



International Initiative
for Promoting
Political Economy

The Geopolitics of FDI in China

An analysis of the Xi Jinping era
(2013-2023)

14th Annual Conference in Political Economy

The Changing World Economy, and Today's Imperialism

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Chinas rises

A threat to the global north, a hope for the global south?

- A context of geopolitical conflicts
- Interstate competition
- Political tension in the US against China rivalry
- Economy sanctions through trade and investment restrictions
- Chip War and 'security shoring'



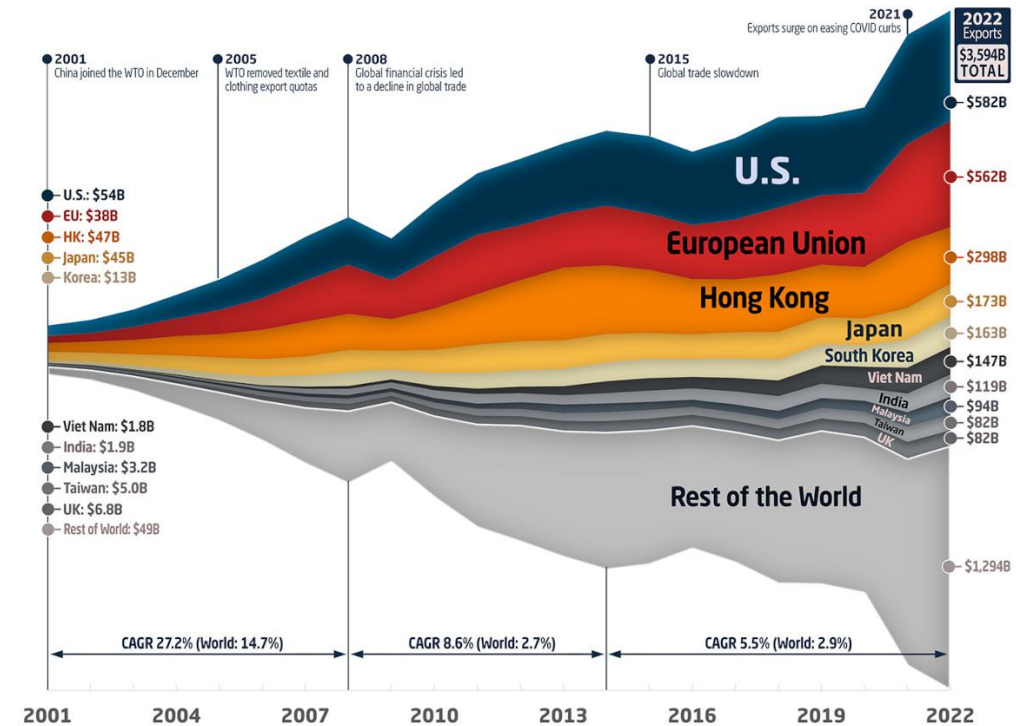
Introduction

- The rise of China in the world economy has shaken the power structure and the declining hegemony of the US.
- The PRC managed to build its own MNC and technology, with a certain degree of autonomy.
- The US has not been able to stop China as they did with Japan.
- The US with the EU has led a movement of de-investing/derisking from China.
- How did MNCs' FDI change over this new scenario?

CHINA EXPORTS in the 21st CENTURY

Top 10 Merchandise Exports Markets

China's merchandise exports increased from **\$266B** to **\$3,594B** with a compound annual growth rate (CAGR) of 13.2% (compared to 6.6% for global exports) in the 21st Century. However, China's merchandise export growth rate has slowed significantly to 5.2% (CAGR) in the period of 2009-2019.



China Exports Markets 2022



Summary



Literature review



FDI in China



FDI methodology



Conclusions

Literature review

FDI Regulation and Development

- Marques & Schutte (2024a; 2024b); Fares (2024)

Geopolitics and US-China rivalry

- Germann et al. (2024); Babic and Linsi (2024); Malkin (2022)

GVC and Unequal exchange

- Hickel et al. (2024); Suwandi et al. (2019)



Foreing Direct Investments (FDI)

- FDI (equity transactions, reinvestment of earnings, and intercompany debt transactions).
- **MNCs are profit-driven.** They invest in seeking to improve the arrangement of their supply chain as a means to control strategic assets and maximise profit.
- The State policies might be able to intervene depending on political will and power.



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IBM slashes China research team as it shifts work to other regions

US tech group faces tougher competition as Beijing favours homegrown rivals amid tensions with Washington



abandoning ship?

