China emerges as a major exporter of capital

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19 May 2009, World Socialist Web Site

In the past year as the global financial crisis has worsened, China has emerged as a significant exporter of capital. Rather than investing at home, the Chinese state and sections of the new capitalist class are making substantial investments abroad, particularly to secure access to raw materials and industrial assets.

Beijing initiated a “Go Global” policy in 2000, leading to a rapid growth of outward foreign direct investment (FDI). However, since the credit crunch took hold last September, the outflow of capital from China has jumped significantly, taking advantage of falling share values and the demand of many cash-strapped corporations for finance.

In 2002, China’s outbound investment was just $2.5 billion. By 2007, the figure had reached $18.6 billion, which more than doubled in 2008 to $52.2 billion. Standard Chartered estimates that the tally this February alone was $65 billion. The bank predicted that Chinese outward FDI in 2009 would hit $150-$180 billion—compared to inward FDI of $80-100 billion.

According to the UN World Investment Report 2008, only the US, UK, Germany, France and Spain invested more than $100 billion abroad in 2007. In 2008, China’s cumulative overseas FDI was just 0.6 percent of the world’s total, but it could rise rapidly.

China has the world’s highest rate of savings (about 50 percent of GDP, compared to around 25 percent of Japan), large current account surpluses (more than 10 percent of GDP in 2008, compared to Japan’s record high of 4.3 percent in 1983) and the world’s largest currency reserves of $US1.95 trillion.

China’s state-controlled state banking system has been largely protected from the global financial turmoil, putting Beijing in a strong position to push overseas investment. From May 1, the ministry of commerce will transfer the power to approve overseas investments of less than $100 million by local companies to provincial and local authorities, in order to encourage greater external investment.

China’s main focus has been in mineral and energy resources for its huge industrial base. A recent editorial of the official *Outlook* magazine called for a strategy to “take advantage of the current weak commodity prices in global markets by boosting certain strategic resource imports and converting some capital reserves into resources reserves”.

Since February, China has signed $46 billion worth of investment/loan deals with Russia, Brazil, Venezuela and Kazakhstan for the long-term supply of oil. In addition, Chinese companies are making large investments in resource companies. The state-owned Chinalco is awaiting Australian government approval for a $19.5 billion investment in the Anglo-Australian mining giant, Rio Tinto.

Other factors are driving China’s foreign investment. Following the collapse of global demand, Chinese corporations are plagued with overcapacity and are turning overseas to look for profitable investment prospects. As of March, 30 percent of China's aluminium capacity, 20 percent of cement and glass and 70 percent of semiconductor manufacturing were idle. A wave of industrial consolidation and restructuring is creating huge Chinese conglomerates that are compelled to create or buy technology, brands and marketing networks to be globally competitive.

Another aspect of the "Go Global" program has been portfolio investment or the purchase of shares in multinationals as a short cut to creating a global corporate presence for China. In 2004, home appliance giant TCL formed a joint venture with French telecom equipment maker Alcatel SA and bought a controlling interest in Thomson's DVD and TV operations in Europe. In 2005, Lenovo bought IBM's PC operations and Nanjing Automobile bought most of the assets of the British car company, MG Rover. In 2008, Zoomlion Heavy Industry took over Italian construction machine maker, CIFA.

These moves have led to rising tensions with China's rivals. *Time* magazine warned last month: "There is no reason that a Chinese car firm cannot use government money to bid for Chrysler's assets if it is forced into bankruptcy. In France, Citroen and Peugeot are facing financial problems that could get much worse if car sales remain anaemic. GM's Opel unit in Europe needs immediate capital and may be sold at a loss for the No.1 US car company. The Chinese could pick up brands, manufacturing assets, product-development personnel and dealers networks on both sides of the Atlantic."

The surge in overseas investment is also a product of fears in Beijing about the stability of the US dollar. Most of China's $1.95 trillion in foreign currency reserves are invested in US treasury bills and other US assets. Chinese leaders have expressed their concern about the security and value of their assets in the wake of the huge US stimulus packages that have the potential to lead to sharp falls in the dollar. In 2007, the $200-billion China Investment Corporation was set up mainly for investing in shares of global financial institutions and multinational corporations.

Political tensions

Combined with a boost in lending and aid to poorer countries for political purposes, China's large purchases of mining and industrial assets around the world are already generating antagonisms with the US and other powers.

A report by the US Congressional Research Service, "China's Foreign Aid Activities in Africa, Latin America, and South East Asia", published in February showed that Chinese assistance in the form of state-sponsored investment or concessional loans to the three regions grew from less than $1 billion in 2002 to $27.5 billion in 2006 and $25 billion in 2007—mainly to obtain access to oil and minerals.

China's cumulative FDI in these regions is still small compared to the major Western powers. In Latin America, for instance, the EU had a total of $620 billion FDI in 2006, followed by the US with $350 billion, dwarfing China's total of $22 billion. Nevertheless, Chinese FDI has been growing, and it is now Latin America's second largest trade partner.

The concern in Washington and other capitals is that China's large currency reserves are being translated into economic and political influence. Amid the ongoing credit crunch, China is one of the few sources of investment, loans and aid for many of the world's economically backward countries.

The *Washington Post* in April cited the example of Jamaica. While Jamaica's traditional allies—the US and Britain—were struggling with financial crises, China came to the country's rescue in March with $138 million. "Headlines in Jamaica's leading newspapers, which only a year ago were filled with concern about China's growing influence in the region, gushed about its generosity," the newspaper noted.

The *Asia Times* commented that China's large loans to Russia and Kazakhstan were "signs of a seismic shift in the geopolitics of Central Asia". Hard hit by falling prices, Central Asia's energy-dependent economies were looking to China for capital, which "provides a big opportunity for China to take the region under its wings". China's activities are cutting directly across US ambitions in the resource-rich region.

In South East Asia, Beijing announced last month a $10 billion investment cooperation fund and $15 billion in credit for the Association of South East Asian Nations (ASEAN), to assist in overcoming the impact of the global financial crisis. Countries like Thailand, Malaysia and the Philippines that have had strong ties to the US and Japan are now turning to China.

In Australia, Chinalco's proposed investment in Rio Tinto has opened up a debate in ruling circles over whether Chinese capital should be allowed to control key mining resources. While the finance is needed, the investment heightens the difficulty of Canberra's balancing act between its economic dependence on Asia, particularly China, and its long-standing strategic alliance with the US.

While still in its early stages, the export of capital reflects the changing character of Chinese capitalism. Since China opened up to foreign capital in 1978, a new propertied class has accumulated considerable capital through the plunder of state enterprises and primitive sweatshop exploitation—all enforced by the police-state regime. In addition, the overseas Chinese business elite in Taiwan, Hong Kong and South East Asia has developed close relations with China, accelerating its capital accumulation.

Now rather than simply functioning as the world's largest cheap labour platform for existing transnationals, China is investing abroad and challenging the economic and strategic position of the existing major powers. Amid a deepening global economic crisis, this rivalry can only exacerbate political tensions and set the stage for future conflicts.

http://www.wsws.org/articles/2009/may2009/chin-m19.shtml