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China's Strategic Investments and Its Relations with Developing Economies

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Abstract: 2010 brings news regarding China's economic strategy. It has strengthened its trade relations with emerging economies, making significant investments, plus significant imports and exports, proving again that it is the first commercial power in the world. China, considered being "the manufacturer of the world", along with Brazil and Russia, major exporters of raw materials, and India, the country which offers the cheapest technology services, has made the world organization, named as BRIC. In 2009, China has consolidated its position as the main trading partner with Brazil, a position that enabled it in 2010 to become the largest investor in the Brazilian territory. One of the most important Chinese strategies is the monetary one, through which China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. It is expected that Yuan will become the main currency in Asia, main goal that will be achieved by the constitution of large reserves of Yuan on the Asian territory. Knowledge of Chinese economic policy and relations with emerging economies is essential, since 2010 shows the economic power of this nation, the largest trading power in the world, which has led the economists to study China's economic situation. We used for this study, data extracted from UNCTAD and ASEAN's reports from 2010, plus various U.S. studies on China's geostrategic position. China's geostrategic position is an important one, especially compared with the other BRIC countries, making energy investments in the Middle East, strategy that was adopted also by India and Russia; so Russia and China created ESPO project, Eastern Siberia - Pacific - Ocean, through which China is making huge investments in energy and Russia is trying to stand out for European markets. Through this paper, we tried to evidence China's financial and trade relations with USA, European Union and emerging economies, in the context of a severe economical crisis, named by Nouriel Roubini in his book, White Swan.

Keywords: Foreign Direct Investments flows; GDP per capita; economical crisis; emerging countries; monetary strategy

1 Introduction

Jim Rogers, an investor whose name is linked to the index of market goods[1], namely the Rogers International Commodity Index, one of the most successful investors and the cofounder of the Quantum Fund, draws attention to the opportunities that China offers at the moment. This orientation encourages investments in Chinese mainland, counting on long-term profit opportunities offered by China.

[1] International Market, Information about the Global Economy, No. 41, 11 oct. 2010, Bucharest, pp. 4.

Currently, under the impact of global economic crisis, we can say that this country has become an increasingly attractive market. Since 2002, China began to liberalize financial markets through programs such as Qualified Foreign Institutional Investor and Qualified Domestic Institutional Investor. In August 2010, China announced that it would continue the liberalization of capital markets, something that according to experts will lead to the development of Chinese financial markets, almost at the same level as Western ones. Strategically speaking, China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. This can be explained by the fact that the Chinese national currency has begun the single currency in South – East Asia cross-border trade, but also in some trade agreements that China concluded with its partners.

Thus, in 2011 China wants to achieve two strategic objectives, namely financial market liberalization and increasing importance of the national currency. These two strategic steps are primarily aimed to reduce the dependence on the U.S. dollar in foreign trade transactions. According to experts, financial market liberalization will lead to a significant increase in FDI flows in financial markets in China.

2 Chinese FDI Flows Evolution

One of the most important effects of the financial market liberalization is the development of the inward and outward FDI flows. Analyzing the Foreign Direct Investments realized by China, but also the FDI attracted by China is essential in our study. Our main goal is to analyze the Chinese strategic steps adopted in times of financial crisis.

In 2006, developing countries from Asia, in front with China, represented a major area attraction for foreign investors so that they have owned more than two thirds of total FDI flows to this group of countries. FDI inflows to South, East and South – East Asia have reached a new record of $200 billion, meaning an increase of 19% from a year earlier. At the sub regional level, the transfer in favor of South Asia and South East continued, while countries that were the biggest attraction for FDI in the region, namely China (including Hong Kong) and Singapore continued to keep ahead. (Huidumac – Petrescu et ali., 2011, pp. 166-175)

The development of FDI flows during this period led to a significant economic development of China. High corporate profits have increased the transnational mergers and acquisitions. China and India, two members of BRIC organization, were during this period the leaders in developing investment projects, especially in the service sector. Nowadays, China, the "world's manufacturer" and India, the "cheapest technology services provider", are two emerging countries with great potential, countries that offer great opportunities in business developing projects.

