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OUTFLOWS OF CAPITAL FROM CHINA

by

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RÉSUMÉ

Alors que le monde était fasciné par l'émergence de la Chine en tant qu'acteur majeur dans le commerce international — aujourd'hui l'un des dix principaux pays exportateurs — et "grand consommateur" de capitaux internationaux (au deuxième rang après les États-Unis), les entreprises d'État et les autres entreprises du secteur public sont devenues progressivement une source de financement au niveau international. Ainsi, les firmes chinoises sont présentes par le biais des investissements directs étrangers (IDE) dans la quasi-totalité des pays et dans tous les domaines de l'activité économique (de la banque d'affaires à l'industrie de la pêche et à l'arboriculture).

Ce document examine les données agrégées disponibles sur les sorties de capitaux de la Chine et sur les investissements directs étrangers privés (quand ces chiffres existent). Il montre que ces mouvements de capitaux s'accroissent et concernent le monde entier avec toutefois une forte concentration sur un nombre restreint de pays dont l'Australie, le Canada, les États-Unis et Hong Kong qui occupe une place particulièrement importante. Bien que les investissements réalisés dans ces pays soient diversifiés, il existe néanmoins une spécialisation en fonction de la destination : le commerce et les services à Hong Kong, l'approvisionnement en matières premières en Australie ainsi qu'au Canada et l'acquisition de technologies brevetées aux États-Unis. Les montants investis dans ces trois derniers pays sont plus élevés que la moyenne alors que l'investissement moyen de la Chine dans la plupart des autres économies est relativement faible si l'on se réfère aux données internationales (moins de 1 million de dollars). Ce document intègre également une étude de cas de l'investissement chinois en Australie.

SUMMARY

While the world has been mesmerised by China's emergence as a major player in international trade, now being one of the world's top ten traders, and also as an absorber of international capital (second only to the United States), China's state-owned and other public sector enterprises have been quietly growing in importance as a source of international capital. Chinese enterprises now have foreign direct investment in virtually every country in the world and across the whole spectrum of economic activities, from merchant banking to fish processing and forestry.

This paper reviews the available aggregate data on outflows of capital from China. It also examines such data as is available on individual foreign direct investments. One conclusion which emerges is that while such outflows are growing and being disbursed on a global basis there is a significant concentration in a small number countries, in particular Australia, Canada and the United States, in addition to the strong emphasis on Hong Kong. The investments in these countries are diversified, but there is something of a concentration in Hong Kong on trade and service sector activities, on the securing of raw materials in Australia and Canada and on securing proprietary technology in the case of the United States. Investments in the last three of

these countries tend to be larger than average in scale, while the average investment in most other countries was quite small in international terms at well under half a million US dollars. The paper also includes a case study of Chinese investment in Australia.

PREFACE

Despite a growing importance of China as the leading foreign investor among developing countries, there is a paucity of information about it: how large is the outflow of capital from China?; what causes China to invest abroad?; and how do government policies affect such investment? This paper by David Wall, School of Oriental and African Studies, University of London and Royal Institute of International Affairs, attempts to fill this gap by taking a close look at both macro and micro data on China's outward investment.

The paper reveals a pattern of global dispersion of direct investment by Chinese enterprises with a strong concentration in a small number of destinations, namely Hong Kong, Australia, Canada and the United States. Yet, the author argues that the pattern of China's direct investment abroad is fully consistent with the economic logic of the theories of foreign direct investment. Prepared under the theme of "Reform and Growth of Large Developing Countries", the paper makes an important contribution to the Centre's ongoing work on liberalisation and globalisation of the Chinese economy.

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I. INTRODUCTION

Developing countries in pursuit of economic growth are generally seen to be in need of capital inflows. Among the policies it is suggested they adopt are those which will make their economies attractive to foreign investors, both direct and portfolio investors. By 1978 the Chinese government had accepted that its centrally planned command economy was not matching the desirable growth performance of other East Asian developing economies. In an effort to catch up with its neighbours it began to introduce market-based policies. “Open door” policies designed to attract foreign capital were among the first market-based policy reforms. In response to those policy reforms, foreign capital did begin to flow, and in increasingly large quantities, mainly in the form of foreign direct investment (FDI). China is now the recipient of one of the largest inflows of FDI in the world; on average, second only to the United States. This contrasts sharply with the pre-reform situation in which foreign investment was prohibited.

The dramatic impact of the figures for capital inflows, which reached $66.1 billion in 1995 (of which $37.7 billion was foreign direct investment) has, however, diverted attention away from other aspects of the Chinese economy's integration into the international capital markets This is particularly true of its emergence as a *lender* of capital. According to the International Monetary Fund (IMF) China now ranks as the eighth most important supplier of capital on world markets, accounting for 2 per cent of the total global flow.[1] In its study of world capital markets the IMF even concluded that "it certainly is not inconceivable that fast growth and saving surges in countries like…China…could offset or even dominate saving declines in countries like Japan or France."[2] This reference by the IMF to the growing importance of China as an important supplier of capital on world markets, and an article about the shifting balance of economic power in the world economy in the *Financial Times,*[3] which quoted it, passed without comment.

The IMF ranking of countries by order of importance as suppliers of capital to world markets was based on each country’s average current account balance for the years 1989-93 compared to the average for all countries.[4] This is a crude measure and hides a good deal of volatility in the underlying data; for example in two of the five years China’s current account balance was in deficit. Table 1 shows that over the five years covered by the IMF the *net* outflow of capital measured in this way was $14.45 billion. Adding the 7.66 billion in 1994 and 1.62 billion in 1995 gives a total for the seven years of about $24 billion.

Table 1 shows, however, that the *gross* outflow of long-term capital from China has been much larger than the *net* outflow as suggested by looking at the current account balance alone. *Gross* outflows of long-term capital totalled more than $67 billion for the five years covered by the IMF. A sum of $53 billion was added to the total in 1994 and 1995. In other words, China has indeed emerged as a major provider of capital on world markets. However, two brief comments are in order. First, about one third of gross long-term capital outflows in 1995 were accounted for by repayments of foreign loans to China, including bank loans, and a small number of foreign loans made by China. China's *registered* overseas direct investment, which totalled $2.0 billion in 1995; accounted for only 7 per cent of the total (and down from roughly 20 per cent in 1993). Outflows for portfolio investment were $380 million in 1994 and $79 million in 1995 . Over the seven years (1989-95) covered by Table 1, total overseas investment, direct and portfolio, by mainland Chinese entities was more than $17 billion. Second, it should be stressed that over the same period the 'Errors and Omissions' item in China's balance of payments statistics has become so large that in 1995 it accounted for roughly two thirds of gross long-term capital outflows (see below).

One commentator (Lardy, 1995, page 1073) has suggested that "contrary to what one might believe from observing the flood of foreign capital into China, on a net basis, such inflows have not contributed to domestic capital formation in China." However, while it is true that after allowance is made for China's conservative foreign reserves policy and overly restrictive import policy the net[5] flow of capital into China is small relative to the size of its economy, it is not true that inward foreign investment has "not contributed to domestic capital formation". Behind the accounting identity is the real economy: the investment financed by the inflows of foreign capital would not have occurred in the absence of those inflows. The outflows are not causally related to the inflows. The outflows would have occurred anyway and been financed out of foreign reserves or covered by a policy-generated trade surplus, or if either of these options was not acceptable to the government it could have taken steps to restrict outflows; there is no evidence to suggest that the government's policy towards outflows is determined by the size of inflows.

Analysis of the real economy requires the use of *gross* data rather than net data which are relevant for balance of payments accounting purposes. Similarly, while in accounting terms the *net* outflows of long term capital may have been negative, in 1994 such outflows were equal to about a quarter of export income, or more than a quarter of China's total outstanding foreign debt at that time. Taking the approved and registered autonomous outflows alone, i.e. foreign direct investment and portfolio investment (and ignoring capital flight), in 1994 these flows represented roughly 72 per cent of new loans received from multilateral agencies that year (down from 174 per cent in 1993). Given the effort the government of China makes to obtain new loans from abroad the question can be asked as to why it also allows, even approves and encourages, overseas investment by Chinese enterprises, most of which are public-sector enterprises.

A partial answer is that not all of the outflow of long-term capital from China is approved or encouraged by the government. Much takes the form of illegal transfers abroad, or capital flight, which are reflected in a large ‘Errors and Omissions’ item in the balance of payments. This item has increased annually in recent years: in the period covered by Table 1 it increased from an inflow of $0.33 billion in 1989 to an *outflow* of $17.81 billion in 1995. All countries suffer to some degree from capital flight. China is no exception. While the focus of the present paper is on the officially approved and registered outflows, given their size some attention is given in an appendix to illegal outflows (see Appendix II).

Even if we restrict our attention to officially approved outflows of direct and portfolio investment, China is still a major player in world capital markets. Table 2 provides some comparative data on outward direct investment for a selection of countries for 1995 and for the period 1992-94.[6] At $3.5 billion the outflow from China was far larger than that for any other developing country (not counting Hong Kong) for which data is available and larger than that from Italy and Denmark; over the period 1992-94, China’s outflows of foreign direct investment exceeded those from Spain, Sweden, Denmark and Australia.

The focus of this paper is on direct investment from mainland China which goes beyond the territories of Hong Kong and Macao where "foreign" investment by Chinese companies - whether approved or not — is a special case. Approved investment in these territories can be seen as part of the process of integrating their economic activities with the mainland economy - an assertion of both power and dependency. The unofficial flows reflect the ease of transferring resources to the physically and culturally contiguous territories. The size of the flows, are analysed in more detail in Sung Yun-wing (1996), Nick Ni (1994) and On Kit Tam (1996). The Ministry of Foreign Trade and Economic Co-operation (MOFTEC) approvals for investment in Hong Kong stood at $326 million at the end of 1994, though, Nick Ni suggests that by early 1994 "a conservative estimate puts total capital assets and investment by mainland entities in Hong Kong at more than $30 billion". This is substantially more than the Government of China's official estimate of $5.16 billion by the end of 1992.[7] Even if the assets of the financial institutions such as the Bank of China are netted out Sung's "conservative estimate" of the value of Chinese investment in the 16 leading mainland-controlled Hong Kong listed companies puts the total at $11 billion at the end of 1993 and, including all other non-financial companies, $20 billion by the end of 1994. An analysis of the nature and role of Chinese investment in Hong Kong and Macao is beyond the scope of the present study; the interested reader is referred to the studies listed above.

II. MOTIVES FOR FOREIGN DIRECT INVESTMENT: THE CHINESE CASE

Developing countries are usually thought of as being short of capital and consequently, after due allowance for political risk, being able to offer rates of return sufficient to attract inflows of foreign capital. In this scenario, as one of the poorer developing countries China, would be expected to be an importer of capital and not to be exporting capital abroad. As we have seen, however, while still a net importer of capital, China is now exporting capital on a large scale. As (legal) capital movements are still tightly controlled the government must consider the outflows to be in the national interest, but are they economically rational? That there can be a divergence of interest between private and social motives for capital movements is illustrated by the large scale illegal capital flight (see Appendix II). Leaving aside the question of illegal transfers, the investments made abroad by the managers of the (mostly public sector) enterprises are clearly seen to be in the interests of their enterprises (or their managers), and as they have been given official approval they have to be thought to be in the national interest by the officials involved in the approval process. This raises two questions: first, why might enterprise managers in China prefer to invest abroad rather than in China, and second, why might the government consider it to be in the national interest to encourage such investments.

