Changing Patterns of Chinese Outward FDI
Drivers and Implications

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China’s Outward FDI Boom
Inward and outward FDI flows, USD billion

Source: MOFCOM, SAFE, CEIC, RHG. *Data before 2006 from Balance of Payments (SAFE).
I. Changing Drivers of Outward FDI
Liberalization of Outward Investment Policies

OFDI flows in USD billion and key policy changes

Source: MOFCOM, SAFE, CEIC, RHG. Data before 2006 from Balance of Payments.
Stage I: Facilitating the Expansion of Foreign Trade
Monthly Chinese exports by region, USD bn

Source: CEIC, China Customs.
Stage II: Profiting from China’s Commodity Demand Boom

China’s % share of global consumption

Stage III: Escaping the Manufacturing Margin Squeeze

China in the Global Value Chain, stylized illustration

Source: RHG
II. Empirical Evidence
Chinese Direct Investment in the US, 2003-2011H1
USD mn and number of deals

Source: RHG
Chinese OFDI in the US by State, 2003-2011H1
USD mn and number of deals

Source: RHG

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Chinese OFDI in the US by Industry, 2003-2011H1
USD mn and number of deals

Source: RHG
### Chinese OFDI in the US by Ownership, 2003-2011H1
USD mn, number of deals, percentage of total

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Number of Deals</th>
<th>Total Investment (USD mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Greenfield</td>
<td>% share</td>
</tr>
<tr>
<td>Government Controlled</td>
<td>40</td>
<td>29%</td>
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<tr>
<td>Private and Public*</td>
<td>96</td>
<td>71%</td>
</tr>
<tr>
<td></td>
<td>136</td>
<td></td>
</tr>
</tbody>
</table>

Source: RHG
III. Implications
Implications

1. **Higher capacity of Chinese firms to operate outside of China’s borders:** Chinese firms are increasingly allowed to invest abroad, and they are increasingly able to manage overseas investments. This greater mobility of capital in the other direction is the starting point for a sea change from one-way to two way FDI flows.

2. **Overseas investment is moving beyond trade facilitation and natural resources:** We have entered a new stage of Chinese outward FDI, driven by commercial pressures on manufacturing firms to adjust value chains across borders to cope with structural adjustment in China. OFDI will be a cornerstone of China’s strategy to move up the value chain.

3. **Impact on domestic labor?** OFDI can help preserving domestic manufacturing jobs by allowing firms to escape the margin squeeze, drive up productivity and move into new markets. But greater outward mobility of capital also allows firms to offshore low-end manufacturing activities to Southeast Asia and low-cost countries at the periphery of key markets.
## Outlook: Factors Shaping Chinese Firms‘ OFDI Decisions*

Survey data, 2010, N=1,024

<table>
<thead>
<tr>
<th>Factor</th>
<th>Decisive or important factor</th>
<th>Not important or irrelevant factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favorable policies at home</td>
<td>92</td>
<td>8</td>
</tr>
<tr>
<td>Market potential in target countries</td>
<td>86</td>
<td>14</td>
</tr>
<tr>
<td>Availability of capital</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>Favorable policies in target countries</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Circumventing trade barriers</td>
<td>66</td>
<td>34</td>
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<tr>
<td>Increasing labor costs at home</td>
<td>51</td>
<td>49</td>
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<tr>
<td>Lower transportation costs</td>
<td>51</td>
<td>49</td>
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<tr>
<td>Advanced technology in target countries</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td><strong>Better quality of human capital in target countries</strong></td>
<td>44</td>
<td>56</td>
</tr>
<tr>
<td>Acquiring brands</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td>Securing natural resources</td>
<td>28</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: CCPIT, UNCTAD, APF; *member companies of China Council for Promotion of International Trade with revenue of more than RMB 1 million.