In 2006, the developing countries and the economies in transition have developed the number of mergers and acquisitions on the global market. Investors from emerging countries with fast economic growth from Asia and Eastern Europe (especially from China, India and Russia) have been noted on the international market, especially due to their important mergers and acquisitions. In China, the biggest companies are those which activate in oil and natural gas market. So "China National Petroleum Corporation" had acquired PetroKazakhstan for $4.1 billion in 2005, while Sinopec has bought "Russian-United Kingdom joint venture Udmurtneft" for the amount of $3.5 billion in 2006[1]. These are only two examples of investors which have made important mergers and acquisition on the global market.

[1] UNCTAD, World Investment Report 2007.

Among the indicators of international production, a special relevance for host countries is the number of employees in foreign subsidiaries; this indicator reflects the impact of FDI on labor market.

In 2007, FDI flows to South, East and South – East Asia were higher than ever, achieving $249 billion. Most sub regions and countries have received greater investments, thanks to favorable perceptions of business course, progress towards deepening regional economic integration and facilities supported by a number of countries. China and Hong Kong (China) remained the top choice, but important FDI have turned to India, ASEAN countries, Afghanistan, Cambodia, Sri Lanka and Timor – Leste. There has also been a record level on FDI outflows, approximately $150 billion. Intra and inter – regional investments were more representatives, but also flows to developing countries increased, including acquisitions and mergers. The stock of FDI out of this area suddenly jumped from $1.100 billion in 2006 to $1.600 billion in 2007.

What has happened in 2008, globally and in China? Globally, FDI flows declined by about 10% in 2008 compared with the record level registered in 2007, standing at approximately $1.870 billion. 2008 marked the end of a cycle of increasing international investments which began in 2004. (Huidumac – Petrescu et ali., 2011, pp. 166-175)

This situation has generated a considerable reduction of the cumulative value of cross – border mergers and acquisitions, from 29% in 2008 to approximately $1.200 billion. FDI decline was more pronounced in the developed countries, almost 12%, up to about $1.500 billion. In the transition countries, a reasonable growth of around 14% has maintained, with a volume of $58 billion. FDI growth in developing countries fell to only 2% to $ 274 billion. Table 1 presents the evolution of inward and outward of FDI flows in China.

Table 1. Inward and outward foreign direct investment flows, 1990-2009 in China

Measure: US Dollars at current prices and current exchange rates in millions

Year	**Value**	*Year*	**Value**
1990	3.487	*2000*	40.714
1991	4.366	*2001*	46.877
1992	11.007	*2002*	52.742
1993	27.514	*2003*	53.504
1994	33.766	*2004*	**60.630**
1995	37.520	*2005*	**72.406**
1996	41.725	*2006*	**72.715**
1997	45.257	*2007*	**83.521**
1998	45.462	*2008*	**108.312**
1999	40.318	*2009*	***95.000***

Source: Data extracted from UNCTAD statistics (http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88)

As we can see, China has not been very affected by the financial crisis. From Table 1, we can observe that the cycle 2004 – 2008 is a period of continuous growth of FDI flows, 2008 being the year in which the highest value of FDI flows has been reached.

For a better illustration, we also tried to realize a graphical analyze, in Figure 1.