Private Motives for FDI

Although the bulk of the enterprises engaged in China's overseas investments are state-owned enterprises, or publicly owned by lower levels of government, they have increasingly been encouraged by the government to act as profit-making capitalist firms responding to the profit motive. To the extent that they do act as profit-motivated firms their activities are amenable to analyses using standard western economic theory. This is convenient, as there is a whole branch of western economics devoted to the explanation of foreign direct investment.[8] This theory suggests that there are several reasons why foreign direct investment whose objective is to gain control or influence over a foreign firm might enhance the prospects for profit making for the firms involved. Briefly, firms with intellectual property rights of one form or another which they wish to exploit internationally or firms engaged in international trade in order to support their domestic activities may find it to their advantage to set up or buy foreign companies. Such investment allows them to internalise, and so maximise, the benefits they derive from their overseas activities or allows them to minimise the transaction costs and risks involved in carrying out business abroad and hence enhance the likelihood and security of increased net profits. There are four main types of overseas investment activity which the strategies of intellectual property right exploitation and internalisation lead to. These are investments designed to:

- to secure access to raw materials;
- to secure market access;
- to secure access to proprietary technology; and
- to gain the benefits of international diversification.

Access to Raw Materials

There are several reasons why firms may wish to invest in the ownership of sources of raw material on which they are dependent. In the first case they may, in an uncertain world, simply feel safer to have assured access to sources of inputs rather than having to worry about security of supplies in a competitive environment. Second, there may be internalisation advantages, including economies of integration, which encourage vertical integration in the industry. Third, if there are limited sources of supply of the raw material then control over some part of its production will confer monopoly power which can be exploited as an ownership advantage. Fourth, the original owners of the source of supply may not have access to the minimum amounts of capital, or access to proprietary technology, which competitive exploitation of that source requires. Finally, policy distortions may restrict the exploitation of local raw material sources to domestically registered companies.

Access to Markets

The same logic which applies to the motive to secure access to raw material also applies to secure access to markets.[9] Producers feel safer if they own or control the downstream marketing outlets for their products and will often buy (or establish) end users, or wholesale and/or retail outlets for their products. Again, there may be internalisation economies which encourage vertical integration. Monopoly power may be enhanced by ownership of the later stages of distribution and marketing. Similarly, entry costs (ranging from specialised infrastructure costs to branding and advertising costs, to downstream processes including distribution and marketing) may be so high as effectively to exclude local firms from entering the sector on a competitive basis. Access to domestic markets may also be restricted to domestically registered companies through controls or through cost-raising tariffs and taxes on foreign company sources.

Access to Proprietary Technology

While a firm may maintain dominance in its domestic market with out-of-date technology if it is protected, successful entry onto world markets may require it to use up-to-date technology. In the absence of free markets in technology in some sectors, one way of acquiring proprietary technology is to buy the firm which owns it. In this way not only is the technology itself transferred but so also is the ability to translate the technology into practical commercial use. Such technology may be in a downstream stage of processing in which the market in which it is located has a strong locational advantage and which a firm needs in order to gain access to that market. Or it maybe a more footloose technology which has not moved back to the market with potentially more competitive upstream processes for any of several reasons, ranging from the personal preferences of the owners of the technology, to simple information gaps. In this case, the technology bought with the company will be moved back to the home country in order to develop a competitive footing in its export markets. In some cases, the owners of the proprietary technology may be firms which can resist being bought out, so that other forms of co-operation may occur, all still involving outward investment by the firm wishing to acquire access to the technology, such as joint venture or technical co-operation agreements. Another form of technology-determined FDI occurs when a firm which owns proprietary technology wishes to use it to exploit overseas markets but is not prepared to sell or lease that technology to foreign firms. In this case it will have to invest either in the establishment of wholly-owned overseas subsidiaries or in joint ventures. The choice of form of investment will be determined by the need for, or perception of the need for, maintenance of the secrecy of the technology.

International Diversification

There are many reasons why normally risk-averse entrepreneurs may engage in FDI in order to reduce the risks, or their perceptions of the risks, involved in their business activities. The risks may be political or economic in origin. For example, if entrepreneurs expect a change of government in a country in which they are operating and expect that change to result in actions antithetical to their interests, then they will, if they can, seek to spread their activities to include countries where they feel more confident about the future. Similarly, expectation of changes in governments' economic policies, for example, in relation to joining or not joining a regional economic grouping, may induce a company to spread its risks through FDI. International diversification may also result when a firm, having saturated its domestic market, wishes to expand its activities in a sector in which there are strong locational advantages (for example due to high transport or information costs).

The existence of oligopoly in an industry can and does generate competitive forces which can compel firms to engage in FDI, which results in the international diversification of their activities. The recognition of non-co-operative interdependence among firms can result in a simple pattern of imitative behaviour so that when a leading firm in an industry moves into a new market its competitors will follow in order to protect their interests, whether those be access to inputs (including raw materials and technology), market shares or any other factor which is perceived as giving a competitive edge to the first firm to move.

Apart from risk spreading and oligopolistic behaviour, there are other reasons why firms in developing countries may wish to diversify through FDI. One important motive arises from the fact that many developing countries have repressed financial sectors in which access to both capital and foreign exchange is restricted and in which direct access to foreign capital markets is prohibited for domestic firms. Firms which are seeking to expand in such economies will sometimes establish overseas subsidiaries in order to gain access to foreign capital markets, either to finance their expansion abroad or to help finance their expansion in the domestic market by repatriating the capital of foreign exchange which they have raised at "arms length" though the foreign companies they have bought into or established. Finally, there may be non-economic reasons for international diversification, for example, in many countries foreign investors are granted residency rights, or even citizenship. In such cases a firm may engage in FDI simply to gain access to the benefits of those rights or citizenship - the right of abode, company or personal tax advantages, legal protection, education, and social security and health services are the benefits most frequently sought though such FDI.

National Motives for FDI: the Chinese Government's View

It has been the Chinese Government's policy to encourage Chinese enterprises to invest abroad since the beginning of the economic reform and 'open-door' policy was introduced in 1978.[10] The Vice-Minister of the Ministry of Finance, Zhang Youcai, who is also a Commissioner of the National Administrative Bureau of State-Owned Property (NABSOP), one of the agencies charged with managing China's overseas assets, confirmed this in a conference in Beijing in November 1994. In this speech Mr Zhang said that "[s]ince the reform and opening to the outside world, the Chinese government vigorously encouraged and supported the relevant authorities and powerful large- and medium-sized enterprises to make investment and initiate operations abroad so as to diversify their business and become internationally operated conglomerates."[11]

The first MOFTEC-approved overseas subsidiaries of Chinese enterprises were established in 1979 and 76 non-trading enterprises operating in 23 countries had been set up by the end of 1983, with a total investment valued at $900 million (see Table 3). The number of companies engaged in outward FDI from China grew rapidly after a relaxation of policy in 1985 and by the end of 1989 a total of 645 non-trading enterprises had been set up, involving investment in more than 88 countries. The total investment in these enterprises was $2.23 billion, of which $951 million was invested by the Chinese partners. The pace of overseas investment speeded up after 1990, with 207 overseas subsidiaries being set up in 1991 alone, along with a further 355 in 1992. By the end of 1994 the total number of approved and registered non-trade enterprises amounted to 1763. The total investment by the non-trade enterprises, mainly in joint ventures, was $1.76 billion. Preliminary data suggest that the pace of outward investment by non-trade enterprises accelerated in 1995, with 97 enterprises receiving approval for a total of $170 million in the first six months alone - compared to the $71 million for the whole of 1994.[12]

Political, Policy and Regulatory Framework

At the beginning of 1983 the then Ministry of Foreign Economic Relations and Trade (MOFERT) was given responsibility, in a directive issued by the State Council, for examining and approving proposals by Chinese enterprises to invest abroad. At that time only state trading corporations, MOFERT, and provincial and municipal international economic and technological co-operation enterprises under the State Commission of Economic Relations and Trade were allowed to invest abroad. This restrictive regime was liberalised in 1985 when MOFERT issued a directive extending the right to apply for permission to invest abroad to any legal entity enterprise which could demonstrate that it had access to sufficient capital, technical and operational know-how and which had formed an alliance with a suitable overseas joint venture partner. The 1985 MOFERT directive, "The Approval Procedures and Management Methods for Setting-up Non-trade Joint Ventures Abroad", was later supplemented by a second directive, "On the Exchange Control of Investing Abroad", issued by the State General Administration of

Exchange Control on 6th March 1989. These two directives established the guidelines and requirements for enterprises wishing to invest overseas.[13] The requirements are that such investments must be likely to lead to:

- the introduction of advanced technology from abroad;
- improvements in reasonably priced supplies of raw materials that are badly needed in the domestic market;
- increased earnings of foreign exchange; and/or
- an expansion of exports of goods and services through the establishment of turnkey projects and labour supply contracts.

The directives issued by MOFERT established procedures which called for all applications to be submitted in the first instance to municipal and provincial authorities. Projects which fell into certain categories relating to destination, nature, type and scale, also had to be referred on to MOFERT for its approval. The categories over which MOFERT was given control were those for which the investment was:

- to be in Hong Kong or Macao;
- to be in regions or countries which have no formal foreign relations with China;
- in the State export plan;
- likely to require foreign exchange from the official reserves; and/or
- of a scale of investment greater than $1 million.

In addition, those proposals which involved an overseas investment greater than $30 million had to be referred to the State Economics and Trade Commission for its approval.

As noted above, the liberalisation implied in these directives led to an upsurge of outward FDI and in 1991 the government, concerned with what it saw as a loss of state assets and an unrequited outflow of foreign exchange, removed the rights of approval from provincial authorities and recentralised them in the MOFTEC, the successor Ministry to MOFERT.

The 1985 and 1989 directives set out regulations regarding foreign exchange transactions engaged in by enterprises investing abroad and also a range of tax incentives to support their activities.[14] The regulations on foreign exchange set out reporting requirements and approval criteria and penalties for their violation; it also stipulated that any foreign exchange taken out of China to finance investment must in due course be repatriated with a minimum 5 per cent premium. The tax regulations give an idea of the support which the government wishes to give to outward FDI:

- enterprises with outward investments are exempt from income tax for the first five years, and they can retain all foreign exchange income to finance expansions - after five years they are required to pay income tax, but only a minimum 20 per cent in the form of foreign exchange;

- enterprises investing abroad in natural-resource projects, which involve export to China of products where export from China is restricted under the state export plan, can enjoy the same preferential tax treatment and policy subsidies as domestic producers;

- exports of equipment, machinery and raw materials, as part of an enterprise's overseas investment, are exempt from any export taxes; and

- income generated by enterprises which have invested in developing countries which have inconvertible currencies and which is therefore repatriated in the form of goods bought with the profits will not be charged import tariffs or taxes on those imports.