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FDI in China

two sides of the same coin

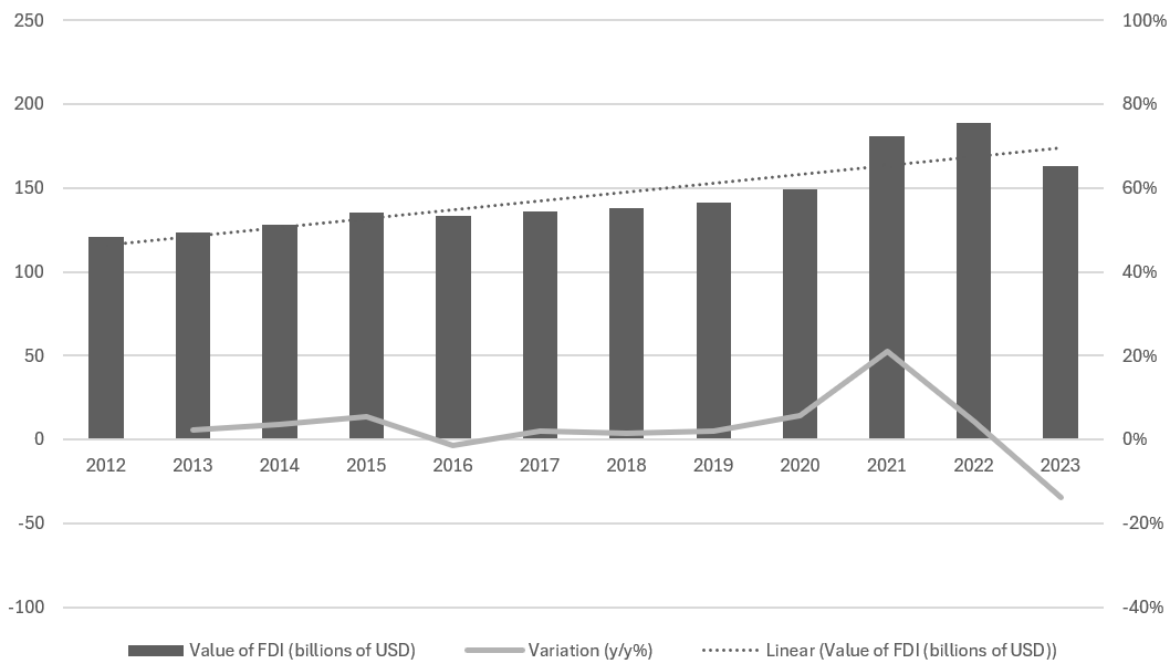


Figure 4. FDI flow in China (2012-2023)

Source: NBS / MOFCOM (2024)

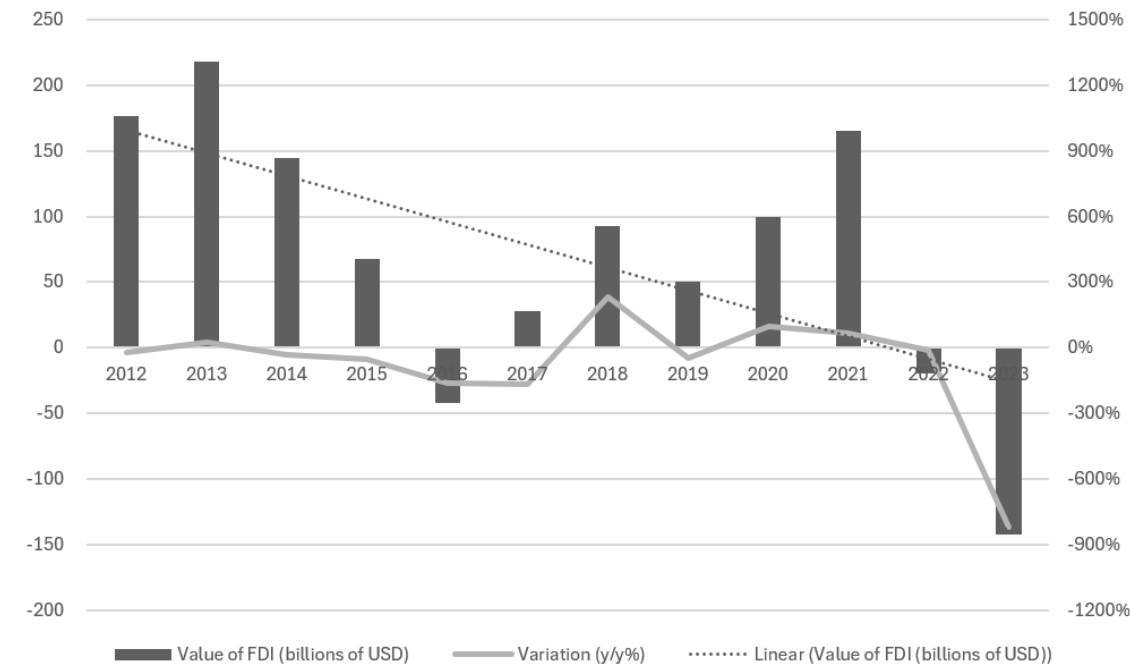


Figure 5. FDI flow in China (2012-2023)

