Outward investment rises as countries eye many benefits

Ken Davies

IN 2008 global FDI fell by around 20 percent, while outward FDI from China nearly doubled.

This disparity is likely to continue in 2009 and 2010 as China invests even more overseas. Certain key drivers of China's outward FDI explain this acceleration.

One of the most reported motivations in the international media and in some academic writing is China's need to secure natural resources to fuel rapid growth, though this is not the most significant area of China's outward investment, which is service industry.

While most of China's exports are from foreign-owned enterprises, large domestic firms also export large volumes and need services like shipping and insurance.

China's major enterprises are also acquiring global brands (like Lenovo's acquisition of IBM's personal computer business or the SAIC and Nanjing purchase of MG Rover).

Large state-owned enterprises (SOEs) losing their monopoly position at home are diversifying internationally.

And some enterprises — despite China's ample labor supply — seek to move their labor-intensive operations to cheaper overseas locations like Vietnam and Africa.

The relative strengths of these motivations are reflected in the sectoral and geographical distribution of China's accumulated FDI.

The latest figures published by China's Ministry of Commerce (MOFCOM) in February 2009 show outward FDI cumulated to end-2007 as US$118 billion.

Services prevail

The tertiary sector predominated, with over 70 percent of the total.

Manufacturing remained modest at 8 percent, and construction even lower at 1.4 percent; so, with other items, the secondary sector contributed around 16 percent of outward FDI.

The remaining 14 percent is accounted for by mining, quarrying and oil production (13 percent) and agriculture, forestry and fisheries (1 percent).

The predominance of services is the result of China's export boom and the extension of China's financial services overseas to utilize the wealth of the Chinese diaspora, learn advanced techniques and diversify earnings sources.

Media reports focus on China's investments in Africa, but the continent that continues to absorb most of China's capital exports is Asia, which accounted for about 67 percent of cumulated Chinese outward FDI to end-2007, with Latin America receiving 21 percent, Europe 4 percent, Africa 4 percent, North America 3 percent and Oceania 2 percent.

Guangdong Province — the largest recipient of FDI in China — provided 20 percent of total outward FDI in 2008. The second largest source was Zhejiang, with 8 percent of outward FDI, Shandong following in third place with 8 percent.

This distribution results from several factors: proximity to major seaports and thus overseas markets, strong links to a global diaspora originating from coastal areas, and positive spill-over and demonstration effects of inward FDI in or near the three major coastal economic centers of the Pearl River Delta, the Yangtze Delta and the Bohai Gulf.

Fiscal stimulus

How is the crisis affecting China's outward FDI? As an open economy, China can not escape the effects of the global financial crisis of 2008.

The government is countering the downturn with a fiscal stimulus that will limit GDP deceleration, and credit has actually expanded

With US$1.9 trillion in foreign-exchange reserves, a current-account surplus forecast by the OECD to rise to 11.7 percent of GDP in 2009 and no credit crunch, China can afford large investments overseas. China's outward FDI accounts for not much more than 1 percent of the global total, far below the country's share of world trade.

However, this total is rising fast and the country will eventually become a major source of global FDI. Potential recipient countries are beginning to recognize this as they start to offer inducements to attract Chinese multinational enterprises.

(The author is head of Global Relations in the OECD's Investment Division. The views are his own. The article is adapted with permission from the Vale Columbia Center on Sustainable International Investment — www.vcc.columbia.edu.)

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China tourism still post-downturn ticket

GLOBAL tourism has been growing steadily at almost 5 percent per year in the past decade, with 930 million international arrivals in 2008.

And always around the corner lies the next potential tourism gold mine.

In the 1950s and 1960s, it was America, as US tourists surged into Europe, Asia and elsewhere. In the 1980s, the Japanese first began to travel in large numbers, and in the late 1980s and early 1990s, travelers from South Korea and China's Taiwan began to travel en masse, lifting the profit margins of hotels and airlines throughout Asia and the world.

And now, the latest — and perhaps the greatest — potential tourism gold mine has been identified: the Chinese mainland. The optimism is fueled by remarkable numbers: In 2000, 10 million Chinese traveled abroad, but in 2008, over 45 million traveled overseas.

But, given the fickle nature of tourism, there are some strong caveats.

Visas remain a problem, the global downturn is a worry and the extent to which the Chinese government will further loosen restrictions on outbound travel is a lingering question mark.