Although several ministries and departments are concerned with outward FDI, such as the State Planning Commission, the Ministry of Finance, the Customs Department, the State General Administration of Exchange Control, and the State Economics and Trade Commission, MOFTEC is the lead agency. MOFTEC is responsible for the overall promotion, management and control of China's outward FDI. The Ministry formulates policy towards outward FDI, including the detailed regulations for its management and regulation, planning its regional and sectoral distribution and, through consultation, adjusting its direction, scale, and method of investment, and researching and seeking solutions for problems encountered by Chinese enterprises investing abroad. It is also responsible for directing the activities of the economic and commercial counsellors in China's embassies and ensuring that they promote and monitor the activities of Chinese companies in the countries in which they are based and ensure that they follow the laws of the host countries and that the companies take maximum advantage of those laws. At home MOFTEC promotes the interest of the sectors concerned by seeking positive publicity among the public and politicians to draw attention to the contribution China's overseas investments make to the country's development. The lead MOFTEC takes in encouraging the expansion of overseas investment was supported politically by Premier Li Peng in speeches in 1991[15] and by Deng Xiaoping in speeches he made in South China in the spring of 1992.[16]

China's policy of encouraging investment abroad was enshrined in the landmark Fourteenth National Congress of the Chinese Communist Party, held in Beijing in October 1993. The report of this Congress, proposed by Party Secretary Jiang Zemin, set out the conditions which had to be met in order to establish a socialist market economy for China. The report says that the establishment of a socialist market economy will involve "[f]irmly carrying out the policy of opening up to the outside world, expediting the opening-up effort, making full use of the international and domestic markets and resources at home and abroad, and optimising the allocation of resources." Specifically with respect to outward FDI, "[m]anagement of Chinese-funded enterprises abroad will be strengthened. We will seriously sum up experiences, constantly increase our openness, and give guidance to its development to a higher level and in breadth and depth.".[17]

National-level support for outflows of FDI from China is mirrored at the municipal and provincial levels. The support and encouragement of MOFTEC at the national level is paralleled by the support given by the Foreign Economic Relations and Trade Commissions at the municipal and provincial levels. Following the lead taken in Deng Xiaoping’s South China speeches, local politicians also went on record as being in support of overseas investment by Chinese enterprises. The mayor of Shenzhen asked the more than 80 overseas enterprises from Shenzhen to meet new performance targets and the Director of Foreign Economic Relations and Trade of Foshan (a municipality in the Pearl River Delta of Guangdong Province) also encouraged enterprises in his locality to set up overseas branches, specifically in this case to get around the discriminatory import restrictions increasingly being encountered by Chinese exporters (*Wen Wei Po*, 14 March 1992). Authorities in other localities also expressed encouragement for their enterprises to invest abroad, for example Liaoning (*Hong Kong Economic Journal*, 23 March 1992), Hubei (*Wen Wei Po*, 11 March 1992) and Xiamen (*Xiamen Daily*, 27 November 1991).[18] The existence of strong support in Shanghai for overseas investment is witnessed by the fact that by the end of 1994 Shanghai-based enterprises had established 414 overseas subsidiaries (199 trade-related and 215 non-trade-oriented), representing about 9.1 per cent of all of China's overseas enterprises (12.6 per cent of all non-trade-oriented subsidiaries).[19]

Thus, far from being concerned that Chinese enterprises are taking capital out of a capital-poor country to invest abroad, often in capital-rich countries, the government of China actively encourages that outflow. Provincial and municipal governments also encourage enterprises in their jurisdictions to invest overseas. The perception is that in the sort of overseas investment of which the central government approves, there is a harmony of private and social benefits. As long as the strict criteria set by MOFTEC and the other involved central agencies are met, then it is believed that by seeking to enhance their own interests through overseas FDI, Chinese enterprises will also support the economic development of China. So the motives generated by market imperfections which economic theory identifies as encouraging enterprises to invest abroad are also seen by the Chinese government as arguments in favour of its allowing and encouraging Chinese enterprises to invest abroad.

III. THE GEOGRAPHICAL AND SECTORAL DISTRIBUTION OF CHINA'S OVERSEAS NON-TRADE INVESTMENT

The data used in this section mostly relate to non-trade activities. This category is used by MOFTEC in its publications to include manufacturing enterprises, resource development projects such as mining and forestry companies, and contract projects, especially construction projects.[20]

Aggregate Data

Chinese overseas investment is spread across the globe, with Chinese-owned companies or joint ventures operating in 135 countries (Table 4). However, Table 5, which provides data up to 1994, shows a picture of strong concentration of Chinese investment in relatively few of these countries (even allowing for the substantial under-reporting of the figures for Hong Kong, see below). More than 86 per cent of it was concentrated in the 25 countries listed in the table. The top three countries alone, Canada, Australia and the USA, accounted for well over half (58 per cent) of the total. If the correct figures for Hong Kong were to be taken into account, the concentration effect would be seen to be even stronger than these data suggest.

The average share of Chinese investment in the enterprises varies greatly from country to country, from the almost 100 per cent in Chile to the low of 19 per cent in Italy. The ratio was 50 per cent or more in only nine of the top 25 countries over the whole period covered. The average for all 25 countries, weighted by the value of investments in each country, was less than half, standing at 45 per cent. In the five countries of major concentration the share was greater than one half on average over the period since 1978 for Canada, the United States and Hong Kong, and below half in the cases of Australia (26.5 per cent) and Russia (just below half at 49.8 per cent). In the case of Australia the average of 26.5 per cent was one of the lowest ratios for all countries China has invested in, although the total investment of the firms in which China has a share is larger in Australia than in any other country, by a wide margin. The largest total commitment of funds by the Chinese side is in Canada, standing at around $370 million by the end of 1994.

The total sum invested by China in Canada is not only greater than that in any other country but also the average value of the Chinese investment in Canada per project ($4.9 million) is the largest of any country invested in. By the end of 1994 China had invested in 75 non-trade enterprises in Canada, compared to 86 in Australia, 218 in the United States, the reported 139 in Hong Kong and 225 in Russia. In Russia, however, the average investment was only 426 thousand dollars, while the average in Australia was almost $3.8 million and those in the United States and Hong Kong were $1.5 million and just less than $1 million, respectively. China had only five investments in Chile but the average investment in them was $4.3 million. The two investments in Bermuda had an average investment of $2.5 million. Among the other countries in the top 25 only Turkey had investments from China with an average value of more than $1 million. The overall average for the top 25 countries was $1.2 million - a figure heavily weighted by the figures for the top four in which the average investment by the Chinese was almost $4 million each, compared to the average of $616 thousand in the other 21 countries (Table 6).

The picture which emerges from this analysis of the geographical distribution of China's overseas non-trade investment is one of a wide dispersal throughout the world with a strong concentration on a small number of countries in which the investments are on average large in comparison with the ‘standard’ pattern in the other countries, i.e., one of a large number of small companies - known in China as "Mom and Pop" or "Husband and Wife" overseas investments.

Data for "trade" investments, which is a ‘global’ category for service activities, are not available on the same level of disaggregation as for non-trade investments. Table 7 presents such aggregate data as was available on the geographical distribution of trade investments at the end of 1993, with comparable data on non-trade investments. Table 7 shows that China's overseas trade investments are also globally dispersed, although the pattern is different. China's (reported) trade investments are heavily concentrated in Hong Kong (and to a much lesser extent in Macao): 62 per cent are located in Hong Kong (and Macao) as against the less than 8 per cent of non-trade investments. In all other areas of the world non-trade investments outnumber trade investments, except in Western Europe, where there are about two thirds more trade than non-trade enterprises, and North America, where there are roughly the same numbers of each. Although China has invested in around twice as many overseas trade enterprises as it has in non-trade enterprises, this is largely explained by the large number of Chinese investments in trade enterprises in Hong Kong (and Macao). Table 7 shows that of the total 4 479 overseas enterprises reported as having Chinese investment at the end of 1993, 1 648 of them, or 38 per cent, were trade enterprises located in Hong Kong (and Macao).

Table 8 provides a more detailed breakdown of the sectoral distribution of China's outward foreign direct investment. The first three categories are those which China describes as non-trade categories, and the rest are grouped together as trade categories. The table shows that the sectoral pattern of investment in Hong Kong and Macao is significantly different from that in other locations. In Hong Kong and Macao there is comparatively a strong concentration in such categories as “technology and trade” and “catering and tourism”; these two largest categories alone accounted for roughly four-fifths of all Chinese investments in these two territories.

Leaving aside Hong Kong and Macao, most of China's overseas investments are in the first two categories, i.e., “production projects” (mainly manufacturing) and “contract projects” (turnkey engineering and construction projects). The pattern in which “production projects” are the largest number of projects (in countries and regions other than Hong Kong and Macao) is only broken by Western Europe and Eastern Europe and the CIS in which “contract projects” and “finance and insurance” accounted for the largest number of investments, 24 per cent and 38 per cent, respectively. In the two regions where most of China's outflows of capital go (again, other than Hong Kong and Macao) — the Americas (mainly the USA and Canada) and South Pacific (mainly Australia) — production projects account for the largest number of projects, although the bias towards production projects is greater in the South Pacific (40 per cent of all projects) than it is in the Americas (29 per cent). Although the number of resource development projects in the South Pacific (30) is smaller than it is elsewhere its relative significance there is the greatest: 15 per cent compared to the average of 5 per cent.

Only one Chinese investment in the category “catering and tourism” is listed for South Pacific, despite the presence of many Chinese restaurants in that area. This draws attention to the fact that investments by ethnic Chinese resident abroad in companies registered abroad and which do not involve funds brought out of China are not listed as Chinese invested companies by the Chinese Government.

Micro Data

The objectives of the Chinese government in supporting legal outflows of foreign direct investment are, as noted above, four-fold: the acquisition of proprietary technology; the control of raw material supplies; the growth of foreign exchange earnings both through export sales and through contracts for turnkey projects and construction contracts (“market access”); and international diversification of business interests. It is possible to find examples of all four types of foreign direct investment among overseas enterprises invested in by Chinese firms. Prominent examples of the four types are identified and discussed below. Although each case is placed in one category, the distinction is not always clear-cut as an investment may be meeting multiple objectives at the same time, for example, the purchase of a mine will also provide access to mining technology.

Access to Technology

The best known example of a Chinese firm investing abroad in order to gain access to proprietary technology is the investment made in the United States by the *China Bicycles Corporation of Shenzhen*. The company, in which the International Finance Corporation of the World Bank Group has a 15 per cent equity stake, bought an American bicycle company in order to gain access to the technology for producing the high specification models in demand in the United States and Europe. The company transferred the technology back to its Shenzhen plant which now has a highly successful export market. The existing technology of bicycle production in China is geared to low-income markets. At least one Chinese company (see below) has transferred this technology abroad, via investments in other developing countries, in order to gain market access. Another example is the purchase in 1988 by the *Shougang (Capital) Iron and Steel Corporation* of Beijing of 70 per cent of the equity of the Californian company Masta Engineering and Design Inc., in order to obtain access to the US company's high technology design capability in steel rolling and casting equipment. Some of China's investment in Hong Kong is also motivated by the desire to acquire modern technology. For example, in January 1994 the *Shenzhen Electronic Group* formed a joint venture with Hong Kong partners to invest HK$230 million to develop a plant to manufacture special-use integrated circuits with the expressed intention of acquiring new technology.[21]

Control over Raw Material Supplies

Gaining some security over access to raw materials is more often cited as the reason for Chinese enterprises' desire to invest overseas. There are many examples, including some of the largest of China's overseas ventures. In Australia, *the China Metallurgical Import and Export Corporation* has invested A$120 million, giving it a 40 per cent equity stake in an iron-ore mining company. *CITIC Australia* has paid A$100 million for a 10 per cent stake in an aluminium smelter. Also in Australia, *the Anshan Iron and Steel Complex* is investing 40 per cent of the cost of developing the Kolynobbing and Cockatoo iron ore mining projects.[22]

The *Baogang Iron and Steel Corporation* of Shanghai has also invested abroad to gain assured access to iron ore supplies, although few details of the investments are available. The company is reported to have invested in six joint ventures in Australia, Brazil and South Africa covering both iron-ore mining and steel marketing. Between 1990 and 1994 the company shipped 10.45 million tons of mineral back to China, saving an estimated 40 million RMB in fees and charges. Going the other way, the company has used its joint venture subsidiaries to act as marketing agents for its steel products and by 1993 had exported 1.77 million tons of steel, earning $692 million. In 1993 *the Shougang (Capital) Iron and Steel Corporation* invested $312 million to buy the Hierro Peru iron producer from the government of Peru in order to ensure raw materials supply for its plants in China - although the purchase also includes a steel plant and metals manufacturing plants in Peru. *Shougang* is deploying 30 ships to ferry iron and coal between China and Peru.[23]

One of the most successful Chinese overseas investments is that by CITIC's Canadian subsidiary in pulp and paper products and processed wood. The initial investment in 1986 was a 50/50 joint venture with the Canadian Baler and Basester Corporations in the Saijal paper pulp factory in British Columbia. CITIC financed its investment with a C$62 million mortgage loan from the Royal Bank of Canada. The 8- to 10-year loan was paid off out of profits in two and a half years. CITIC's head office in Beijing gave its Canadian subsidiary a guarantee that it would purchase the entire production if necessary. Rising world demand made this guarantee redundant and in addition to China the factory exports its products to Latin America, Australia, Southeast Asia, South Korea and Taiwan. The initial production capacity of 180,000 tons was expanded to 420,000 tons in 1992 after a further investment of C$700 million in 1991 aimed at modernising the technology used in the plant. The investment was financed by twelve-year loans from the Royal Bank of Canada and the National Westminster Bank of the United Kingdom. This investment is also a good example of Chinese enterprises' growing sophistication in raising capital for overseas investment on international capital markets. Earlier, in 1988, the company had used its retained profits to participate with Swedish and Hong Kong partners in a C$40 million joint venture in a wood processing plant producing 310,000 cubic metres of wood annually.[24]

