

## CHINA'S INVESTMENT ACTIVITIES

### ІНВЕСТИЦІЙНА ДІЯЛЬНІСТЬ КНР

*This article focuses on investigating the investment activities of China. Specific attention is paid to studying the establishment of the People's Republic of China as one of the most influential investors in the global economy and extremely attractive host economy. Changes in the investment policies leading to the development of the investment potential are reviewed. Motives for becoming involved in investment activities are explored. Finally, the volumes of investments both inward and outward are analyzed.*

**Key words:** investment activities, foreign direct investment, inward and outward investment, capital flows, capital infusion.

*У статті основна увага приділяється дослідженню інвестиційної діяльності Китаю. Акцент зроблено на вивченні становлення Китайської Народної Республіки як одного з найвпливовіших інвесторів у світовій економіці і надзвичайно привабливої економіки з точки зору залучення іноземного капіталу. Вивчаються зміни в інвестиційній політиці Китаю, які сприяли розвитку і реалізації інвестиційного потенціалу країни. Вивчено основні мотиви залученос-*

*ті в міжнародну інвестиційну діяльність. Проаналізовано обсяги притоку і відтоку капіталу в КНР.*

**Ключові слова:** інвестиційна діяльність, прямі іноземні інвестиції, притік і відтік інвестицій, потоки капіталу, вливання капіталу.

*В статье основное внимание уделяется исследованию инвестиционной деятельности Китая. Акцент сделан на изучении становления Китайской Народной Республики в качестве одного из самых влиятельных инвесторов в мировой экономике и чрезвычайно привлекательной экономики с точки зрения вливания иностранного капитала. Рассмотрены изменения в инвестиционной политике Китая, которые способствовали развитию и реализации инвестиционного потенциала страны. Изучены основные мотивы вовлечения в международную инвестиционную деятельность. Проанализированы объемы притока и оттока капитала в КНР.*

**Ключевые слова:** инвестиционная деятельность, прямые иностранные инвестиции, приток и отток инвестиций, потоки капитала, вливание капитала.

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**Introduction.** International flows of capital are one of the most significant patterns of international economic relations. The volumes of international investments are constantly increasing due to several reasons such as the growth of the global economy and economic interconnectedness, accumulation of capital within national economies, and recognizing that inward investments are a perfect opportunity for obtaining resources necessary for the country's further development while the outward investments are a robust tool for increasing the influence in the global economy and making the system of global interdependence even more intricate. Still, different countries have different motives for becoming involved in investment relations varying from the desire to become more influential in the global economy to obtaining unlimited access to natural resources. Speaking of China, it is the combination of all factors mentioned above that drives the country to be an active participant of the international investment environment.

#### **Analysis of recent research and publications.**

The issue of China's investment activities has become the subject of numerous works including those published by Lyubomudrov A. V., Kurmanova A. B., Sui L., and others. However, the question under consideration has attracted even more attention of international organizations and companies such as the World Bank, the International Monetary Fund, the United Nations Conference on Trade and Development, KPMG, etc.

**Setting objectives.** This paper aims at studying the case of the investment activities of the People's

Republic of China. The primary emphasis will be made on investigating the significance of international investments both for the Chinese economy and its partners, the evolution of China as one of the most influential investors in the modern world, current trends and volumes of foreign direct investments as well as tracing the changes in China's investment policies and strategies.

**The main material research.** China has become an active investor in the middle of the 1990s. Since then, it has turned into one of the most attractive recipients of foreign capital. Because foreign investments were determined as the primary source for the country's economic development, nowadays, China's economy has grown dependent on the inflow of capital. The key investors in this Asian economy are influential multinational corporations and the governments of more than 170 countries all over the globe. The country should devote similar attractiveness to the lasting governmental policies aimed at improving the investment climate and institutional environment within the national economy.

The establishment of China as one of the most attractive investors has a long and intricate story. The country's path could be divided into several subsequent stages. Each of them is characterized by the change of investment policies and governmental strategies. The first phase covered the period featured by the decision to become open to the outer world. It dates back to the beginning of the 1980s (precisely 1978-1983), and its primary quality was tight governmental control because every potential investment project should have been approved by the State Council on the case-