Source: SAFE (2024)

A methodological issue

- “directional flows” (BPM5) X “asset/liability” (BPM6)
- On the BPM6 method, within company loans is not counted as outflow FDI, but as net incurrence of liabilities.
- According to Avdjiev et al. (2014), this type of flow could undercover a way for offshore funding transferred to headquarters and/or unrelated companies onshore.
- What led us to the hypothesis that the decrease of FDI in the asset/liability method might be related to (1) reverse investment, (2) disinvestment, or (3) an increase in the transfer of funding from the Chinese affiliate to the headquarter or other affiliates abroad.

FDI data

- Manufacturing, Leasing and Business, Science and Technological are the main destiny by sector.
- There is no big change in the trend of FDI from the US and Germany in China.

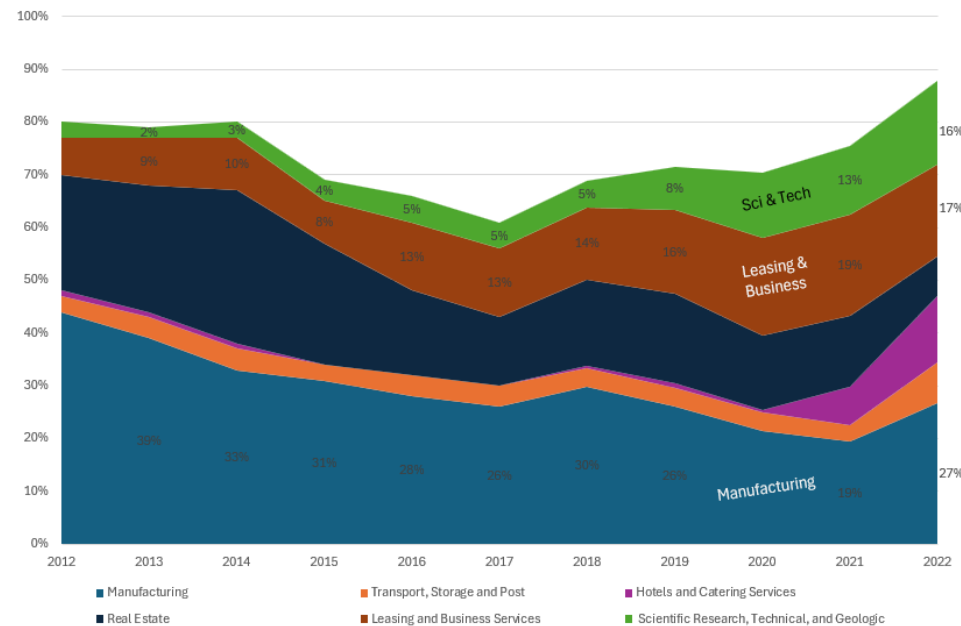


Figure 2. FDI in China by sector

Source: NBS (2024)

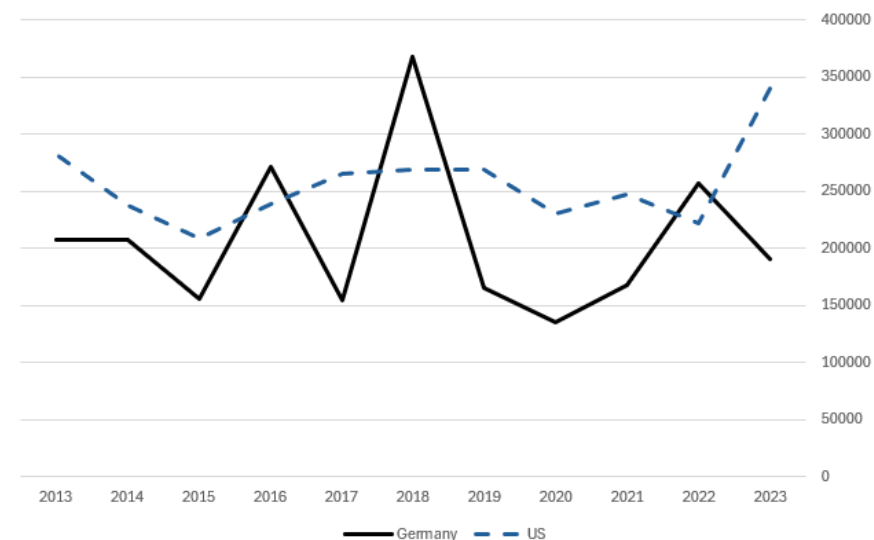


Figure 3. Value of Foreign Direct Investment Actually Utilized (USD 10000)

