What Will an Appreciation of China’s Currency Do to Inward and Outward FDI? (also in Chinese)

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What will an appreciation of China’s currency do to inward and outward FDI?

by Karl P. Sauvant and Ken Davies*

What will an appreciation of the Chinese yuan do to China’s inward and outward direct investment? The discussion so far has been almost exclusively about the impact on China’s trade balance. But it is at least as important to see what effect it may have on the country’s inward foreign direct investment (IFDI), which plays such a crucial role in China’s economic development, and its outward FDI (OFDI), which is receiving increased attention worldwide.

China has been the developing world’s largest recipient of IFDI since the mid-1990s, attracting US$95 billion in 2009. A revaluation of the yuan will make it more expensive for foreign firms to establish themselves (or expand) in China (the world’s most dynamic market), giving an advantage to foreign firms already established there over new entrants. At the same time, exports of foreign affiliates, which account for 54% of total exports, will become less competitive internationally, although the increased costs will be partly offset by lower costs of imported inputs. Foreign affiliates can also expect to repatriate higher profits from sales in China in terms of their own currencies.

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2 UNCTAD FDI statistical database http://stats.unctad.org
3 Figure for the first eight months of 2010 from MOFCOM website: http://www.fdi.gov.cn/
However, the most notable development of recent years has been the take-off of the country’s OFDI since the government in 2000 adopted the “go global” policy encouraging Chinese firms to invest overseas.\(^4\) China’s OFDI doubled from US$12 billion in 2005\(^5\) to US$27 billion in 2007, and then doubled again the following year, to reach US$56 billion.\(^6\) Outflows continued to rise to $57 billion in 2009, even as world FDI flows collapsed by 50%. In 2009, China was the world’s fifth largest outward investor.

The increasing international competitiveness of Chinese firms and an encouraging government policy have been the main drivers of this surge. The 20% revaluation of China’s currency against the US dollar in 2005-2008 undoubtedly provided a favorable condition facilitating this in the case of host countries whose currencies did not also appreciate against the US dollar. There is ample evidence in the academic literature that a weaker exchange rate induces increased IFDI.\(^7\)

China’s OFDI is poised to grow sharply again in 2010, judging by the first half of the year, when it was rising at an annual rate of 44%.\(^8\) Revaluation would accelerate this trend. This is precisely what happened with Japan after the yen was revalued by over 50% against the US dollar between 1985 and 1987, following the 2005 Plaza Accord.\(^9\) Japan’s OFDI tippled from US$6.5 billion in 1984 to US$19.5 billion in 1986, peaking at US$48 billion in 1990.\(^10\)

A renewed yuan appreciation would boost China’s OFDI growth even further by lowering the cost of overseas assets for Chinese firms, which have strong cash reserves from both retained earnings and large-scale state credit allocations that put them in a position to invest internationally. Like competitors elsewhere, they need to invest abroad to acquire a portfolio of locational assets to protect and increase their international competitiveness through better access to skills, technology, natural resources, and markets.

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\(^4\) See Qiuzhi Xue and Bingjie Han, “The role of government policies in promoting outward foreign direct investment from emerging markets: China’s experience”, in Karl P. Sauvant and Geraldine McAllister, with Wolfgang A. Maschek, eds., *Foreign Direct Investment from Emerging Markets: The Challenges Ahead* (New York: Palgrave, 2010), pp. 305-324.

\(^5\) Not including financial FDI.


\(^8\) Invest in China website: [http://www.fdi.gov.cn](http://www.fdi.gov.cn)


Revaluation would combine with already rising wage pressures inside China. Labor-intensive firms in China’s coastal provinces are under pressure to seek lower labor cost by either investing in China’s interior of abroad. Already more than 700 Chinese affiliates have been established in Vietnam. Revaluation would push even more in that direction.

Suspicious of non-commercial motivations behind China’s OFDI are widespread because most of the country’s OFDI is by state-owned enterprises (SOEs). However, there is no systematic evidence that China’s SOEs, like their counterparts elsewhere, are driven by more than normal commercial considerations. At the same time, private or semi-private entities have been investing abroad. As their operations are less visible, it is likely that their OFDI, and therefore China’s total OFDI, is understated.

Fears of Chinese OFDI, as of Japanese and Korean investment in earlier decades, are misplaced. It is good for China and for host countries: Chinese FDI, like all FDI, can bring to host countries a bundle of tangible and intangible assets needed for economic growth and development. While a good part of China’s OFDI initially takes the form of trade-supporting FDI, it can be expected to lead relatively quickly to a shift of some production out of China, including to the US and Europe, thereby reducing exports from China. Moreover, OFDI is a key mechanism for integrating China into the world economy and making it a responsible stakeholder in it.