by-case basis. But still, it was a stage of demonstrating the interest towards capital inflows and outflows. The second phase (from 1984 to 1991) was the period of encouraging investments with the aim of obtaining access to the newest technologies, foreign experience and natural resources. The key accomplishment of this step was allowing investing in other than trade projects. The third phase lasting from 1992 to 1996 was also characterized by active promotion of the significance of international investments. The focus was made on boosting economic development, supporting global economic integration, and increasing the competitiveness of Chinese enterprises. The mechanism for achieving this strategic objective was seen in greater openness of the Chinese economy as well as easier and more flexible capital allocation procedures. During 1997 to 1999 the government decided to step back and retighten investment regulations with the aim of recentralizing acquisitions and reallocating capital. However, in 2000, the Chinese authorities returned to active investment policies. It was motivated by joining the World Trade Organization and prolific integration into the global economy. This period lasted up to 2006. From 2007 to 2009 China welcomed transnational corporations in order to attract more investments as well as have an opportunity to increase outward investments. The strategy for obtaining this goal was further liberalization of Chinese regulations. The next stage started in 2010 under the new Five-Year Plan. The key strategic objective is to strengthen the country's investment power by easing investment procedures [5].

In addition to it, China itself is also a powerful investor injecting funds in all regions from the least developed countries to the most developed ones. The primary motivation for the Chinese outward investments is to guarantee access to natural resources. For example, PRC invests in the operation of its multinational companies such as China National Petroleum, China National Offshore Oil, Aluminum Corporation of China, Baoshan Steel, China Petrochemical, Petrochina, and many others. These organizations operate mainly in oil and mining industries focusing their funds on raw materials and natural resources location. The need for enhancing their activities is the necessity to drive the industrial development of the Chinese economy. Furthermore, China is also interested in the constant improvement of its international image. For this reasons, numerous companies and even the state have chosen to invest in infrastructure development. Such entities are usually state-owned. Nevertheless, private domestic investments are not restricted. The central areas of their involvement are construction, transportation, communication, and community facilities. It should be noted that up to 10 percent of the annual outward investments are injected in the infrastructural sectors mentioned above. Their primary objective is to support and develop infrastructural projects in target economies

thus strengthening relations with host countries and making them even more dependent upon the Chinese capital. This strategy is beneficial not only for improving the international image of PRC but also increasing its influence on the further development of regional and even global economy.

Even though China is a powerful investor, the significance of the foreign inward investments cannot be underestimated since the government believes that attracting foreign capital is one of the most effective tools for obtaining funds as well as technologies and innovations and valuable foreign experience such as new forms and methods of management. It should be noted that the face of the necessity for attracting foreign direct investments has changed over time. Initially, dating back to the 1980s, capital inflows were employed only in pilot projects being limited to supporting the country's economic development and growth. As for now, investment regulations have become more flexible recognizing the importance of foreign capital for the technical and innovative upgrading of the key industries, creating workplaces, boosting the broadening of the export base as well as increasing tax revenues to the Chinese state budget [1].

Furthermore, foreign capital played quite a prominent role in the development of China's foreign trade not only contributing to the growth of trade rates but also increasing revenue from abroad and altering the structure of industrial exports. Except for that, a significant place in the economy of China is occupied by the enterprises with foreign capital. The emergence of this peculiarity was motivated by the initial direction of foreign capital into the processing industry. Of course, once China has joined the World Trade Organization, the industrial structure of foreign investments has undergone slight changes, but still, the country's main priorities remained unchanged. It is paramount to note that nowadays the investments are attracted not only in labor-intensive industries but also in the manufacturing of high-tech products. This alteration is motivated by the Chinese government's decision to transform China into an innovative economy by 2020, and achieving this objective is possible only in the case of active attraction of foreign investments in the domestic economy.

It is extremely important, in my opinion, to make the emphasis on the fact that due to the establishment of enterprises with foreign capital, China has significantly addressed the challenge of high unemployment rates. Because the country has vast resources of relatively cheap but high-skilled and educated labor while the amount of workplaces is limited, promoting the operation of foreign-invested entities has fostered job creation becoming a perfect solution to this problem. Moreover, injecting foreign direct investments is beneficial for the exploration and development of natural resources deposits, processing raw materials, assembling finished goods, buying the lat-

est technologies and equipment, widening the export base, and making the accent on import-substitution by enhancing the national industrial potential.

Taking a closer look at the positive impact of the foreign direct investments on the Chinese economy, it become possible to point to the existence of one peculiar correlation – the interconnectedness of domestic economic growth and the increase of investment attractiveness. The justification for highlighting this interdependence is the fact that foreign capital injections are accompanied by the transfer of the advanced technologies, innovation, and management experience thus contributing to the acceleration of the economic development, which, in turn, creates conditions for attracting foreign capital. It highlights the existence of the never-ending cycle, which has become impossible to disrupt without having the negative influence on the economic welfare once the Chinese government has decided to exploit foreign capital as the tool for achieving the country's strategic objectives. To demonstrate this point, it would be appropriate to give some statistics (see table 1 below).