Source: NBS (2024)

Foreign Enterprises

- The profits of industrial enterprises with foreign funds have risen until 2021. In 2022 and 2023 in value.
- Nonetheless, from 2022 it looks like it is recovering.
- Among the different sectors, Electronic equipment, Automobiles, Chemicals, Petroleum and Gas are the most profitable.

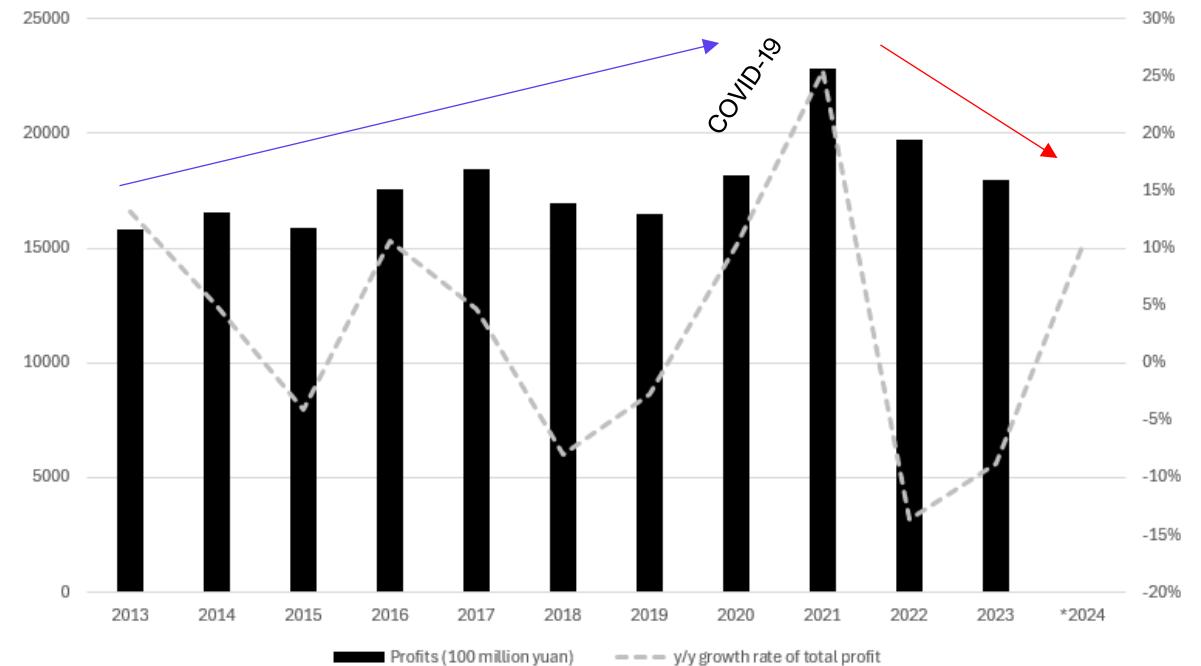


Figure 1. Total Profits of Industrial Enterprises with Hong Kong, Macao, Taiwan and Foreign Funds
Source: NBS (2024)

Conclusions

- The MNCs are not moving away from China, neither derisking nor decoupling.
- The profits have fallen since the COVID-19 pandemic but have shown signs of recovery.
- The flow of FDI has been more diversified, and the share of investments in the Real Estate sector has declined.
- While investments from the US and Germany have been stable in the last years, showing that the government offensive against China has not had severe consequences for the MNC behaviour (except for the chip sector).
- The BPM6 method might be showing a movement of funding transfer from China affiliates to the headquarters as a consequence of the decline in profit rate.

German investment in China soars despite Berlin's diversification drive

Politicians warn of rising geopolitical tensions but country's carmakers stick with Chinese manufacturing



German firms buck R&D trend in China, seek ecosystem partners to gain edge

German Chamber of Commerce in China survey shows an increasing number of firms are conducting research and development in China

Reading Time: 3 minutes



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