Despite the growing numbers of tourists, two significant barriers have combined to slow the growth of Chinese tourism: government red tape and the global economic downturn.

Government red tape occurs both inside China and in the destination countries. Chinese citizens must get approval from within China to travel abroad, and they must obtain a visa from the country that they wish to visit.

Travels to Europe and the US are quite difficult. Since mid-2008, the Chinese have been allowed to travel to the US in registered tour groups, after passing a rigorous visa process that often includes interviews, but prior to that, they are required to secure hard-to-get business or student visas.

Even now, the US has put in place rigid quotas that allow only a very gradual increase in the number of Chinese tourists in the next few years.

"It takes time to build up the mainland market," says Stanley Yen, president of Landis Hotels and Resorts, which manages eight hotels and resorts in Taiwan and two hotels in the Chinese mainland. "It's not like you just open a tap and water comes out."

Illustration by Zhou Tao/Shanghai Daily

Its 1.3 billion people are becoming steadily wealthier, and they are increasingly free to travel outside the country.

Perhaps the largest threat to the continuing growth of Chinese outbound tourism is the worldwide economic slowdown, which has already caused global tourism to slow sharply.

However, analysts believe the current slowdown in Chinese tourism is temporary, because to a large extent, China has weathered the global economic downturn better than most countries.

"Outbound tourism is declining, because income growth has slowed down and people have become more conservative," says Peng Wensheng, head of China research at Barclays Capital in Hong Kong. "But over the long term, the trend is clearly for China's tourism market to increase further."

In macro terms, China's outbound travel market is driven by powerful demographics. Its 1.3 billion people are becoming steadily wealthier, and they are increasingly free to travel outside the country.

"Three factors are driving outbound tourism from China," explains Peng. "One is income growth, and with per capita GDP of around US$3,000, you have a growing middle class. A second factor is appreciation of the yuan not only against the US dollar, but also against the yen and most other Asian currencies. A third factor is the steady relaxation on travel restrictions by governments throughout Asia."

Per capita spending on tourism in China is still very low, at just US$30 per year, compared with a global average of US$100, and an average in the US and Europe that is many times higher.

"This current downturn is temporary," says Franck Lafourcade, general manager of Sofitel Hyland Shanghai, and an industry veteran who has worked in Asia for 20 years. "The Chinese market is there, and we are going to have more and more Chinese traveling the world. Overall, I am very positive about China tourism."

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Planning for sustainable future

Gu Zhenqiu, Wang Xiangjiang and Bai Jie

JEFFREY Sachs, director of the Earth Institute at Columbia University, said in a recent interview that "China has done a tremendous job of having rapid development."

Asked whether he thinks that China can maintain a healthy growth rate in the wake of the global financial crisis, Sachs said, "I do because I think in the last decade, China has been using its savings to invest in the US, but China has a lot of good use for its savings in China to deal with the infrastructures of China's cities, to clean the water supply, to develop an efficient, sustainable energy system."

On China's strategy for sustainable development, he said, "I think there are clearly some areas of success for China, like a developing solar industry but in fact, China remains a coal-based economy and that's a big problem for China, for its air pollution and for the carbon emissions."

Sachs is helping the Chinese government in hammering out the strategy for the mid-term sustainable development in China, known as China 2049 Program, named after the 100th anniversary of the People's Republic of China.

What US has to offer

"We asked the question to many Chinese policy makers and leaders: What should China aim for in the 100th anniversary of the People's Republic in the year 2049? Where will the cities of China be with another 400 or 500 million people coming into the cities? How will the air remain clean? How will there be enough water?" he said.

"The US has not done a good job in reducing the greenhouse gas emissions so you can't learn very much from the US in this but in certain areas, in water pollution and in air pollution, the US has definitely some good examples," he said. "In terms of urbanization, the US has some good examples but I also think it has some bad examples."

"New York City is a very good example," he said. "It's a very densely populated city. It has public transport that is quite good. Its emissions of greenhouse gases are about one-third of the US average so that's a big plus, or maybe even one-fourth in some ways."

"Los Angeles, on the other hand, I think is not a good example for China because Los Angeles is a big, sprawling city," he said.

"Whenever you want to go somewhere in Los Angeles, you have to get in a car and you drive and you drive and it's tremendously energy using, it emits a lot of greenhouse gases, it's vulnerable to environmental change."

(The authors are Xinhua writers.)