Table 1  
**Interdependence between the volume of foreign direct investments inflow and the growth of gross domestic product (purchase power parity) (2003-2015)**  
(\$ billions)

Year	GDP	FDI
2003	5,073	65,6
2004	5,738	72,4
2005	6,593	60,3
2006	7,657	63
2007	8,974	71,1
2008	10,031	92,4
2009	11,037	90,3
2010	12,357	105,74
2011	13,810	116
2012	15,154	111,7
2013	16,585	117,6
2014	17,960	119,56
2015	19,392	126,3

Source: Developed by the author on the basis of [2; 3]

The table backs up the hypothesis regarding the existence of the interdependence between boosting foreign direct investments inflow and the increase of economic growth rates. It should be noted that the data for 2008 and 2009 are somewhat contradicting, but keeping in mind that the global economy was in the state of crisis and the funds were focused on the prevention of the dramatic economic decline, these figures can be neglected as the trend renewed once the global economy recovered.

Even though the impact of the investment attractiveness is, for the most part, positive, it is as well the source of significant challenges faced by the

Chinese government in order to maintain its positions and enhance them. First of all, the authorities are required to create and preserve favorable investment environment with the aim of winning more capital. This objective can be achieved by minimizing the pressure imposed on foreign firms in the domestic economy, implementing more flexible monitoring procedures over their activities, and diminishing dependence on foreign creditors. Taking these steps determines how the flow of foreign investment leads to technological progress and transferring innovations from the most advanced industries to less developed ones contributing to speeding up the level of economic restructuring, expanding export capacities, and enhancing China's position in the global economy.

As the motives and consequences of foreign direct investments were explored, it is appropriate to proceed with taking the next step – analyzing the current trends in and the volumes of both inward and outward capital flows. The overall volumes of capital flows are provided in table 2 below. Also, see chart 1 representing the same information visually for the better perception of China's investment power growth.

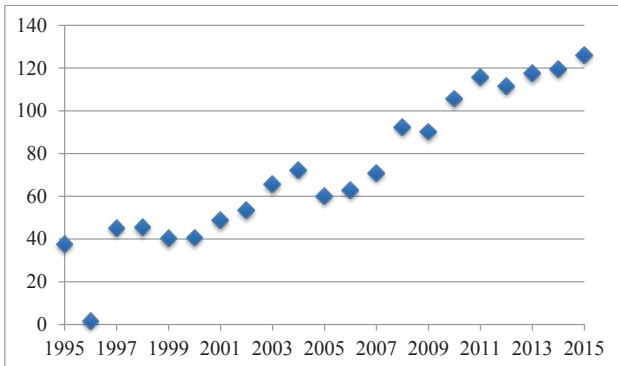
Table 2  
**China's investment activities: inflow and outflow of direct investments (1995-2015)**  
(\$ billions)

Year	Inflow	Outflow
1995	37,7	2,0
1996	1,8	2,1
1997	45,3	2,56
1998	45,5	2,63
1999	40,3	1,77
2000	40,7	0,92
2001	48,8	6,88
2002	53,5	2,51
2003	65,6	2,85
2004	72,4	5,49
2005	60,3	12,2
2006	63	21,16
2007	71,1	26,51
2008	92,4	55,91
2009	90,3	56,53
2010	105,74	68,81
2011	116	74,65
2012	111,7	87,8
2013	117,6	101,0
2014	119,56	116,0
2015	126,27	-

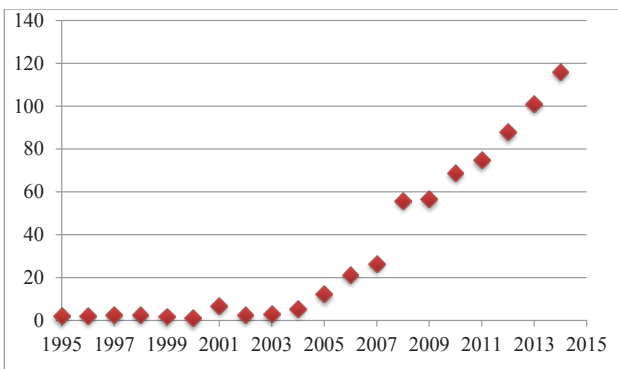
Source: Developed by the author on the basis of [2; 3; 4]

As the statistical data show, the path of China is spectacular and the country has managed to turn into the investment superpower. However, the most fantastic transformation was seen in the area of outward investments. The reason for such success is,

of course, the country's investment attractiveness because China started allocating the accumulated funds. Still, the primary cause of the country's growth is thorough and well-designed policies of the domestic government focusing on creating favorable investment environment.



