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The determinants of China's outward foreign direct investment

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ABSTRACT

Globalisation has led to a rapid increase in the growth of foreign direct investment (FDI) globally. Over the last decade China has become the largest recipient of FDI whilst simultaneously increasing its outward FDI dramatically. The growth in China's outward FDI has attracted little attention from scholars in mainstream research publications. The motivation behind this paper is to investigate the factors driving this growth from both economic and strategic backgrounds. The paper employs panel data analysis covering the period 2003–2009 where we quantify the main drivers of China's outward FDI across a range of variables including bi lateral and multi lateral trade, market size, GDP growth, openness and resource endowment.

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1. Introduction

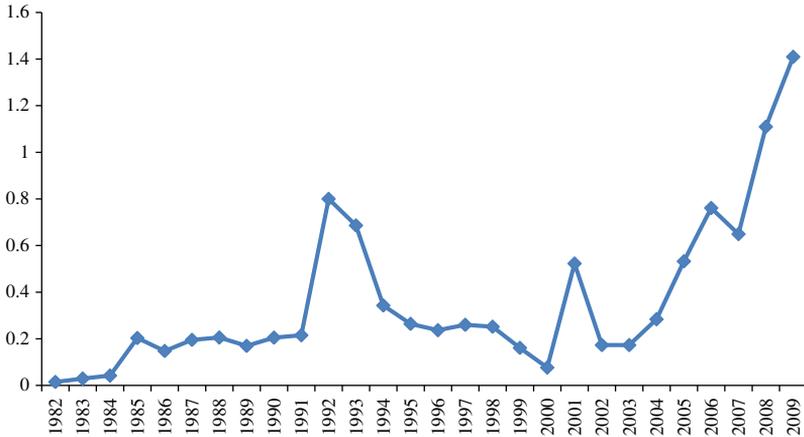
Since the 1980s, globalisation has led to a rapid increase in the growth of foreign direct investment (FDI) all over the world. China, the World's largest developing country in terms of gross domestic output, has become one of the largest recipients of FDI in the world.² At the same time, China is rapidly integrating with the rest of the world, thus its outward FDI has also been increasing sharply in recent years (Fig. 1). According to the "World Investment Report, 2010" published by United Nations Conference on Trade and Development (UNCTAD) indicated that China's outward FDI flows and stocks in 2009 was \$48 billion and \$229.6 billion USD respectively, which represents global shares of 5.14% and 1.3% respectively. Fig. 2 indicates that China's outward FDI flows in 2009 was approximately \$48 billion USD ranking China amongst the top six economies in terms of outward investment flows. To date research into China's outward FDI has attracted little attention from scholars especially when compared to the voluminous research concerning China's inward FDI. The

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² World Investment Report.



Source: UNCTADstat, China's Statistic Year Book 2010

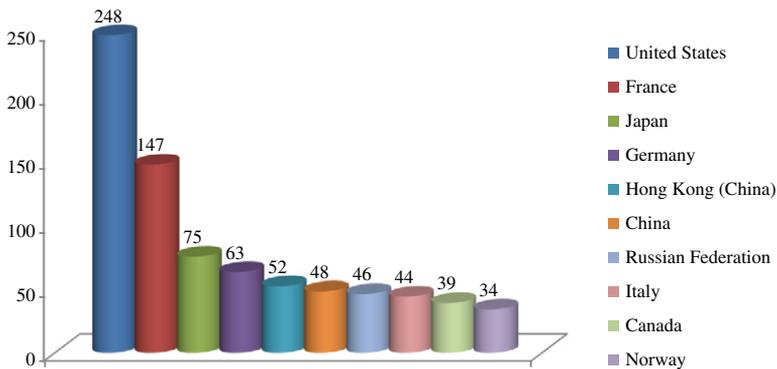
Fig. 1. China's OFDI flows as a percentage of GDP, 1982–2009, %.

recent development placing China amongst the top global investors need to be placed in perspective. Before 2004, the size of Chinese overseas direct investment (ODI) was trivial. From 2004, ODI grew significantly, alongside a dramatic expansion of China's current account surplus. Total ODI increased from US\$2.85 billion in 2003 to US\$56.53 billion in 2009, registering an average growth rate of 55% a year. During the same period, its share in global ODI flow also rose from 0.45 to 5.1%. In 2009, China was not only the largest developing country investor but also the fifth largest investor in the world, following the US, France, Japan and Germany.

The main reasons for China's growth in OFDI may relate to its size, China being big in economic terms simply means that a low propensity to invest overseas means a significant addition to global OFDI. China may also be investing overseas in a desire to gain advanced technology, management skills and secure supply of resources in order to guarantee continuous domestic production.

In general we identify three stages in the development of China's OFDI; the initial phase from 1982 to 1991, the fluctuating stage from 1992 to 2000 and the high growth period from 2001 till now. More specifically, the "open door" policy of the late of 1970s resulted in the emergence of China's outward FDI from 1982.

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Source: UNCTAD, based on annex table 1 and the FDI/TNC

Fig. 2. FDI outflows top 10 source countries, 2009 (billions of USD).

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