Also in the area of wood products, *the China Foreign Trade Transportation General Corporation (CFTTGC)* paid $87 million, at auction in 1990, for the exploitation rights for 30 years over 20,000 hectares of New Zealand forest. By the beginning of 1995 the company CFTTGC established to manage its investment, the Wenita Forestry Co. Ltd., was extracting at an annual rate more than 300,000 cubic metres for export back to China, and also to Japan, the United States and Korea. Since they purchased the exploitation rights the price of the wood per cubic metre rose from $70 to $100 by the beginning of 1995. This investment was part of a diversification policy of the company, which is well on the way to becoming an multinational conglomerate.[25] Another natural resource area where Chinese enterprises have been very active in setting overseas subsidiaries is fishing. Two Chinese companies have taken the lead in investing overseas to ensure supplies of fish for the rapidly growing Chinese market. The leader is *China Ocean Fishing Corporation (COFC)* which over the ten years from 1985 to 1995 established more than 50 wholly-owned subsidiaries, joint ventures and co-operative subsidiaries in almost 20 countries. These include the United States, Iran, Mauritius, Argentina and several countries in West Africa. It operates a fleet of more than 800 ships of various types and employs 15 000 sailors and land-based workers abroad. Its catch, of several hundred thousand tons per year, is all sent back to China.[26] Although COFC is now the largest Chinese multinational fishing corporation it was not the first Chinese company to break into this business, The first was the *China Aquatic Product General Corporation (CAPGC)* which started operations in 1985, shortly before COFC, with the purchase of deep-sea vessels which were stationed off West Africa. The subsidiaries established by CAPGC in West African countries have been shipping an annual average of 250,000 tons of fish back to China and are now also engaged in the production of fishing machinery and boats.

Developing Overseas Markets

Many Chinese companies have invested abroad to develop overseas markets. These include small companies finding market niches for "Chinese" products, such as the district enterprise from Nanjing which has set up a bean curd plant in Madagascar and the Chinese medicine drinks plant set up in Canada in 1990 by a Hanzhou provincial enterprise.[27] Other cases, of which there are many examples, involve Chinese firms establishing overseas subsidiaries to overcome protection in the foreign market. Some examples of this form of foreign direct investment include: Hanzhou provincial enterprise's joint venture with a rubber plantation in Malaysia to produce "student shoes" for the protected (62 per cent duty) Malaysian market;[28] *Shanghai Bicycle Corporation's* plant in Ghana and two plants in Brazil which together produce 800,000 bicycles for the local markets; the small ($260,000) investment by *China Globe Electronics Joint Corporation* in a joint venture with Britain’s Treatlink Co. Ltd. to produce 300 colour TV sets a day using Chinese SKD (semi-knocked-down) parts; and the even smaller reported $12,000 investment by the *Long March Shoe Making Factory* of Shijiazhuang City in a wholly owned Tennis Shoes Co. Ltd. in Nairobi which by 1994 had a registered capital of $1 million and sales of $6 million[29]

Protection-led investment to develop export markets can also occur in third-party countries where the intention is to use those countries' quota rights or preferential treatment in other countries' markets. Most of the many enterprises established in Mauritius by Chinese firms are of this type, such as that owned by the *Shanghai Knitting Corporation* which employs 700 workers and exports T-shirts to the European Union. Similar garment factories have been established in other countries, such as Jamaica, to exploit the US market and Fiji, aimed at the Australian market.

Diversification

Foreign direct investment to diversify their activities and to develop overseas markets is engaged in by some of China's larger enterprises, with the encouragement of the government, which is keen to see the development of Chinese conglomerate multinationals modelled on the example of the Japanese and Korean trading houses; for example, *China Chemical Products Import and Export Corporation* - better known internationally as SINOCHEM. Following the loss of its trade monopoly in 1987 and the crash in the oil market, SINOCHEM applied for and was given permission to diversify its activities. These included permission to engage in overseas investment. In six years it transformed itself into a diversified multinational conglomerate with 62 subsidiaries spread across Asia, North and South America, Europe and Africa. Its activities include its original trade in chemical products and transportation and storage, real estate development, tourism, consultancy, insurance and manufacturing (including a phosphate fertiliser plant and oil refinery in the United States). Its average annual turnover between 1998 and 1993 was $12.14 billion, placing it in the "Fortune 500". In 1993 it announced an investment in an oil refinery and fertiliser plant in Indonesia, in a joint venture with a group of leading Indonesian businessmen, involving a total investment of around $3 billion.[30] CITIC (under the State Council) has also emerged as a multinational conglomerate, as already noted.

China Resources (owned by MOFTEC) is another Chinese enterprise which has developed into a multinational diversified conglomerate over the last ten years. China Resources has used Hong Kong to internationalise its activities.[31] *China Resources* is one of the "four heavenly kings", i.e. the four major enterprises established in Hong Kong before the 1949 Communist Party takeover of China. The other three, each with a specialised (and monopolised) function in looking after China's economic interests in Hong Kong and through Hong Kong into the world economy, are the *China Merchants Steam Navigation Co*., the *Bank of China* and *China Travel Services*. Other mainland companies established subsidiaries in Hong Kong before the reforms of 1978, but the monopoly of *China Resources* on trade flows between Hong Kong and China was not broken until Fujian Province and Tianjin Municipality established trading enterprises in Hong Kong in 1975 and 1976, respectively. In the face of the loss of its monopoly and with the encouragement of the Government of China, *China Resources* began to use its Hong Kong base to internationalise its operations. It now has several, mainly trade, subsidiaries abroad, especially in the United States, Singapore and Thailand. It has also formed joint ventures with Indonesian firms to develop forestry projects and by 1992 had subsidiaries in various countries (including Austria, Australia, the United States, Canada, Japan, and South Korea) with involvement in international trade, retail trade and real estate development.

Apart from the national level state-owned enterprises, the provincial and municipal level state-owned enterprises have also used their Hong Kong bases to venture out into world markets, with involvement in both non-trade and trade activities. For example, *Fujian Enterprise (Holdings) Ltd* owns companies in Australia, Canada, the United States, Japan, Thailand, Argentina and Peru where it is involved in a joint venture fishing and fish products company. Sales of fish meat and powder processed in Peru and exported back to China amounted to $9 million. Similarly, *Guangdong Investment*, the second largest mainland company listed on the Hong Kong stock exchange and controlled *by Guangdong Enterprises (Holdings) Ltd* — owned by the Guangdong government — has also expanded beyond Hong Kong onto the world stage.[32] In addition to the usual sites for Chinese overseas investment, Australia, Canada, the United States and Thailand, *Guangdong Investment* also has a strong presence in Europe with subsidiaries in Britain, Germany and France - where it has built a Chinatown in the eastern suburbs of Paris.[33]

Another new Chinese multinational conglomerate is *China National Export Bases Development Corporation (CHINASBASE).* In 1994 CHINASBASE exported goods valued at $721 million and imported good worth $306 million. It operated internationally though a network of overseas subsidiaries, with a total of 49 branches abroad, including wholly owned subsidiaries in Australia, the United States, Spain, Russia, Malaysia and Hong Kong.

Although this paper is primarily concerned with China's foreign direct investment in non-trade activities, the extensive growth of overseas trade and service subsidiaries should also be noted as a major, and rapidly growing activity. The *Bank of China*, for example, had 460 subsidiaries in 18 countries and regions by the end of 1993 — and more have been added since then. According to the most recent accounting data, that for mid-1992, the *Bank of China's* overseas branches had assets of $113.37 billion, deposits of $51.66 billion and a loan book of $27.35 billion — and all three have seen substantial expansion since. Apart from involvement in financing China's trade flows, the *Bank of China's* overseas network, including that of its subsidiary the Bank of China Group in Hong Kong, has played a major role in raising capital on international capital markets for investment in China.[34] In 1996 the Bank announced the establishment of a merchant bank subsidiary in the City of London. Other Chinese banks have now established overseas branches. In other areas, *China Merchants* bought a British insurance company and an insurance brokerage company in 1988. Note should also be made of the rapidly growing foreign exchange earnings from overseas engineering, labour supply and turnkey construction projects, often managed through companies established overseas. In 1979 there were 36 such contracts involving 8 countries and earning China $51 million. In 1993 there were 11,605 contracts in 158 countries which earned a total of $6.8 billion.

In sum, once Chinese enterprises were allowed to invest abroad they took advantage of the opportunity to do so with alacrity. They have rapidly increased their foreign direct investment in preference to expanded investment in the home market. They have had a wide range of motives for doing so, all consistent with the objectives of the government of China. The investments have been made globally, although there are, as already noted, some countries in which there is a strong concentration. One such country is Australia and Chinese investment in that country is the subject of closer examination in the next chapter.

IV. CHINESE INVESTMENT IN AUSTRALIA

Australia is behind only Canada and the United States in the amount of Chinese investment funds invested By the end of 1994, according to MOFTEC data, approved Chinese investments in Australia were worth $326 million, or almost 20 per cent of all Chinese foreign direct investment. This was roughly the same as the $327 million invested in the United States and $370 million in Canada which accounted for 23 per cent of the global total. More Chinese enterprises (86) had, however, invested in Australia than in Canada (75). In addition, because on balance they took a smaller share of the equity in joint ventures in Australia (26 per cent) than they did in Canada (53 per cent) the amount of economic activity in which Chinese enterprises had a stake in the former was larger than it was in the latter. In this sense then, Australia is the most important destination for Chinese foreign direct investment - its involvement being geared up with local funds to a greater degree than anywhere else. Australian data reports Chinese investment in Australia as larger than that reported by the Chinese. Australian official data (Table 9) shows the flow of Chinese investment in Australia in the fiscal year 1991-92 to have been A$1.1 billion in that year alone, a figure in excess of the total accumulation since 1978 of $315 million listed in official Chinese data (Table 3). The official Australian figure for accumulated Chinese investment (direct and portfolio) at the end of 1994-95 was almost A$2 billion; Australian data, however, includes trade companies while the Chinese data does not.

There are only limited data on the sectoral distribution of Chinese investment in Australia. It is believed, however, that Australia accounts for about two thirds of the 194 firms invested in by Chinese enterprises in the South Pacific by the end of 1993 and we do have some crude sectoral breakdown data for that region (Table 8). At 15 per cent, Chinese invested firms in the South Pacific have a higher concentration in the resource development sector than in any of the other regions. This bias towards resource development investments would be shown to be even stronger if time series data on the value of investment were available, as investment in such enterprises tends to be much larger than in other sectors. Australia's Foreign Investment Review Board, in its Annual Report for 1993-94,[35] noted that A$426 million of the A$522 million approved proposals for that fiscal year for investments by Chinese enterprises was to be invested in real estate projects. Only A$39 million was approved for investment in “Mineral Exploration and Development and Resource Processing” projects. These data for one year are misleading, however, since large-scale natural resource development projects fall in other years so cover several years and annual data only give part of the picture.