FDI outflow (1993-2015)

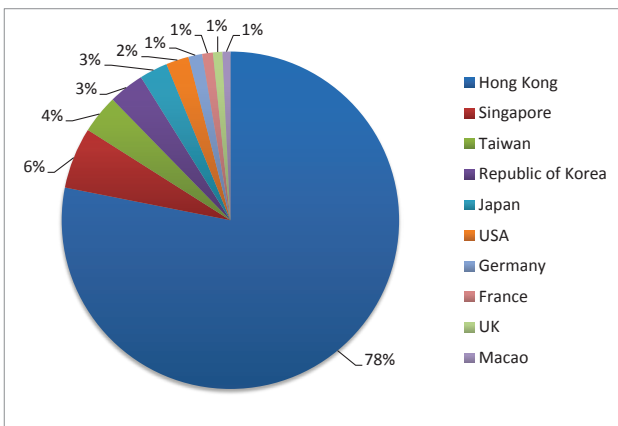


FDI Inflow (1993-2014)

**Chart 1. The evolution of China as one of the most influential investors and attractive host country**

Source: Developed by the author on the basis of [2; 3; 4]

When speaking of China's investment activities, it is possible to determine several trends in the development of bilateral investment relations. First of all, nowadays, primary investors in the Chinese economy



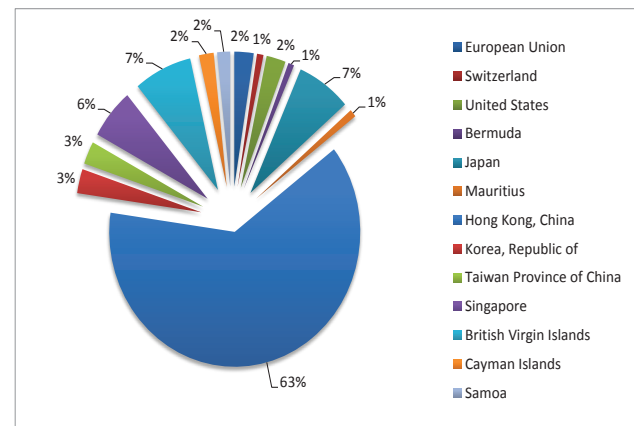
**Chart 2. Capital inflow by country, 2015 (%)**

Source: Developed by the author on the basis of [4; 7]

include foreign multinational corporations, international financial and banking institutions such as the International Monetary Fund, the World Bank, Asian Development Bank, and Japan Bank for International Cooperation as well as the representatives of the Chinese diaspora abroad referred to as huaqiao and some of the most developed countries. As for the target economies, Chinese authorities and investors prefer building investment relations with the most developed countries of the world due to the following reasons:

- Large multinational companies based in the most developed countries are the producers of new technologies, advanced media and forms and methods of production management;
- Access to the newest technologies in more developed countries as they choose to cede some innovations, which are not considered progressive within their economies, to the less developed countries;
- The desire of most developed countries to transfer labor-consuming production of goods to the target countries of capital flows [1].

Among the most developed countries, which are currently the most active investors in the economy of China, it is paramount to emphasize the role of United States, Japan, and the European countries. They are the repositories of the most advanced technologies and management experience being, at the same time, the largest financial centers in the world. Still, preference is given to the United States and Japan due to their geographical proximity. Nevertheless, the developments of recent years have demonstrated the shift towards the European Union countries, which is relatively new trend in China's inward and outward investments. Other active investors are the Chinese provinces of Macao and Hong Kong. However, similar investment alert is easily explained by the interest of Chinese diaspora – huaqiao – in injecting funds into the domestic economy of their motherland and seeking benefit for themselves.

