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Why China's Investments Aren't a Threat

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by Mike Peng | **Comments (6)**

The notion of the so-called "China Threat" often pervades the business media. According to many writers — who belong to what John Hopkins University's David Lampton has labeled the "China on Steroids" (http://www.nbr.org/publications/element.aspx?id=455) school — Chinese multinationals are, to paraphrase the Economist, intent on buying up the world (http://www.economist.com/node/17463473) .

Such statements create three lasting impressions. One, that China is one of the world's biggest overseas investors. Two, that, among the emerging economies, it is the largest foreign investor. Three, that China's outward foreign direct investment (OFDI) extends all across the world.

However, none of these impressions can be substantiated by data.

Take the notion that China invests abroad more than any other country does. According to the United Nations' World Investment Report 2011 (PDF) (http://www.unctad-docs.org/files/UNCTAD-WIR2011-Full-en.pdf) , China and Hong Kong weren't among the top three foreign investors in 2010. They were only No. 4 and No. 5 respectively — well behind the U.S., France, and Germany. In fact, China's OFDI stock was only 6% that of the U.S. If Chinese companies could buy up the world with that amount of capital, American companies would be able to do so 16 times over.

There's also a widespread perception that China must be the largest foreign investor among the emerging economies. That's not the case, according to UN data. China's stock of OFDI, at 1.46% of the worldwide total, is three times India's 0.45%, and ahead of Brazil's 0.89%. However, Russia has invested more abroad (2.12%) than China has. Yet, nobody worries any more that Russia is taking over the world.

Finally, Chinese companies haven't invested in countries all over the world. Hong Kong accounted for 66.94% of China's OFDI stock while the rest of Asia received 8.55%. Significant round tripping of capital — which flows from China to Hong Kong, and then, back to China — has taken place in order to take advantage of Chinese regulations that favor "foreign" capital.

In addition, of the 12.45% of China's OFDI stock that Chinese corporations invested in Latin America and the Caribbean, tax havens like the Cayman Islands and the British Virgin Islands absorbed 11.65%. As Beijing's control of Hong Kong intensifies, it's likely that the Cayman Islands and the British Virgin Islands are increasingly assuming the role that Hong Kong has played in facilitating capital round tripping.

China's investments in Europe (3.53%), North America (2.11%), and Oceania (2.61%) were relatively small while Africa accounted for just 3.80% of China's OFDI as of 2009. Thus, the world outside Hong Kong accounts for just about a third of China's stock of OFDI, which represents 1.46% of the worldwide stock of OFDI.

Do a little math, and you will see that Chinese companies have invested a mere 0.031% of its worldwide stock of OFDI in North America. In dollar terms, that's about $6.3 billion. (That's the stock of China's OFDI in the U.S., meaning the accumulation of all such investments over the years.) By way of comparison, the revenues of the smallest U.S. company on the Fortune Global 500, Bristol-Myers Squibb (No. 500), was $19 billion in 2010. China's OFDI in North America, while emerging and increasing, is insignificant today.

Because of its small scale and limited geographic scope, China's foreign investments don't threaten any country. Policymakers the world over would do well to consider both the pros and cons, and when the economic benefits outweigh the costs, to approve Chinese investments — just as they would in the case of investments from other countries. When unemployment is high and jobs are hard to come by, turning away investments from the economy with the largest foreign exchange reserves in the world doesn't make much sense.