Table 10 shows that of the five largest Chinese overseas investments by the end of 1988 four were in Australia and all four were involved in mining activities, directly or indirectly (in the case of *CITIC Australia*). The Channar Mining project involved an investment of A$100 million by the Chinese side, the *China Metallurgical Import and Export Corporation (Australia) Pty Ltd,* giving it a 40 per cent equity interest in the company. The *China Metallurgical Import and*

Export Corporation (Australia) Pty Ltd had other interests in Australia which on their own were sufficient to make it the fifth largest Chinese overseas investment in terms of sales in 1988. *CITIC Australia* was also a major player, with fourth position overall in Chinese foreign direct investors. It was also in third place nationally via its investment of A$120 million (10 per cent of the equity) in the *Portland Aluminium Smelter*. These investments, and the 40 per cent equity stake taken by the *Anshan Iron and Steel Complex* in the Kolyanobbing and Cockatoo iron ore projects in Western Australia, are among the largest Chinese overseas investments and account for a large share of total Chinese investments in Australia.[36]

Chinese investments in Australia are increasingly important for Australia, too: exports to China under the agreements accounted for more than 16 per cent of total exports of iron ore in 1993, a share which will increase as the capacities of the Koolyanobbing and Cockatoo Island mines are increased and as the Mount Channar mine comes into production in 1997.[37] As the steel industry in China expands, this mutual dependence of Australia's iron ore industry and China's iron and steel industry is expected to grow, and with it China's investment in Australia.[38] It is official Chinese policy to support such investments by Chinese firms - an official of the Ministry of Metallurgical Industries has been quoted as saying that China is "intent on making 'substantial' [new] investments in Australian mining ventures".[39]

The large Chinese investments in Australian iron ore mining, aluminium smelting and coking coal production, are motivated by the desire to secure access to raw materials. China also draws on Australia for supplies of manganese, wool, barley (for brewing) and seafood, a sector in which there is at least one Chinese joint venture in Australia exporting to China (including snapper, bream and scallops to Shanghai).[40] The iron ore projects alone now account for 60 per cent of China's imports of iron ore. Security of access is the main motive and this is ensured in all of these cases by supply agreements negotiated with the majority shareholders. Strong location advantages, in terms of the absolute advantage conferred by mineral deposits and the shorter and cheaper transport costs from Australia to China, compared to deposits located in South America, led to Chinese investment in mining and mineral processing companies in Australia.

Secure access to raw material supplies was also the motive behind the reported A$10 million investment by the *China National Textiles Import and Export Corporation* (CHINATEX)'s purchase of three cotton-growing properties in New South Wales, totalling 4,130 hectares, in December 1995.[41] Similar logic justified the purchase by CITIC Australia of a majority stake in a grain and wool business in Victoria in 1995.[42] By way of contrast it was probably a desire to obtain access to modern technology, and the skills associated with its application, which led a Hong Kong subsidiary of *China Venturetech* (one of China's leading venture capital firms) to pay almost A$4 million for a 49.4 per cent share of Apollo, one of Australia's three car battery makers. The aim of the investment was to export car batteries back to China.[43]

CITIC (Australia) Pty Ltd. is a wholly-owned subsidiary of *China International Trust and Investment Corporation* (CITIC) and is one of the major Chinese investors in Australia.[44] Its first investment in Australia, in 1986 was the 10 per cent stake in *the Portland Aluminium Smelter,* but CITIC Australia's involvement in Australia is not restricted to investment in natural resource development for the Chinese market. CITIC itself is a state-owned enterprise which is developing into a major international conglomerate as part of China's strategy of integrating its economy into the world economy. In addition to its Australian office in Melbourne, it has established four major regional head offices to manage the global expansion of its business. These are in Hong Kong, North America (New York) and Europe (Frankfurt and Paris). The activities of *CITIC Australia* are typical of a motive for enterprises to invest overseas hypothesised by the eclectic theory of foreign direct investment - that of diversification.

CITIC Australia is a fully diversified company.[45] It has three core areas of business: direct investment in industry; trading; and financial and business services. In 1993, 56 per cent of its A$116.68 million operating revenue came from its investments in aluminium processing, 19 per cent from food processing and trading, 23 per cent from other trading activities and 2 per cent from real estate and other investments.

In addition to its investments in Australia, *CITIC Australia* also engages in foreign direct investment from Australia, with a "less than A$50 million"[46] 10 per cent stake in Yaohan International Co. Ltd, later converted into a 7.5 per cent stake in Yaohan International Holdings, the Hong Kong headquarters of the Japanese retail and trading group. Yaohan - which itself has growing investments in China (including major developments of department stores in Beijing and Shanghai), a controlling interest in Singapore-based *CISC Trading Pty Ltd* which in turn shares a joint venture with Yaohan in a Singapore based retail trading group - International Merchandising Mart Pty Inc., and two industrial investments back in China itself - in Beijing and Suzhou. Some of these outward investments from Australia are financed with funds raised on the Australian capital markets, for example, the investment in Yaohan was "partly funded by cash-flow from Australian operations and partly from funding raised in Hong Kong".[47]

In the area of equity investment, in addition to the Portland Smelter, *CITIC Australia* is involved in the agriculture and food processing sector via its ownership (51 per cent of a joint venture in which the other partner is a Chinese-Australian family company) of a food processing plant in Queensland, *Portion Control Foods Pty Ltd*, which supplies airline meals to Cathay Pacific and other airlines in Japan and China. Portion Control was an offshoot company of *Metro Meats Ltd* which CITIC Australia also bought, in January 1994 for A$100 million.[48] This is CITIC Australia's second largest investment. *Metro Meats* is the largest exporter of sheep, lamb and mutton from Australia and it is number five for beef exports. Overall, it is the third-largest meat exporter in Australia with a core business of A$300 million in 1992/93, of which 90 per cent was exported. *Metro Meats* operates mainly in South Australia and

Western Australia and has five abattoirs, one feedlot, a domestic retail and wholesale network as well as its main business in livestock exports through its overseas market network. In addition to location advantages (grazing land) and the diversification motive for FDI, this investment also complements the CITIC groups' ownership advantages, allowing it to internalise transaction costs by taking advantage of its links in the growing Asia-Pacific market for meat.

CITIC Australia had hoped to take a 52.2 per cent stake in Portman Mining Ltd through the subscription of 45 million shares for A$37.8 million. The motive for seeking to purchase a majority holding in Portman Mining, which has interests in iron ore, manganese and coal mining, was, according to CITIC Australia's chairman Qin Xiao, to "build...a leading resource business with an emphasis on supplying mineral products to Asia".[49] The purchase was conditional on shareholder approval. This was not forthcoming and the deal fell through - the proposed purchase, and the statement by its chairman, does, however, give an indication of CITIC Australia's development plans. It may return to the market with a higher priced bid. The company sees a purchase such as that of Portman mining as allowing it to follow a strategy of allowing it to "harness Australia's competitive advantage in resources and primary industry" and strengthen Australia's ability to develop Asian markets by drawing on the CITIC groups connections in Asia, especially China. Its managing director, Zhang Jijing, has said that he wants CITIC Australia to become "the CITIC group's primary resource-resources and industry arm".[50] The strengthening of these "connections" lay behind its purchase of the stake in Yaohan whose trading network covers Japan, Hong Kong, China, Singapore, Malaysia, Taiwan and Canada. It was reported at the time of the purchase as being "part of CITIC's strategy to invest in Australian mining and food processing companies and export their products throughout Asia, but particularly to the booming southern provinces of China."[51]

On the trading side, in addition to the two companies set up in Singapore to market Australian products in Southeast Asian countries, *CITIC Australia* has also set up two subsidiaries in Australia itself. These are *Citifashion* in Sydney which sells imported garments from China as its main activity, and *Pacific Asian Merchandising International* in Melbourne which concentrates on food processing and trading.

In the financial sector *CITIC Australia* operates through a joint venture established with Hambros Australia in 1993. Two companies have been established under the umbrella of this company, *C.H. China Financial Services Ltd*. The first is *C.H. China Securities Ltd* which is licensed to market the B shares listed on the Shanghai and Shenzhen stock exchanges in Australia. The other company is *C.H. Investments Management Ltd* which itself is licensed to manage its own subsidiary, *C.H. China Investment Ltd*. This last, listed, company is an investment fund with an initial subscribed capital of A$35 million; the fund is a vehicle allowing Australian investors to participate in direct investment in China. The financial and business services wing of *CITIC Australia* also provides consultancy services to Australian companies considering investing in China.

CITIC Australia is not the only branch of CITIC investing in Australia. Another subsidiary of CITIC, *CITIC Shenzhen*, has also taken a significant step into equity investment in Australia with the purchase of the Chateau Melbourne Hotel in 1994 for A$12 million. The hotel was bought out of receivership. It is not obvious how this investment fits in to CITIC's investment strategy, unless it was to internalise the expenditures of the increasing numbers of Chinese businessmen visiting Melbourne.[52]

Although *CITIC Australia*, the *China Metallurgical Import and Export Corporation,* and the *Anshan Iron and Steel Complex* are the largest and most visible Chinese enterprises with direct investments in Australia, many other Chinese enterprises have established subsidiaries there. In Table 5 we saw that even by the end of 1994 eighty-six Chinese enterprises had established non-trade subsidiaries in Australia. And early in 1993 (28 April) *The Australian* newspaper reported that "between 90 and 100 representatives of various Chinese organisations have established a presence in Australia for trading activities. They also act as what one might call spotters for investment opportunities." We have no details as to the sectoral distribution of these other firms although we can conclude from Table 8 that there was a concentration in resource development and manufacturing activities, followed by finance and insurance.

Can we explain the investment activity of Chinese enterprises in Australia in terms of economic theory? The overall emphasis on Australia is consistent with the existence of locational advantages of investment in Australia from the perception of China-based enterprises. These are the availability of a wide range of natural resources in a country with transport cost advantages, compared to other sources of those commodities commodities much in demand in China's booming economy. China and Australia are also in the same time zone, which facilitates travel and telecommunications and market integration - not inconsiderable advantages. Why, however, has the direction been a movement of capital from China, a capital-poor country, to Australia, a relatively capital-rich country? Why did Australian companies not take advantage of these location advantages to expand trade with, or investment in, China and the other Asian markets the Chinese are exploiting from their Australian bases? Theory suggests that the answer lies in the possession of ownership advantages by the Chinese firms. In the case of the development and marketing of raw materials used by existing companies in China, for example steel works, the dominant motive is the internalisation economies which can be reaped from common governance - especially those arising from the increased security of supply and reduced transaction costs. In the case of trading companies without end-use facilities of their own, the ownership advantages are the connections they have with end users and authorities in China and their existing organisational, management and marketing systems. These ownership advantages give the Chinese companies a competitive edge vis-à-vis Australian companies in their segments of the market.

V. CONCLUSIONS

Since China reopened its economy in 1978, observers have been mesmerised by the rapid growth in foreign trade and in the inflows of foreign direct investment. China has become one of the world's largest trading nations and one of the leading absorbers of foreign direct investment. What has gone largely unnoticed is that China has also become a major player on world capital markets. The International Monetary Fund recognises China to be the eighth largest supplier of capital on world markets. Despite the difficulties with statistics of outflows of capital, the numbers are impressive whichever measure is used. Gross long-term outflows of capital totalled $120 billion over the seven year period 1989-95, amounting to almost half of the $241 billion long-term capital inflows over the same period. Outflows of foreign direct investment over that period totalled $15 billion, outward portfolio investment $2 billion, and 'Errors and Omissions'(net), usually considered to reflect capital flight, a massive $55 billion. It is generally recognised that the inflows are overestimates and the outflows underestimates.

Analysis of the outflows of capital from China is difficult, due to the paucity of reliable decomposed data. This is obviously true of the illegal flows, captured to some extent in the Errors and Omissions item in the balance of payments statistics (and discussed below in Appendix II). It is also true of the foreign direct investment and portfolio investment, as well, as neither the source country, China, nor any of the 135 host countries track the data by end use. Apart from piecemeal and anecdotal data gleaned from company reports and newspapers the only source of data on end use is that published by MOFTEC in its annual *Almanac of China's Foreign Economic Relations and Trade*. Any analysis based on official data regarding the motivations and social desirability of capital outflows is, therefore, restricted to using data for government-approved outflows, which are obviously likely to reflect government-imposed criteria for such flows, as most of the outflows are being determined by the decision making of managers of individual, publicly owned, enterprises within a framework of policies which encourage such flows. This limitation has to be kept in mind when evaluating analysis, such as that in this paper, which seeks explanations for the legal, government-supported, flows.

