The Empirics of China's Outward Direct Investment

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Summary

There is a plethora of analyses of China's economic prowess in terms of its ballooning trade surplus and international reserves, and its ability to draw in foreign direct investment. The role of China as an outward investor has been seldom discussed and only catches attention following some publicized large-scale (attempted) buyouts of the US companies including the IBM's personal computer division and the oil company Unocal.

Compared with inflows, China's outward direct investment (ODI) is quite small. However, since the beginning of the new millennium, China's direct investment abroad has surged apace. During the 1994-1999 period, China's outward investment stood at the level of US$ 2.2 billion (annual average). In 2005, China's outward investment jumped fivefold to 11.3 billion. One interesting feature of China's outward investment is its concentration in developing countries. The 2007 United Nations report, for example, points out that China is one of the major capital providers for developing countries in Africa (UNCTAD, 2007).

Against this backdrop, we examine the Chinese investment in overseas markets. It is found that China's investments in developed and developing countries are driven by different sets of factors. Subject to the differences between developed and developing countries, there is evidence that a) both market seeking and resources seeking motives drive China's ODI, b) the Chinese exports to developing countries induce China's ODI, c) China's international reserves promote its ODI, and d) the Chinese capital tends to agglomerate among developed economies but diversify among developing economies. Similar results are obtained using alternative ODI data. We do not find substantial evidence that China invests in African and oil-producing countries mainly for their natural resources.