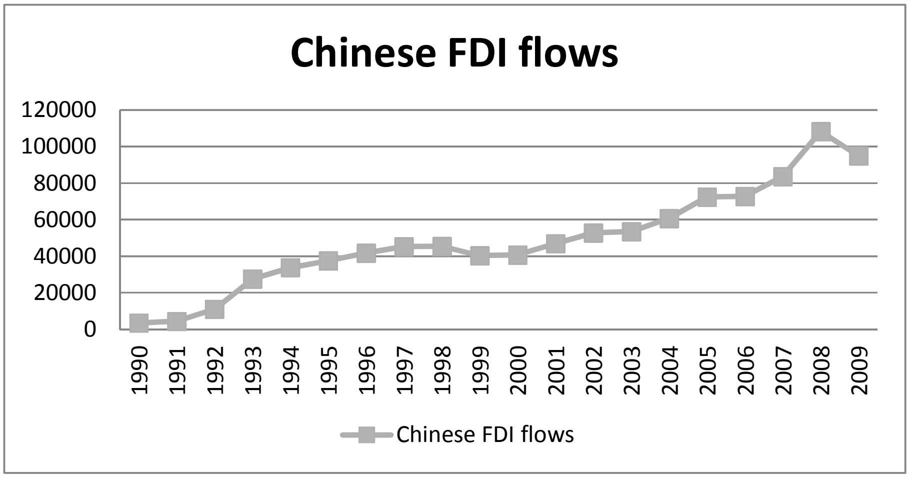

Figure 1. Chinese FDI flows between 1990 and 2009

Source: Table 1 - Inward and outward foreign direct investment flows, 1990-2009 in China

Figure 1 shows that 2008 was the peak year of any prejudice in terms of value of FDI flows. The conclusion we draw from this graph is that in China the inward and outward of FDI flows have had an increasing trend. Even in 2009, a year of global economic recession, their value is higher than in 2007; this fact indicates that China has not been so affected by the global economic crisis. To explain this affirmation, we extracted from UNCTAD statistics, the Chinese GDP from 1990 to 2009, macroeconomic indicator that we correlated with FDI flows values, so we could see the direct relation that exists between the two of them.

Table 2. Nominal and real GDP, total and per capita, annual, 1990-2009

Measure: US Dollars at current prices and current exchange rates in millions

Year	***Value***	*Year*	***Value***
1990	404.494	*2000*	1.192.836
1991	424.117	*2001*	1.316.558
1992	499.859	*2002*	1.454.040
1993	641.069	*2003*	1.647.918
1994	582.653	***2004***	**1.936.502**
1995	756.960	***2005***	**2.302.719**
1996	892.014	***2006***	**2.779.871**
1997	985.046	***2007***	**3.460.288**
1998	1.045.199	***2008***	**4.327.024**
1999	1.100.776	***2009***	**4.699.911**

Source: Data extracted from UNCTAD statistics

(http://unctadstat.unctad.org/TableViewer/tableView.aspx)

From Table 2, we can observe that beginning with 2004, the Chinese GDP has an upward trend. 2008 was the year when for the first time China has achieved a GDP of $ 4,327,024 dollar, which in 2009 was higher, achieving the value of $ 4,699,911 dollar. Comparing the evolution of FDI flows with the GDP evolution, for this period of time, we could state that in 2009 the FDI flows have decreased comparing to 2008, but the GDP has increased to a higher value comparing with the same year (Figure 2). Even if, between the FDI flows and GDP value there is a direct relation, 2009 shows that in case of China the economy is so strong that a decreased number of FDI flows doesn't mean a decreased GDP.