The arguments used by the government of China to explain its introductions of policies to encourage outflows of capital — securing access to raw materials and other essential inputs, securing access to proprietary technology, increasing foreign exchange earnings and diversifying and globalising the activities of China's larger enterprises — are fully consistent with the economic logic of the theories of foreign direct investment, and are reflected in the reported outflows.[53]

MOFTEC data indicate a pattern of global dispersion of investment by Chinese enterprises, but with a strong concentration in a limited number of countries - Hong Kong, Australia, Canada and the United States. The investments in these countries are diversified, but there is something of a concentration in Hong Kong on trade and service sector activities, on the securing of raw materials in Australia and Canada and on securing proprietary technology in the United States. Investments in the last three of these countries tend to be quite large in scale, while the average investment in most other countries was quite small by international standards at well under half a million dollars. Globally there is no sectoral concentration, with Chinese enterprises investing in all sectors of the economies in which they take an interest For the most part, Chinese enterprise invest in through joint ventures, except for the many smaller "Mom and Pop" enterprises.

Turning to the firm-level data, garnered from newspapers, magazines and company reports, examples were found of most of the theoretical cases which would be predicted by western economic theory. Examples were found of Chinese overseas investment motivated by the desire to secure access to raw materials, to secure access to proprietary technology and to develop new markets and to develop markets behind protective trade barriers. Several examples were also found of large central, provincial and municipal level state-owned enterprises turning themselves into multinational conglomerates, with the encouragement of the Government of China, through overseas investments aimed at horizontal and vertical integration. Some of these companies are using their new multinational status to raise capital on world markets to invest in China - although the net flow is still substantially negative. This was true, for example, in the case of *CITIC Australia*. The case of Chinese investment in Australia was looked at in more detail, Australia being the country where Chinese involvement is most prevalent. It was found that Chinese investment in Australia has been growing rapidly and stretches into every sector of the economy.

China is determined to catch up for lost time in its efforts to develop its economy. It sees itself as an emerging world economic power. One of the ways it plans to expand this power is by encouraging the flow of foreign direct investment into China, partly by encouraging the establishment of giant multinational corporations with global reach, but it is also seeking to expand on the role it plays in the world economy and to enhance its development prospects through investment in the acquisition of productive assets in other countries. China has a lot of catching-up to do and as it does so the outflows of capital from China for investment in other countries will grow rapidly to levels which reflect its economic size and its ambition to be a substantial player in the world economy.

APPENDIX I: STATISTICAL NOTE

There are no reliable data on any aspect of China's outward foreign investment. Authors have to choose which set of heroic assumptions they will make in order to say anything at all. This paper takes the conservative position.[54] This is based on relying for the most part on MOFTEC data. This data is made up from approved applications from enterprises for permission to undertake overseas foreign investment. There are three important caveats about using this data. First, the investment may not take place in the same year that the approval is given, or may not take place at all. Second, the data only refers to investment in non-trade activities. Third, as noted in the text, the pattern of investment the data indicate will naturally reflect the stated objectives of the government for approving such investment. We know that MOFTEC data underestimate the actual outflows. Data based on approved used of foreign exchange for overseas investment purposes (for both direct and portfolio investment) is produced by the State Administration of Exchange Control (SAEC) and published in the annual *China Statistical Yearbook*. This data set consistently shows outflows in excess of those suggested by MOFTEC data, as SAEC figures include data on trade investments and on investments which do not need MOFTEC approval but which do need approval under exchange control rules. In 1994 for example, MOFTEC data list approvals totalling \$70.6 million while (SAEC) data show a figure for actual reported flows of \$2 billion for overseas direct investment and \$380 million for overseas portfolio investment.

Neither MOFTEC nor SAEC data cover illegal outflows, much of which is for non-approved overseas investment, and not just personally motivated illegal capital flight. As we have seen, much of this is for investment in Hong Kong, some of which returns to China as "foreign investment" (which has been estimated by the World Bank to account for 25 per cent of all recorded inflows of capital into China - almost certainly an exaggerated estimate), but much of which stays in Hong Kong and some of which continues on its odyssey further afield. The potential size of this unauthorised outflow of capital is usually taken to be indicated by the “Errors and Omissions” items in the balance of payments statistics; this item has been growing consistently over the years, as shown in Table 1, and stood at more than \$17 billion in 1994.

In addition to overseas investment financed by outflows of capital from China, Chinese enterprises also finance such investment with reinvested local earnings and local borrowing in host countries (and third party countries). No authority collects this data and the only information available is drawn from newspaper reports and annual reports of the companies. Such data is sketchy and often anecdotal. However, the amount of such investment is believed to be not insignificant and to be growing.

One measure of the overall difficulty of assessing the scale of Chinese overseas investment is uncovered when attempts are made to reconcile source-country and host-country data. For example, Australia reports a total stock of A$1.96 billion, roughly $925 million, of such investment in 1994-95, while MOFTEC data suggest something of the order of $326 million. Singapore's Department of Statistics reports[55] 150 Chinese-owned enterprises while MOFTEC data suggest 46. A report in *Business Week* quotes the president of the China Chamber of Commerce in the United States as estimating that there are more than 1,000 Chinese companies operating there (plus a similar number run by Chinese nationals) while only 400 have Chinese government approval; MOFTEC figures show only 218 at the end of 1994.[56] Not to mention Hong Kong, where actual investments by mainland companies are far in excess of the officially reported figures. Although we cannot provide an accurate assessment, we can confidently conclude that China has become a major overseas investor and that its role is growing. We can also conclude that many Chinese enterprises are now major multinational companies and that many more will be joining their ranks in the near future.

APPENDIX II: ILLICIT OUTFLOWS

The Vice Minister of the Ministry of Finance with responsibility for monitoring Chinese overseas assets said in a speech at a symposium in Beijing in November 1994 that, "The latest data provided by NABSOP [the National Administrative Bureau of State Owned Property - also known as the State Administration of State Property (SASP)] shows that overall Chinese investment abroad has amounted to tens of billions of US dollars at present, and that over 10,000 enterprises have set up overseas operations stretching across 120 odd countries all over the world, with assets of Chinese overseas enterprises totalling Rmb 2 trillion."[57] The symposium at which the Vice Minister gave this speech was primarily concerned with identifying ways to "tighten management of overseas enterprises funded by State-owned firms to prevent the drain of State properties",[58] which suggests that at least some of the outflow of capital is not regarded by the government as being consistent with the national interest. This is despite the fact that enterprises involved are state-owned enterprises and are acting in the interests of some or all of the employees of the enterprises. Much of this outflow moves illicitly. The mechanisms of moving the capital out are thought to include all the usual stratagems resorted to by those intent on taking capital out of a country illegally, especially through the use of under- and over-invoicing, the payment of "commissions" to associates abroad, asset swaps and simple physical movement of cash. It has been estimated that in 1993, following the introduction of permission to carry cash abroad, the monthly outflow of cash was 16 to 20 billion Rmb, or 3 to 4 billion US dollars at the current exchange rate.[59]

Apart from the obvious one of theft for the personal enrichment of corrupt officials and enterprise managers, which, though impossible to document is likely to exist, three main reasons are put forward to explain capital flight. The first is called "round-tripping", the second can be attributed to motives of risk avoidance and the third is aggrandisement. Round-tripping occurs when capital is taken out of China with the intention of bringing it back, perhaps geared up by using it as collateral to raise loans abroad. When it returns to China it does so disguised as foreign capital being invested in China by foreign enterprises, i.e. legally or illegally established wholly-owned or joint venture subsidiaries of the originating mainland enterprise. The purpose of this subterfuge is to take advantage of the privileges afforded to foreign investors in China in terms of tax breaks, privileged access to imports and credit and other benefits. The World Bank estimates that as much as 25 per cent of all foreign direct investment in China in 1992 was in reality Chinese round-tripping capital.[60]

Some round-tripping is perfectly legal. Chinese firms openly establish overseas subsidiaries in order to raise capital on international markets for investment back in China. Such investment counts as foreign investment and attracts the appropriate benefits. For example, *CITIC Pacific* regularly raises funds on the Hong Kong capital market and *CITIC Australia* raises funds on the

Australian capital markets for investment in China (see below). The *China Brilliance Automotive Company* established a holding company in Bermuda which controls the *Jinbei Automobile Company* in Shenyang. This holding company was the first Chinese company to be listed on the New York stock exchange - in the autumn of 1992, raising $80 million in the process. The Barbados-based Chinese joint venture *EK Chor Company* raises funds internationally which it invests in the four joint ventures it has established in China as foreign-funded enterprises.

The World Bank also considers that some short-term capital outflows may be motivated by "speculation driven by expectations of inflation and further depreciation of the RMB".[61] Several commentators, for example, the Vice President and Head of Research of the Development Bank of Singapore, believe such speculative, or risk avoiding outflows, may be a more long-run phenomenon as the "risk factors are unlikely to disappear or even diminish in the near future".[62] He also draws attention to the "fears of erratic policy fluctuations stemming from the country's 'boom-bust' economic cycles and the anticipation of a possible rocky political transition in the wake of Deng Xiaoping's demise."

The third motive for illicit outflows of capital involves jockeying for power in Hong Kong's commercial and industrial sector ahead of the territory's return to China in 1997. Much of the investment in Hong Kong is legal and recorded, but some is not.[63] Hong Kong "provides investment opportunities ...both for mainland companies with multinational ambitions, and for China's ruling class to get rich."[64] Apart from seeking to establish vantage points to exploit the Hong Kong economy itself, many mainland investments in Hong Kong are thought to be established with the intention of alienating state assets. This is done by under- and over-invoicing practices which allow profits to accrue in Hong Kong rather than in China and which can then be invested in Hong Kong or abroad. Similarly, mainland-owned companies in Hong Kong can raise capital there, which can be used to buy assets in China from their parent companies at deeply discounted prices.

Another method of turning state-owned assets into the assets of foreign-funded enterprises is through what is called "backdoor listing". Backdoor listing involves small shell companies in Hong Kong having state assets transferred to them in various ways so that their asset values are enhanced and the assets become ‘ring fenced’ from the tax authorities in China and "untouchable either if China were ever to embark on a sweeping privatisation of its state-owned sector, or if that sector collapsed under the weight of its incestuous debt."[65] The mainland-owned companies also act as vehicles for paying the mainland managers established in them international salaries and bonuses.

The government (the State Administration of State Property) estimates that state assets worth $6 billion were "lost" annually in the sixteen years from 1979 to 1995.[66] Some of this moved abroad, much to Hong Kong. As long ago as 1991 the government set up the Hong Kong Chinese Enterprises Association in Hong Kong "to monitor the activities of mainland offshoots in an attempt to prevent a recurrence of the widespread corruption that developed in the late 1980s."[67] Although several thousand subsidiaries of mainland companies have been established in Hong Kong, the Association has only 1,000 members, mainly the larger, legally established companies, with a combined investment of more than $10 billion in 1994. The Vice Director of the State Administration of State Property, Pan Yue, announced in November 1994 that "some big enterprises in Hong Kong have been under scrutiny".[68] He went on to say that "[a] few Chinese managers in overseas enterprises have adopted illegal means to swallow up State properties in public or disguised form."[69] In February 1995 Zhou Beifang, a high profile Hong Kong-based mainland entrepreneur known in the territory as 'the king of the backdoor listings', was arrested in China allegedly in connection with the alienation of state assets. His father had been the manager of the *Shougang (Capital) Iron and Steel Company* - one of China's largest companies. Many of the companies established in Hong Kong by the younger Mr Zhou were companies "spun off" from Shougang.[70]

In conclusion, while some of the growing numbers of rich Chinese may account for some of the illicit outflows, it is obviously impossible to put any figures on this. However, most of the outflows are likely to be on behalf of enterprises on one or other level of public ownership. In either case the outflows occur without the approval of the government. This paper is concerned with the capital which flows out of China legally and which is registered with the government and therefore can presumed to have its approval.

NOTES

1. "World Economic Outlook", International Monetary Fund, Washington DC, May 1995. Chart 32, page 83.

2. *Ibid.*, page 78.