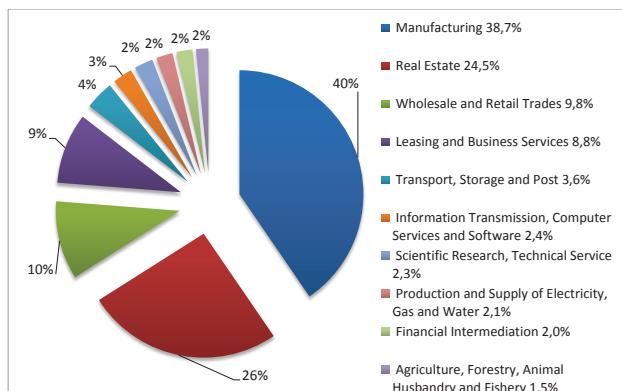


**Chart 3. Capital outflow by country, 2012 (%)**

Source: Developed by the author on the basis of [4; 7]

As for the capital outflow from China, the trend is nearly the same – the focus is made on the most developed economies. It should be noted that the country’s interests in the target economies remain unchanged; the only thing that is constantly altering is the governmental policies in the sphere of regulating investment activities in response to the needs of domestic economy and developments in the global economic environment. Detailed information regarding major investors and host economies is provided below.

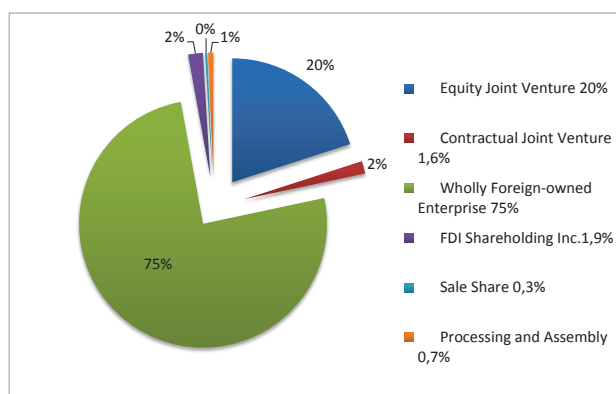
Speaking of FDI by sector, the central trend has remained unchanged during the last decade – foreign economies are interested in investing in the Chinese industry. The motivation for similar decisions is evident – China can offer qualified but cheap labor. It is one of the most crucial factors of the country’s investment strategy, and it cannot but be reflected in the statistics. Another inviting sector is real estate. The reason for its attractiveness is overpopulation and construction boom in China. National authorities often lack funds for investing in challenging the deficit of housing accommodations. That is why attracting foreign capital with the aim of dealing with this issue is a perfect option. The rest of the most appealing sectors of the Chinese economy include wholesale and retail trades, leasing and business services, transport, storage, and post, information transmission, computer services and software, etc. (see detailed information below).



**Chart 4. Capital inflow by sector, 2014 (%)**

Source: Developed by the author on the basis of [6]

As China has become more open and actively integrated into the global economic environment, it significantly affected the forms of the capital inflow. Nowadays, most investment projects imply creating wholly foreign-owned enterprises and equity joint ventures. The reasons for establishing the similar trend were already mentioned above some of them including the desire to obtain new technologies and foreign experience as well as management and leadership skills. Detailed information regarding the forms of capital inflow projects is provided below.



**Chart 5. Capital inflow by form, 2014 (%)**

Source: Developed by the author on the basis of [6]

**Conclusions and prospects for further research.** To sum up, there are several significant accomplishments of this paper. First of all, it was pointed to a variety of consequences of attracting foreign direct investments into the Chinese economy such as:

- The stabilization of the economic system as a whole;
- Creating new jobs in the sphere of foreign-owned entities;
- Altering the structure of exports and imports;
- Obtaining access to the newest technologies;
- Updating industrial development involving scientific and technological progress as well as international experience;
- Reducing the gap in the supply of equipment and technology between the most advanced and least developed sectors of the economy;
- The acceleration of the economic growth rates;
- Receiving additional revenues to the state budget.

Moreover, it was demonstrated that the magnitude of the outward foreign investments as well should not be underestimated because China effectively deploys them as the tool for strengthening its positions in the global economic environment, enhancing its international image, and obtaining access to raw materials and natural resources of strategic importance such as coal and oil. In addition to it, the paper highlighted that the Chinese investment policy and strategy are constantly changing in response to the needs of the national economy and alterations in the global economic environment. That said, the primary emphasis in the outflow of the Chinese capital is still made on the most developed countries excluding the provinces of Macao and Hong Kong. As for the capital inflow, the trend is nearly the same. It demonstrates mutual interest in developing bilateral investment relations and enhancing further partnership between China and the most developed countries.

Still, there is a lot of work to do. The directions for the further research include investigat-

ing the prospects of China as the investor and the host economy as well as the plans of the Chinese authorities for upgrading investment policies and environment and their potential implications on the economy of the PRC.

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