However, Chinese firms will have to learn from the past mistakes of other emerging multinationals about how to operate in the highly sophisticated developed-country markets and in developing countries. They need not only to overcome the “liability of foreignness” that any multinational faces when establishing itself in a foreign market, but they also need to overcome the “liability of the home country”. In particular, they need to establish a good social brand name so that they are seen as making not only a positive economic contribution to their host countries, but are also seen as good corporate citizens. The Chinese government can play a crucial role by adopting a code of conduct for all Chinese enterprises investing abroad, in line with internationally accepted norms and taking into account the increasing importance of sustainable FDI. For their part, host countries need to accept the “new kids on the block” and not discriminate against Chinese investment, nor establish protectionist barriers against it.

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人民币升值将会对中国的外国和对外直接投资有何影响？到目前为止的讨论仅局限在对中国贸易平衡的影响上。然而至少同样重要的是观察其可能对外国直接投资（FDI）和对外直接投资（OFDI）的影响。FDI 对中国经济的发展有着至关重要的作用，而 OFDI 也正受到全球越来越广泛的关注。1

从上世纪 90 年代中期起，中国已经成为发展中国家中最大的 FDI 接受国，仅在 2009 年就吸引了 950 亿美元的直接投资。2 人民币升值将令外国企业在中国（世界上最有活力的市场）设立（或扩张）变得更加昂贵。相对于新进入者而言，已经在这里设立子公司的外国企业就因此获得了优势。同时，出口量占中国总出口额 54% 的国外子公司3 的国际竞争力将会下降，尽管进口原材料成本降低会部分地抵消成本的增加。跨国公司在中国的子公司同样有望通过在中国市场上进行销售获得以本国货币计量的更高利润。

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2 联合国贸易和发展会议统计数据库：http://stats.unctad.org/。

3 2010 年前八个月数据见中国商务部网站：http://www.fdi.gov.cn/。
然而，近年来最值得关注的是中国 OFDI 的增多。自从政府于 2000 年推出鼓励中国企业赴海外投资的“走向全球”的政策。中国的 OFDI 从 2005 年 12 亿美元到 2007 年 27 亿美元翻了一番，紧接着在后一年里又翻了一番达到 56 美元。流出额在 2009 年继续增大到 570 亿美元，尽管当年世界 FDI 总量萎缩了 50%。2009 年，中国成为世界第五大对外投资国。


人民币再次升值可能会通过降低中国企业海外资产成本的方式促使 OFDI 更进一步增长。这些企业从留存收益和大量国家信用拨款中获得了坚实的现金储备，这使其处于国际投资者的位置。与别国的竞争者一样，它们需要进行国外投资获得区位资产组合，通过更好的利用技巧、工艺、自然资源和市场来保护和提高国际竞争力。

人民币升值会与中国内部已经上升的工资压力相结合。中国沿海省份的劳动密集型企业正面临着压力，需要通过在中国内部或国外进行投资来寻求低劳动力成本。已经有超过 700 家中国子公司在越南创建。升值会进一步推动这一过程。
对中国 OFDI 背后非商业动机的怀疑普遍存在，因为该国大多数 OFDI 来自国有企业（SOEs）。然而，还没有系统性的证据证明中国的国有企业，同别国国有企业一样，受非正常商业目的的驱使。同时，私有或半私有企业一直进行着国外投资。由于它们的业务不太明显，因此它们的 OFDI 以及中国的总 OFDI 可能被低估。

对中国 OFDI 的恐惧与数十年前对日本和韩国的投资的恐惧一样，都是杞人忧天。它对中国和东道国都有利：中国 FDI 跟所有 FDI 一样，能给东道国带来诸多经济成长和发展所需的有形与无形资产。然而中国较大一部分的 OFDI 最初表现为贸易支持型 FDI，它有望相对较快的引导一些产品在中国以外（包括美国和欧洲）进行生产，因此会减少中国的出口。此外，OFDI 是中国融入世界和成为其中一个有责任的利益相关者的关键机制。

然而，中国的企业将不得不从其他新兴跨国公司过去的错误中学习如何在极度复杂的发达国家市场和发展中国家中运营。它们不仅需要克服在国外市场建立子公司时任何跨国企业都要面对的“异国法律责任”问题，也要克服“母国法律责任”问题。尤其是，它们需要确立一个好的社会品牌以便它们不仅被东道国视为积极的经济贡献者，还被视为良好的企业公民。中国政府通过制定针对所有中国企业的海外投资行为规范而扮演着至关重要的角色，与国际上公认的准则以及对日益重要的可持续 FDI 的考虑相一致。对他们来说，东道国需要接受新产品，不排斥中国投资，也不设立针对其的保护性壁垒。

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