

# China's Outward Foreign Direct Investment under the “Belt and Road” Initiative

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I. Background and Main Components of the "Belt and Road" Initiative

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# I. Background and Main Components of the "Belt and Road" Initiative

1. Background of the "Belt and Road" Initiative
2. Basic Principles and Framework
3. Main Fields of Cooperation

# 1. Background of the "Belt and Road" Initiative

## (1) International Background

- The deep impact of the international financial crisis continues to emerge and the world economy is in a downturn
- Economic globalization
- The development problems facing all the countries remain grim
- The pattern of international trade, investment and finance has been deeply adjusted
- China's economy is highly related to the world economy, and China is willing to shoulder more responsibilities and obligations within its capabilities and make greater contributions to the peaceful development of mankind

## (2) Chinese Domestic Background

- Deepening reform and opening up
- From “introduction” to “going global”
- From the economic opening to the full range of opening
- The new normal of economic growth and development
- Superior production capacity and foreign exchange reserve
- The will of all countries to strengthen cooperation with China has generally risen

- In September and October 2013, during President Xi Jinping's visit to Central Asia and Southeast Asia, he proposed to build a Silk Road Economic Belt "and“21<sup>st</sup> Century Maritime Silk Road”initiative, which has got the attention of the international community.

## 2. Basic Principles and Framework

### (1) Basic Principles

- Peaceful cooperation, openness and inclusiveness, mutual learning, mutual benefit and win-win situation
- Discussion, building and share
- Community of interests, destiny community and responsibility community with political mutual trust, economic integration, and cultural inclusiveness

## (2) Framework

- Silk Road Economic belt:

  - China passes Central Asia, Russia to Europe (Baltic Sea)

  - China passes through Central Asia, West Asia to Persian Gulf and Mediterranean sea

  - China to Southeast Asia, South Asia, India Ocean

- 21<sup>st</sup> Century Maritime Silk Road:

  - From China's coastal ports, the South China Sea to the India Ocean, extending to Europe

  - From China's coastal ports to the South China Sea and the South Pacific





# 3. Main Fields of Cooperation

- (1) Policy coordination
- (2) Facilities connectivity
- (3) Unimpeded trade
- (4) Financial integration
- (5) People-to-people bond

# ( 1 ) Policy coordination

- Deepen political mutual trust
- Jointly formulate plans and measures to promote regional cooperation
- Seek the fit points of the national economic development strategies

## (2) Facilities connectivity

- Infrastructure interconnection is the priority areas of Belt and Road Initiative construction
- Strengthen the highway, railway, port and other transportation infrastructure
- Jointly safeguard the oil and gas transport channel security
- Promote cross-border power transmission channel construction, and actively carry out cooperation in upgrading regional power grid.

### (3) Unimpeded trade

- Investment and trade cooperation is the key field of the Belt and Road construction
- Make efforts to solve the investment and trade facilitation issues
- Eliminate barriers to trade and investment
- Construct good business environment for all the countries in the region

## (4) Financial integration

- Financing is the important support to the Belt and Road construction
- Internationalization of RMB
- Deepening financial cooperation, promote the stable monetary system in Asia, investment and financing system and credit system construction
- Strengthen the currency exchange mechanism among the Belt and Road countries

## ( 5 ) People-to-people bond

- Through the development of human cooperation, achieve economic cooperation and progress
- Including cultural exchanges, academic exchanges, personnel exchanges and cooperation, media cooperation.

## II. Basic Pattern of China's Outward Foreign Direct Investment under the Framework of the Belt and Road

1. The scale of China's outward foreign direct investment
2. The structure of China's outward foreign direct investment



**Table 1 The World's Ten Largest Outward Foreign Direct Investment Countries (Regions) (2017)**

Country (Region)	Flows (Billion US\$)	As the percentage of the world's (%)	Country (Region)	Stocks (Billion US\$)	As the percentage of the world's (%)
U.S.	342.27	23.9	U.S.	7799	25.3
Japan	160.45	11.2	China	1809	5.9
China	158.29	11.1	Chinese Hong Kong	1804.2	5.9
U.K.	99.61	7.0	Germany	1607.4	5.2
Chinese Hong Kong	82.84	5.8	Netherlands	1604.9	5.2
Germany	82.39	5.8	U.K.	1531.7	5.0
Canada	76.99	5.4	Japan	1520	4.9
France	58.12	4.1	Canada	1487.1	4.8
Spain	40.79	2.9	France	1451.7	4.7
Russia	36.08	2.5	Switzerland	1271.8	4.1
<b>World</b>	<b>1.43 (Trillion US\$)</b>		<b>World</b>	<b>30.84 (Trillion US\$)</b>	

