

# **China's Outward Direct Investment: Evidence from a New Micro Dataset**

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## **Summary**

With the world's largest foreign exchange reserves and a strong motive to diversify its foreign investment, China is shifting from being a country known for exports to one being active in investing overseas. The importance of data quality in any empirical inquiry cannot be overstated. To understand the nature of and to evaluate the consequences of China's "go global" policy, we need a reliable and consistent measure of ODI flows. Our analysis indicates that one has to be careful in drawing any conclusion based on the official ODI statistics, because the official data treat tax havens as final destinations rather than transit points.

More than seventy percent of China's outward direct investment (ODI), according to the Ministry of Commerce statistics, is invested in Hong Kong, the British Virgin Islands, and the Cayman Island. Using a unique micro-level dataset collected by the Heritage Foundation that documents individual ODI transactions, we first show that the official statistics and the Heritage Foundation measure of China's ODI are correlated only in the sample of non-haven economies, because the official statistics treat tax havens as final destinations rather than transit points. On average, a dollar increase in the Heritage Foundation measure of ODI is associated with less than a fifteen cent increase in the official ODI among the non-haven economies, and the downward bias is even larger for investment in energy.

We also document that the sharp increase in the official ODI to Hong Kong coincides with the rise in the Heritage Foundation measure of ODI to OECD countries since 2007. Finally, we show that some of the well-documented stylized facts about the pattern of China's ODI are artifacts of the mismeasurement of the official data. For instance, contrary to previous findings, we find no evidence that China's ODI is attracted to host countries with poor governance, and that neither cultural proximity nor geographical distance is a major determinant of China's ODI. Furthermore, the Heritage Foundation data suggest that the resource seeking motive of China's ODI is at least as strong as the market seeking motive.