3. Peter Norman, "The few and the many", April 28, 1995. Page 16.

4. As explained by Michael Mussa, Director of Research of the IMF, in a letter to the author.

5. That is net of registered outflows of capital and of capital flight.

6. Comparable data on portfolio investment were not available.

7. As reported in the *Hong Kong Economic Journal,* 16 February, 1995. Quoted in Yun-Wing Sung (op cit.).

8. For a good discussion of this literature see the works by John Dunning cited in the bibliography.

9. The direction of causality of the motive to invest up or down a production chain will depend on the degree of competition at the various stages.

10. This refers to new investment by mainland-based companies. The Chinese Government owned several overseas companies *before* the reforms began, for example, the multinational company, China Merchants, based in Hong Kong and several other companies involved in trade, travel, food supply and monetary activities.

11. As quoted in "Overseas State Assets — How to Manage?", *Securities Daily,* 2 November 1994. Translation made and circulated by Rondo Public Relations and Consulting Co. Ltd.

12. *Far Eastern Economic Review,* 12 October, 1995, page 101.

13. In 1992 MOFTEC circulated a draft "Methods about Approval Procedures for and Management of Investment Enterprises Abroad" which was subsequently discussed and revised. It was published as a directive in 1996.

14. For full details of the directives see *China's Foreign Economic Legislation*, Volume IV, Beijing, Foreign Languages Press, 1991.

15. As reported in *Economic Report*, 25 November 1991.

16. As reported in Hong Kong's *Bauhinia* magazine, March 1992.

17. *China Daily, Supplement*, Wednesday, November 17, 1993.

18. References in this paragraph are taken from Tseng (1994).

19. See Gong (1995)

20. Trade enterprises, for which much less data are available, include all service activities such as banking, trading houses, transport facilities, hotels and restaurants.

21. *Hong Kong Economic Times,* 4 January, 1992 and *Far Eastern Economic Review* 16 January, 1992.

22. See below for more details of China's investments in Australia.

23. "China forges Peruvian links with $312 steel accord", Sally Bowen, *Financial Times,* 14 January, 1993.

24. See Wang Lina (1995, page 14).

25. "China's Overseas Investment", Huang Wei, *Beijing Review,* 21-27 March, 1994.

26. Wang Lina (1995), *op cit,* page 12.

27. Tseng (1993), *op cit,* page 100.

28. Tseng (1994).

29. The last three examples are taken from Wang Lina (1995), *op cit.*

30. "Indonesia: China Plans Investment", *Far Eastern Economic Review,* 13 May, 1993, page 75.

31. See Tseng (1993) *op cit* and Sung (1996) *op cit* for a fuller discussion of the activities of Chinese multinationals in Hong Kong. Much of the discussion here draws on this paper.

32. See "Child Prodigy: Guangdong Investment can't help but grow", Luoise do Rosario, *Far Eastern Economic Review,* 15 September, 1994 for an account of the company's activities in Hong Kong.

33. The range of countries in which China in investing is constantly being expanded - it is now investing in South Africa, having obtained approval for investment in 11 textile and light industry companies. See "China keen on S Africa links", *Financial Time,* 13 February, 1995.

34. "BOC Expands Overseas Business", *China's Foreign Trade,* February 1994, page 21.

35. As cited in On Kit Tam (1996), page 24.

36. Or they were until the large, A$1.32 billion, unspecified investment in "finance and investment" made in 1991-92.

37. "China spread investment wings", Florence Chong, *The Australian*, 28 April, 1993.

38. "Ox ore getting an iron grip on China", Nikki Tait, *Financial Times*, 8 June, 1995, page 33.

39. "China mission looking for mineral investments", *The Age*, 10 April, 1993.

40. "Snapping up markets in China", Mark Lawson, *Australian Financial Review,* 14 January, 1994.

41. *Australian Financial Review,* 21 December 1995.

42. *China Economic Brief,* Department of Foreign Affairs and Trade, Canberra, 1996. No further details of this investment are given.

43. *Far Eastern Economic Review,* 12 October, 1995. page 104.

44. See "Chinese buy the Chateau Melbourne", Karina Barrymore, *Australian Financial Review ,* 13 April, 1994.

45. These paragraphs on CITIC Australia are partly based on material supplied in a Company Profile of CITIC Australia by Zhang Jijing, Managing Director of CITIC Australia, June, 1994. See also “Going South: China’s Citic makes a long march to Australia”, *Far Eastern Economic Review,* 23 February, 1995.

46. "China presses interests in Australia with HK buy", Elisabeth Sexton, *Australian Financial Review,* 31 March 1993.

47. *Ibid.*

48. This may have been over the odds, for "industry sources" valued the company at between A$60 and A$70 million at the time the negotiations

were going on ("Adsteam-CITIC deal finalised", Paul Syvret, *Australian Financial Review,* 23 September, 1993).

49. "Citic buys Aussie mining stock", *China Daily,* 10 January, 1995, page 5.

50. "Going South: China's Citic makes a long march to Australia", Emilia Tagaza, *Far Eastern Economic Review,* 23 February, 1995, page 59.

51. "China presses interests in Australia with HK buy", Elisabeth Sexton, *Australian Financial Review,* 31 March, 1993.

52. See "Chinese buy the Chateau Melbourne", Karina Barrymore, *Australian Financial Review ,* 13 April, 1994.

53. See for example the work of John Dunning (1988, 1990, 1991 and 1993).

54. See Om Kit Tam (1996) and UNCTAD (1996) to see how two other authors have handled the data. We have already seen how the IMF simply takes current account balances to measure capital outflows.

55. As quoted in *Far Eastern Economic Review,* 12 October, 1995.

56. In "The China Connection", *Business Week*, 5 August , 1996.

57. As quoted in "Overseas State Assets — How to Manage?", *Securities Daily,* 2 November 1994. Translation made and published by Rondo Public Relations and Consulting Co. Ltd. These data, which presumably cover both trade and non-trade enterprises, are much higher than the comparable figures published by MOFTEC, as shown in Table 6. They are closer to, but still much greater than, the balance of payments data published in the Statistical Yearbook of China as shown in Table 1. While we do not know on what basis the Yearbook data is, we do know that MOFTEC's data is based on investments which have been registered with it. The difference between MOFTEC's data and NABSOP's data, and the Ministry of Finance's data on Errors and Omissions may, then, give some indication of the extent of capital flight undertaken by state owned enterprises.

58. Zhang Youcai, in speech reported in *China Daily*, 2 November, 1994.

59. As reported in the Hong Kong Chinese language magazine *Cheng Ming* in December 1993.

60. "China. Updating Economic Memorandum: Managing Rapid Growth and Transition", World Bank Report No. 11932-CHI, Washington DC., June 30, 1993, page 24. MOFTEC does not accept this figure, the derivation

of which is not explained by the World Bank, but Chinese officials, in a private communication to the author, did accept a figure of 10 per cent.

61. *Ibid.*

62. "China's Dirty Little Secret", Friedrich Wu, *The International Economy,* May/June 1994.

63. See Sung (1995) for a full discussion of Chinese investment in Hong Kong.

64. "The Chinese take-over of Hong Kong Inc.", *The Economist*, 7 May, 1994, page 71.

65. *Ibid.*

66. As reported in *China Daily Business Weekly*, March 24 - 30, 1996. The agency believes, according to a report in *Business China,* Economist Intelligence Unit, March 4th 1996, that the rate of loss has accelerated and in 1996 is running at US$30 million every day.

67. "Beijing sets up HK corporate body", John Elliott, *Financial Times*, 8/9 June, 1991.

68. "State acts to halt drain on assets abroad", Ding Xuemei, *China Daily Business Weekly,* 13 - 19 November, 1994, page 1.

69. *Ibid.*

70. "As Hong Kong Looks North, Its Mood Darkens", George Melloan, *The Wall Street Journal,* 28 February, 1995.

Table 1**. China's Balance of Payments Statistics 1989 - 1995, Main Items**

($ billion)

	1989	1990	1991	1992	1993	1994	1995
Current account balance	-4.3	12.0	13.3	6.4	-12.9	7.7	1.6
Merchandise Exports	43.2	51.5	58.9	65.6	75.7	102.6	128.1
Merchandise Imports	-48.8	-42.4	-50.2	-64.4	-86.3	-95.3	-110.1
Capital account balance	3.4	3.3	8.0	-0.3	23.5	32.6	38.7
Long term capital inflows	12.0	11.6	12.9	27.6	50.4	60.8	66.1
Foreign Direct Investment in China	3.4	3.5	4.4	11.2	27.5	33.8	37.7
Foreign Purchases of Chinese Stocks & Bonds	0.1		0.6	0.4	3.6	4.5	1.7
Foreign Government Loans to China	1.0	1.4	1.0	1.5	2.7	3.4	3.5
Bank Loans from Abroad	1.1	1.3	2.7	2.8	0.4	…	3.3
Long term capital outflows	-7.0	-5.2	-5.2	-27.0	-22.9	-25.0	-27.8
Direct Investment Outside China	-0.8	-0.8	-0.9	-4.0	-4.4	-2.0	-2.0
Chinese Purchases of Foreign Bonds & Stocks	-0.3	-0.2	-0.3	-0.5	-0.6	-0.4	-0.1
Payments on Bank Loans from Abroad	-3.2	-0.9	-1.6	-6.0	-0.2	-4.8	-6.2
China's Loans to Foreigners	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2
Errors and Omissions (net)	0.3	-3.1	-6.8	-8.3	-9.8	-9.8	-17.8
Changes in reserves	-0.6	-12.1	-14.5	2.1	-1.8	-30.5	-22.5

Note: Increases in reserves are shown as negative numbers.
Source: State Statistical Bureau, *Chinese Statistical Yearbook 1993, 1994, 1995 and 1996,* Beijing: State Statistical Publishing House, 1993, 1994, 1995 and 1996. The 1995 volume inadvertently substitutes the 1990 data for that of 1992.

Table 2. **FDI outflows: major investing countries, 1992-1995**[1]

($ million)

OECD		1992-94	1995
1	United States	51 199	95 509
2	France	24 825	17 554
3	UK	23 329	37 839
4	Japan	18 636	21 286
5	Germany	15 842	35 302
6	Netherlands	12 246	12 431
7	Switzerland	8 627	8 627
8	Italy	6 135	3 210
9	Belgium & Luxemb.	5 633	5 633
10	Canada	4 747	4 782
11	Spain	2 892	3 574
12	Sweden	2 838	10 367
13	Denmark	2 590	2 851
14	Australia	2 522	5 372

Non-OECD		1992-94	1995
1	Hong Kong	15 801	25 000
2	China	3 467	3 467[2]
3	Chinese Taipei	2 260	3 822
4	Singapore	1 759	2 799
5	Korea	1 698	3 000
6	Malaysia	1 219	2 575
7	Kuwait	1 045	1 044
8	Israel	717	400
9	Bahamas	620	620
10	Mexico	597	597
11	Chile	564	644
12	Brazil	555	1 384
13	Venezuela	522	522
14	Thailand	287	904

FDI inflows: major recipient countries, 1992-1995[1]

($ million)

OECD		1992-94	1995
1	United States	36 156	60 236
2	France	19 909	20 124
3	UK	13 165	29 910
4	Spain	10 260	8 250
5	Belgium & Luxemb.	9 833	9 107
6	Netherlands	6 182	9 850
7	Canada	5 186	11 182
8	Australia	4 007	13 094
9	Sweden	3 351	13 672
10	Italy	3 018	4 347
11	Denmark	2 579	3 360
12	New Zealand	2 029	2 483
13	Switzerland	1 944	2 292
14	Japan	1 544	39
15	Turkey	696	1 037
16	Germany	-115	8 996

Non-OECD		1992-94	1995
1	China	24 153	37 500
2	Mexico	5 587	6 984
3	Malaysia	4 846	5 800
4	Singapore	4 318	5 302
5	Bahamas	3 895	3 900
6	Bermuda	3 068	2 900
7	Brazil	2 142	4 859
8	Indonesia	1 963	4 500
9	Hong Kong	1 906	2 100
10	Thailand	1 494	2 300
11	Nigeria	1 400	1 340
12	Chile	1 353	3 021
13	Colombia	1 139	1 200
14	Chinese Taipei	1 057	1 470
15	Peru	947	900
16	Philippines	903	1 500
17	Saudi Arabia	877	890
18	Korea	708	1 500
19	Venezuela	588	245
20	Israel	513	501
21	Pakistan	370	639
22	India	348	1 750

Note: 1. 1992-94: annual average; 1995: estimation.
2. The coincidence of these figures is fortuitous, the Chinese source (Table 1), in any case, provides a different figure.

