Chapter I
The Outward Investment of China: Causes and Consequences

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This chapter focuses on a key issue for the global economy, Chinese economic development by examining a range of key indicators.

First, it is clear that China is becoming very active in the area of research and development, as China acquires access to R&D from several sources through its R&D imports. Many countries around the world compete in supplying R&D products to developing countries, and China is easily profiting from these imports. Last year alone, China obtained about US $60 billion in direct foreign investment. Moreover, China also develops its own R&D through research institutes and academies. Therefore, the growth of R&D in China is very rapid.

China also enjoys a secure standing in marketing management, because it produces many products which are supplied on both local and international markets. China is currently developing its range of brand names to give it brand recognition in domestic and international markets using a dual-track approach. Where it can it has developed indigenous brands but where it would be difficult for China to compete with a pre-existing brand it has sought to acquire selected pre-existing brand names. An example of this is TCL, one of the greatest economic giants in China. TCL acquired Thomson from France and uses its well-known brands such as RCA. Similarly, one of the famous computer producers in China, Lenovo, recently acquired IBM’s computer division and can use its trusted name for at least five consecutive years. Thus, this strategy of brand name promotion has lead to an internationalisation of Chinese brand names and international access via the purchase of international brands.

China is eagerly seeking continued international capital growth. High capital inflows from around the globe have followed, particularly from developed countries entering China enabling it to develop its own financial sector and capital market. At the same time, foreign direct investment in Chinese enterprises is another key source of capital for a thriving China.

The next key factor influencing China’s economic potential is its efficiency in international networking infrastructure. Such networking is very important, especially in an increasingly globalised world. China now has an internal and external networking mechanism supported by a high degree of infrastructure throughout the country. As such, most of cities in China are linked by very good roads and airways.
Nowadays transportation in China is very efficient, and this will lead to greater networking capabilities through the country.

At the provincial level, China was formerly separated into semi-autonomous regions, each province big enough to be its own country. By now, however, the central government of China has promoted linkages at the provincial level. At the same time, every province in China must initiate change to fall in line with requirements set out by the WTO. Thus every province must revise its regulation and laws to deal with WTO rules. The homogenisation of administration in China is being hastened, providing even greater chances for the internal integration of China. Not only is the provincial level of significance, but the international level is also very important, and China’s external networking is growing very rapidly within the global economy as well.

If we turn to the development strategy, it is quite different from that of other countries. Some countries use single track development; others use dual track development. China on the other hand uses a ‘total-track’ development strategy, allowing it to develop both a labour and capital intensive, knowledge- and service-based economy with various forms of development. This total development strategy involves not only inward direct investment, but also outward direct investment. It is probable that China’s outward direct investment will continue to grow over the coming years, as China must utilize its increasing foreign reserves derived from the growth in international sales. By the end of 2004, the foreign reserve of China increased to about US $600 billion, and by the end of June 2005, the foreign reserve of China was estimated at US $700 billion. It has a considerable incentive to use these foreign reserves for foreign asset investment abroad, as a failure to do so would place considerable pressure on the value of the Yuan.

Looking at China’s real estate market, a high degree of investment opportunities can be found throughout the country and industry continues to invest in the real-estate sector, despite the increasingly high property prices in cities such as Shanghai. The increase in foreign reserves is also reflected in a surplus money supply in China. In fact, the money supply increased by about 16% in the first half of 2005, and much of this is in liquidised assets. This is in turn is reflected in the price of non-tradables and may lead to some problems such as a speculative bubble effect in the future. To sustain development, it is necessary to recycle some part of foreign exchange outside the country, to take some of the pressure off the money supply. This also has the effect of reducing the inflation rate in China, or more correctly the relative price of non-tradables to tradables. Investing money overseas additionally presents the opportunity of attracting further foreign investment within China itself. We can also observe a diversification in Chinese investment. If China were to merely focus on one particular area of investment, this might lead to a reduction in the efficiency of other potential areas of investment. Moreover, investing in real estate and financial sectors provides China with a more efficient globalisation management. The two sectors therefore play an important role for Chinese investment abroad. With outward direct investment, China also increases its chances for gaining access to materials, particularly basic commodities which guarantee more sustainable development. China is reliant upon basic commodities such as oil, iron and steel, so that its