Sources: UNCTAD: World Investment Report 2018

**Table 2 Flows of China’s Direct Investment in the “Belt and Road” Countries (2013-2017)**

Year	2013	2014	2015	2016	2017
“Belt and Road” Countries (Billion US\$)	13.17	14.46	18.93	15.34	20.17
World (Billion US\$)	107.84	123.12	145.67	196.15	158.29
As the percentage of the world’s (%)	12.2	11.7	13.0	7.8	12.7

Note: There are 64 countries and regions along the B&R, including 10 ASEAN countries, 16 West Asia countries, 7 South Asia countries, 5 Central Asia countries, 7 CIS nations, 16 Central and Eastern Europe countries, and Mongolia, East Timor and China.

**Table 3 Ten Major Destinations of the Flows of China’s Direct Investment in the “Belt and Road” Countries (2017)**

Country	Singapore	Kazakhstan	Malaysia	Indonesia	Russia	Laos	Thailand	Vietnam	Cambodia	Pakistan
Flows (Billion US\$)	6.32	2.07	1.72	1.68	1.55	1.22	1.06	0.76	0.74	0.68
As the percentage of the B&R flows (%)	31.3	10.3	8.5	8.3	7.7	6.0	5.3	3.8	3.7	3.4

**Table 4 Stocks of China’s Direct Investment in the “Belt and Road” Countries (2003-2017)**

Year	2003	2005	2007	2009	2010	2011	2012	2013	2014	2015	2016	2017
“Belt and Road” Countries (Billion US\$)	1.34	3.41	9.73	20.26	29.25	41.68	56.76	72.02	92.46	115.7	129.4	154.4.
World (Billion US\$)	33.2	57.2	117.91	245.75	317.21	424.78	531.94	660.48	882.64	1097.9	1357.4	1804.2
As the percentage of the world’s (%)	4.0	6.0	8.3	8.2	9.2	9.8	10.7	10.9	10.5	10.5	9.5	8.6

**Table 5 Ten Major Destinations of the Stocks of China’s Direct Investment in the “Belt and Road” Countries (2017)**

Country	Singapore	Russia	Indonesia	Kazakhstan	Laos	Pakistan	Myanma	Cambodia	The United Arab Emirates	Thailand
Stocks (Billion US\$)	44.57	13.87	10.53	7.57	6.65	5.72	5.52	5.45	5.37	5.36
As the percentage of the B&R Stocks (%)	28.9	9.0	6.8	4.9	4.3	3.7	3.6	3.5	3.5	3.5

Moreover, from the perspective of industry distribution, China's direct investment in the B&R countries is mainly concentrated in the energy, mineral resources, infrastructure, manufacturing and agriculture, but there exist their own characteristics in different regions.

### III. Problems and Challenges Facing China 's OFDI under the framework of the Belt and Road

1. Higher political and security risks for investment in the host countries
2. "China threat theory" and "China new colonialism theory"
3. Unbalanced development of foreign direct investment
4. Occasional ecological environmental problems in the host countries

# 1. Higher political and security risks for investment in the host countries

- Although the overall situation in developing countries continues to be improved, developing countries is also plagued by historical problems, the political system is still imperfect, and governance capacity is low.
- Therefore, in developing countries, three major contradictions in communities, ethnic groups and religions are prominent.
- The five major types of security problems, namely, political disturbances, armed conflicts, terrorist attacks, organized crime and security of public security, continue to exist.
- Security issues endanger the security of Chinese personnel and hinder the cooperation between China and host countries towards a higher level.



## 2. "China threat theory" and "China new colonialism theory"

- With the promotion of the Belt and Road construction and deepening of the economic and trade cooperation between China and developing countries, the friendly cooperation between China and developing countries has gradually become the mainstream of public opinion, but the "China threat theory" and "China new colonialism theory" has still existed.
- Some officials and academics in the developing countries are concerned that the growing trade and investment between developing countries and China, the world's second largest economy, will affect developing countries' sovereignty. China's investment in energy and resource sectors in host countries is aimed at "grabbing" natural resources, which will make energy, minerals and other industries a great dependence on China. Even some people worry that the docking of Chinese and host countries' development strategy will make China gradually control the host countries' national economic lifeline, and make the host countries' domestic economy become China's economic "client", and then accused China of making the so-called "new colonialism in host countries".
- "China threat theory" and "China new colonialism theory" is a major obstacle to promote the Belt and Road construction in Africa.