Source: World Investment Report 1996, UNCTAD.

Table 3. **The Situation of China's Overseas Non-trade Enterprises**

Year	Number of enterprises	Accumulated value of the total investment (0.1 billion US$)	Accumulated investment of China (0.1 billion US$)	The proportion of China's investment (%)
	4	0.42	0.01	44
	7	0.69	0.32	47
	30	0.76	0.35	46
	43	0.82	0.37	45
	76	0.90	0.50	56
	113	2.10	1.50	71
	189	2.98	1.97	66
	277	4.07	2.30	57
	385	17.80	6.40	36
	526	18.98	7.15	38
	645	22.23	9.51	43
	801	23.90	10.28	43
	1,008	31.50	13.96	44
	1,363	35.05	15.91	45
	1,657	36.92	16.87	46
	1763	38.16	17.57	46

Source: Liu Huimin (1995) for 1979/1992 data, processed from *Almanac of China's Foreign Economic Relations and Trade, 1994/95.*
(Data for 1993 and 1994 are taken from the 1995/96 *Almanac.*

Table 4**. The Distribution of China's Overseas Non-trade enterprises**
(end 1994)

Area	Number of countries	Number of enterprises
Asia	31	665
Africa	43	169
Europe	27	379
Oceania	9	133
North America	2	293
Latin America	25	146
Total	135	1785

Processed from *Almanac of China's Foreign Economic Relations and Trade, 1995/96* The total does not add to those given in the original. The total calculated from the sub-totals is different from the totals given in the *Almanac*, as shown in Table 3.

Table 5. **Geographic Distribution of China's Overseas Non-trade Enterprises**

(US$ million)

	Totals to 1993				1994				Totals to 1994		
	No. of enterprises	Total investment	Of which Chinese	Chinese share (%)	No. of firms	Total investment	Of which Chinese	Chinese share (%)	Total investment	Of which Chinese	Chinese share (%)
Canada	72	696.57	368.51	52.9	3	1.85	1.02	55.1	698.42	369.53	52.9
USA	204	430.50	320.91	74.5	14	13.96	6.37	45.6	444.45	327.28	73.6
Australia	82	1228.87	324.41	26.4	4	2.65	1.59	60.0	1,231.52	326.00	26.5
Hong Kong	138	202.75	135.14	66.7	1	0.12	0.12	100.0	202.87	135.26	66.7
Russian Fed.	220	191.08	95.19	49.8	5	1.29	0.57	44.2	192.37	95.76	49.8
Thailand	108	116.72	48.5	41.6	14	16.07	6.19	38.5	132.79	54.69	41.2
Chile	5	21.85	21.5	98.4					21.85	21.50	98.4
Malaysia	47	40.49	19.58	48.4	2	5.02	1.18	23.5	45.51	20.76	45.6
Mexico	25	19.00	15.98	84.1	2	0.56	0.20	35.7	19.56	16.18	82.7
Macao	24	34.35	15.88	46.2					34.35	15.88	46.2
Singapore	44	44.14	13.44	30.4	4	2.74	1.93	70.4	46.88	15.36	32.8
Japan	75	39.90	13.27	33.3					39.90	13.27	33.3
Brazil	13	20.98	12.27	58.5	3	1.12	0.51	45.5	22.11	12.79	57.8
Nigeria	17	31.66	11.02	34.8	2	2.55	1.14	44.8	34.21	12.44	36.4
Philippines	23	17.82	7.25	40.7	2	2.22	1.97	88.7	20.04	9.22	46.0
France	11	26.98	8.86	32.8	1	0.30	0.10	33.3	27.28	8.96	32.8
Germany	25	12.82	7.81	60.9	3	1.46	0.98	67.1	14.28	8.80	61.6
Turkey	5	11.85	6.28	53.0	2	4.32	2.22	51.4	16.17	8.51	52.6
Bangladesh	24	23.59	7.64	32.4	1	0.90	0.35	38.9	24.29	7.99	32.9
South Korea	4	22.24	4.86	21.9	5	5.25	2.22	42.3	27.49	7.08	25.8
Mauritius	16	15.78	6.78	43.0					15.78	6.78	43.0
UK	7	11.15	5.07	45.5	1	0.98	0.98	100.0	12.13	6.05	49.9
Bermuda	2	10.02	5.01	50.0					10.02	5.01	50.0
Yemen	7	10.34	3.19	30.9	1	0.99	0.99	100.0	11.33	4.18	36.9
Italy	6	15.69	2.99	19.1					15.69	2.99	19.1
Total of above	**1,204**	**3,297.14**	**1,481.34**	**44.9**	**70**	**64.35**	**30.63**	**47.6**	**3,361.29**	**1,512.27**	**45.0**
China Total	**1,657**	**3,692.30**	**1,687.05**	**45.7**	**106**	**124.49**	**70.62**	**56.7**	**3,816.79**	**1,757.67**	**46.1**

Source: Almanac of China's Foreign Economic Relations and Trade, 1995/96,, pages 948-951. Data is ranked by total amount of Chinese investment in 1994.

Table 6. **Size of Average Overseas Enterprises with Chinese Investment and Average Chinese Investment in Them, 1994**

Country	Number of enterprises	Average total investment in enterprises (US$1000)	Average Chinese investment in enterprises (US$1000)
Canada	75	9 312	4 927
Chile	5	4 370	4 300
Australia	86	14 320	3 791
Bermuda	2	5 010	2 505
USA	218	2 039	1 501
Turkey	7	2 310	1 216
Hong Kong	139	1 459	973
Brazil	16	1 382	799
South Korea	9	3 054	787
UK	8	1 516	756
France	12	2 273	747
Macao	24	1 431	662
Nigeria	19	1 801	655
Mexico	27	724	599
Yemen	8	1 416	523
Italy	6	2 615	498
Thailand	122	1 088	448
Russian Fed.	225	855	426
Malaysia	49	929	424
Mauritius	16	986	424
Philippines	25	802	369
Singapore	48	977	320
Bangladesh	25	972	320
Germany	28	510	314
Japan	75	532	177
Total of above	1274	2 638	1 187
China Total	1763	2 165	997

Source: see Table 3

Table 7. **Industrial Distribution of China's Overseas Enterprises at the end of 1993**

	Hong Kong & Macao	Africa	Asia	North America	South America	South Pacific	Western Europe	Eastern Europe & CIS	Total
Total no. of enterprises	1789	213	752	535	162	194	301	533	4479
Trade enterprises	1648	57	301	265	48	64	188	89	2660
Non-trade enterprises	141	156	451	270	114	130	113	444	1819
China' investment (US$ million)	3201	80	260	771	88	400	99	254	5153
Share of investment (%)	62	2	5	15	2	8	2	5	100

Source: **Reform of the Four Major Economic Systems and Enterprise,** China Economic Publishing House, 1994. The data in this table are not consistent with those in Table 3, which come from a different source. The inconsistency is assumed to be of a similar nature for both trade and non-trade investments.

Table 8**. Industrial Distribution of China's Overseas Enterprises at the end of 1993**

	Hong Kong & Macao	Africa	Asia	Americas	South Pacific	Western Europe	Eastern Europe & CIS	Total
Non-trade enterprises								
Production	38 (2%)	78 (37%)	209 (28%)	201 (29%)	77 (40%)	69 (23%)	184 (35%)	856 (19%)
Contract projects	85 (5%)	60 (28%)	183 (24%)	114 (16%)	43 (22%)	31 (10%)	202 (38%)	718 (16%)
Resources development	18 (1%)	18 (8%)	59 (8%)	69 (10%)	30 (15%)	13 (4%)	38 (7%)	245 (5%)
Trade enterprises								
Technology & trade	796 (48%)	28 (13%)	851 (11%)	103 (15%)	6 (3%)	31 (10%)	19 (4%)	1068 (24%)
Transport & communications	23 (1%)	7 (3%)	7 (1%)	19 (3%)	3 (2%)	3 (1%)	13 (2%)	75 (2%)
Finance & insurance	157 (9%)	11 (5%)	102 (14%)	96 (14%)	34 (18%)	72 (24%)	59 (11%)	531 (12%)
Catering & tourism	547 (31%)	3 (1%)	84 (11%)	73 (10%)	1 (1%)	69 (22%)	17 (3%)	794 (18%)
Consultancy	98 (5%)	2 (1%)	7 (1%)	13 (2%)	-	7 (2%)	1 (0%)	128 (3%)
Medical	9 (1%)	6 (1%)	12 (2%)	4 (1%)	-	6 (2%)	-	37 (1%)
Other	18 (1%)	-	4 (1%)	5 (1%)	-	-	-	27 (1%)
Total	1789	213	752	697	194	301	533	4479

Source: **Reform of the Four Major Economic Systems and Enterprise,** China Economic Publishing House, Beijing, 1994, and University of International Business and Economics *Journal of International Business,* Beijing, June 1994. Percentages do not total to 100 due to rounding.

Table 9. **China's Investment in Australia**

(A$ million)

Year	Direct		Total	
	Flow	Stock	Flow	Stock
1982-83	n.a.	n.a.	-15	7
1983-84	n.a.	n.a	14	41
1984-85	-1	4	-4	31
1985-86	111	202	89	209
1986-87	-115	133	-30	226
1987-88	-51	n.a.	-135	53
1988-89	2.	49	47	133
1989-90	28	178	33	117
1990-91	-31	51	93	205
1991-92	73	178	1,069	1,407
1992-93	44	292	221	1351
1993-94	252	542	674	2122
1994-95	261	957	-225	1956

Source: Government of Australia, Dept. of Foreign Affairs (1993 & 1996), Canberra, Australia.
The flow data are inconsistent with the accumulated stock data.

Table 10. **China's Five Largest MNC Investments Abroad, 1988**

(Million yuan)

Company	Industry	Sales
Florida Agri-Chemicals	Chemicals	12,060
Channar Mining*	Iron ore	11,666
Portland Aluminium Smelter **	Aluminium	7,700
China International Trust & Investment (Australia) Pty. Ltd	Diversified	4,300
China Metallurgical Import & Export Corporation (Australia) Pty. Ltd	Metals	815

Source: MOFTEC, Dept. of Foreign Economic Co-operation, unpublished data.

Notes: * Channar Mining is 40% owned by China Metallurgical Import & Export Corporation (Australia) Pty. Ltd.
** CITIC Australia Pty Ltd has a 10% stake in the Portland Aluminium Smelter.

Table 11. **Examples of China's Investment Projects in Australia**

Project Name	Business topic	Investment means	Investment sum or equity percentage	Chinese investor	Additional Information
Mount Channar Mining	iron ore	rights to buy 100% of mine's output	$120 million 40% equity interest	China Metallurgical Imp & Exp Corp.	10 million tons of ore exported to China annually
Portland Aluminium Smelter	aluminium	special concessional arrangement	$100 million 10% equity interest	CITIC Australia	
Kolyanobbing and Cockatoo Project	iron ore	rights to buy most of the mine's output	40% equity interest	Anshan Iron and Steel Complex	annual sales reaching $70 million
Metro Meat Ltd	meat-processing	acquisition	$60-70 million	CITIC Australia	90% of annual $300 million sales exported
Burton Green "Greenfield" Project (Portman Mining)	coal		30% equity interest under negotiation	n.a.	would involve commitment to take output of coking coal
Chateau Melbourne Hotel	hotel	acquisition	$12 million	CITIC Shenzhen	

Sources: The Age, 10.4/93; Financial Times 8/2/95; "Company Profile" issued by CITIC Australia; The Australian 28/4/93; and The Australian Financial Review, 13/4/94.

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