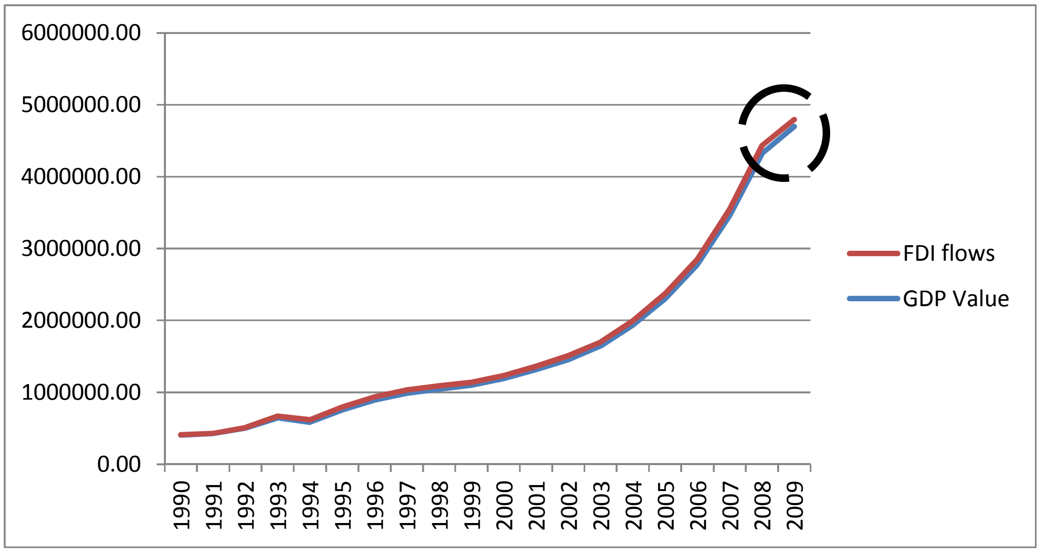

Figure 2. FDI flows vs. Chinese GDP

How could we explain this difference between the FDI flows and GDP evolution from 2008 to 2009? Figure 2 shows a significant difference between the two economical variables. There are a lot of economical factors, but also some strategic steps that China has adopted in their political and economical strategies. Some of these factors are represented by the different policies that China has adopted to overcome the global crisis. So, in our opinion, the Chinese restructuring and modernization programs in selected industrial sites have had a benefic effect on the Chinese economy, providing an economical growth. Also, due to the global crisis, the inward of FDI in China were less than in 2007. In the next step of our analysis, we tried to explain some of the main ideas of the Chinese restructuring and modernization programs.

3 Chinese Restructuring and Modernization Programs

Through these programs, China has not done anything but trying to overcome the global economic crisis. These programs are based on four main ideas:

- government incentive policies to stimulate the economy to avoid a downturn; (Jin Bei, 2009)
- implementation of adjustment programs adapted to the new economic environment and to restore competence in more and more companies[1];
- robust growth of some industries;
- international market recovery and return to a normal growth, not too accelerate, not to low, a normal one[1].

[1]International Market, Information about the Global Economy", No. 43, 25 oct. 2010, Bucharest, pp. 3.

Nowadays, China is trying to overcome the crisis, even if the GDP has showed a very high value for 2009, year of full economic crisis. The Chinese government is aware that the industrial restructuring and modernization is the key of success. So, there are a lot of uncompetitive companies' bankruptcies, which are willful accepted by the government, thereby supporting competitiveness of the private market. Those economic agents with a high efficiency potential are supported to strengthen their position in the business economical environment. The government took steps to relax regulations on foreign firms participating in mergers and acquisitions. Even if these strategies have been adopted, the international economic environment has decreased the number of FDI flows attracted by China, so this is how we explain the decreased number of inward.

China began to encourage companies in industrial sectors considered essential for continued sustainable development, through supporting government programs. There have been selected 10 industrial sectors for this type of development: automobile industry, steel industry, shipbuilding industry, machine industry, petrochemicals, etc.

China has also developed great relationships with other emerging countries, such as Brazil, Mexico, India and Russian Federation. It is very important to underline that China has become in 2010 the most important investor in Brazil. Concerning Asia, China is trying to grow Yuan's importance, transforming its national currency in an exchange currency. As we can see, these countries, politically and strategically reunited in BRIC organization, are trying to emerge their economic influence in all the continents, not only in the Asian one. There are many economists that don't believe in this organization, but its potential and its opportunities are great.

4 Conclusions

In 2011, China offers a lot of business opportunities. Most of the world's investors encourage investments in Chinese mainland, counting on long-term profit opportunities. Under the impact of the global economic crisis, we can say that this country has become an increasingly attractive market.

China announced that the liberalization of capital market would continue, according to experts this will lead to the development of Chinese financial markets, almost at the same level as Western ones. One of the most important effects of the financial market liberalization is the development of the inward and outward FDI flows. Strategically speaking, China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. In Asian territory, Yuan has become an exchange currency in trade markets.

China has adopted several strategies to overcome the global crisis, based on restructuring and modernization programs in some selected industrial sites; this strategic step has created a benefic effect on the Chinese economy, providing an economical growth. So, there have been some industries that the Chinese government encouraged their development, such as: automobile industry, steel industry, shipbuilding industry, machine industry, petrochemicals, etc.

We consider that China's position in BRIC organization, China as "the manufacturer of the world", along with Brazil and Russia, major exporters of raw materials, and India, the country which offers the cheapest technology services, will help it in keeping the actual position as trade leader, and probably will transform it in the world economic leader, overcoming USA.

[1] This is the main key of all the Chinese restructuring and modernization programs.

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