies and emerging developing economies.

The bulk of China's FDI was made by its largest multinational companies owned by or associated with different levels of government. By the end of 2006, business services accounted for the largest share of China's outward FDI stock, followed by mining and petroleum, wholesale and retail, transportation and storage, and manufacturing. The true breakdown of the destination of China's FDI was basically unknown because a predominant share of the investment in recent years was made in the world's tax havens.

An empirical analysis of the destination of China's FDI reveals that the host economies' GDP and sharing of a common border with China had a significantly positive impact, whereas their respective distances from China had a negative impact on the flow but not the stock of FDI from China. Their real per capita GDP had no impact on FDI flow but a negative impact on FDI stock. Cultural proximity was a positive factor in attracting China's FDI to the host economies that speak the Chinese language. Landlocked countries had a disadvantage in both the flow and stock of Chinese FDI. These results are compared with those of South Korea and Japan.

An empirical analysis of the characteristics of investor economies and their total outward FDI reveals that real GDP, real per capita GDP, foreign reserves, currency appreciation, and status as tax haven all had a significantly positive impact on the source economies' outward FDI flow. Even after accounting for all of these factors, they made greater investment over time. These relationships may be used for understanding China's future FDI.