### 3. Unbalanced development of foreign direct investment

- China's FDI in the Belt and Road countries is mainly distributed in China's neighboring countries and regions including ASEAN and Central Asia, but much less FDI in South Asia, especially East and Central European countries where is far away in the space distance. As of 2017, in terms of the stock rankings of FDI, India ranked out of the top ten countries, while no East and Central European countries enter the ranks of the top ten countries.
- The rapid growth of Chinese enterprises' investment in ASEAN and Central Asia may lead to excessive competition among China's investment enterprises, reduce the efficiency or efficiency of direct investment, and increase the risk of direct investment.
- Lack of direct investment in the South Asia and East and Central European countries is not conducive to expand the influence and range of the Belt and Road initiative.
- Viewing the fields of investment, China's FDI is overly concentrated in the industries of resource development and primary processing, while less investment in deep processing and high-end manufacturing industries, and China's comparative advantage in modern manufacturing has not been fully developed. Although this pattern of investment helps China to improve the strategic resources security, but also easy for the so-called "Chinese threat" and "China's new colonialism" to provide an excuse, that the development of "China's FDI in the Belt and Road countries is mainly to seek even plunder the natural resources of host countries.

## 4. Occasional ecological environmental problems in the host countries

- The key areas of investment in developing host countries by China's oil, mineral, power industry and other enterprises are mostly environmentally sensitive or easy to cause environmental pollution industries.
- At the same time, the investment in these areas by the Chinese enterprises are mostly concentrated in resource-rich countries or regions, where the ecological environment system is extremely fragile, its relevant environmental and legal system are not perfect, and the environmental supervision mechanism is also weak.
- In addition, a few Chinese enterprises do not pay enough attention to the protection of the ecological environment,
- Thus, leading to the ecological environment problems in the host countries, and leading to China's investment projects suffering serious frustration and even failure.

## IV. Policy Suggestions on Adjustment and Perfection of China 's OFDI under the Framework of the Belt and Road

1. Actively preventing and avoiding the political risks of the investment host countries
2. Avoiding excessive geographical concentration of the direct investment in the neighboring countries, and expanding direct investment in other areas such as Central and Eastern Europe and South Asia.
3. Handling well the relationship between OFDI and the protection of host countries' environment
4. Docking of the "Belt and Road" construction with the economic development and industrialization strategies of the development countries

# 1. Actively preventing and avoiding the political risks of the investment host countries

- Chinese government should continue to strengthen the understanding and consensus of the international community, especially the B&R countries.
- Chinese government departments, represented by the Ministry of Foreign Affairs and the Ministry of Commerce, and social professional consultants should make full use of their information and expertise, they can set up public information service platforms to publish political and security risk information and assessments on the B&R countries.
- Take the initiative to develop friendly relations with the major political forces, factions or ethnic groups in the related countries.
- China should improve the overseas investment insurance system as soon as possible, set up a political and security risk compensation fund for overseas investment.

2. Avoiding excessive geographical concentration of the direct investment in the neighboring countries, and expanding direct investment in other areas such as Central and Eastern Europe and South Asia.

- while giving priority to the development of direct investment in neighboring countries, it is necessary to avoid excessively geographical concentration.
- OFDI to Central and Eastern Europe should be expanded to enhance the influence and radiation of the B&R initiative.
- China should increase OFDI in the countries which frequently have trade frictions with China, such as India and Turkey.

### 3. Handling well the relationship between OFDI and the protection of host countries' environment

- OFDI enterprises' responsibility of protecting environment should be strengthened.
- Regulate OFDI enterprises' environmental damage behavior by using of China's domestic law.
- Environmental provisions should be added to bilateral investment treaties (BITs).

## 4. Docking of the “Belt and Road” construction with the economic development and industrialization strategies of the development countries

- Docking of China’s Silk Road Economic Belt Construction with Eurasian Economic Union

Docking of China’s “Silk Road Economic Belt” Initiative with Kazakhstan’s New Economic Policy of “Bright Road”

Docking of the Belt and Road construction with Africa countries’ strategy for the economic development and industrialization

- 1. Comprehensive docking and cooperation on the basis of strengthening cooperation in key areas.
- Infrastructure construction and energy development remains the priority
- Promote the deep cooperation in manufacturing industry
- Actively seek cooperation in the internet, finance, agriculture and other non-energy sectors.
- Help the developing countries to achieve development goals:

GDP, per capita income; poverty alleviation; employment and unemployment; economic structure and industrial structure; social fairness and the gap between rich and poor; protect the environment and resources, fulfill China’s responsibility and corporate social responsibility.



Thanks!