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**China's Outward FDI as Economic Diplomacy:  
Focusing on Developing Countries**

A thesis presented

By

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To

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in partial fulfillment of the requirements  
for the degree of Master in International Studies

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## Abstract

# China's Outward FDI as Economic Diplomacy: Focusing on Developing Countries

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Since the new millennium, China's outward FDI has been increasing rapidly. Chinese government is actively promoting outward FDI as China's economic diplomacy and Chinese leaders are often mentioning the importance of outward FDI and exploring world market by using this method. It is regarded that China's is using outward FDI as important means for economic diplomacy.

Most of the studies on China's outward FDI is explained in the perspective of economic. However, this study examines China's outward FDI in diplomatic perspective. This study tries to answer questions to what kind of diplomatic purposes does China's outward FDI have? Why is China accelerating outward FDI as their main economic diplomacy means?

According to the research, Chinese outward FDI has two main

purposes. First, in African and Latin American countries, China's diplomatic purpose is to secure natural resources and at the same time, China is trying to check on US in these regions. China is trying to check on US by establishing friendly relationship with African and Latin American countries. Establishing economic and military relationship is important, or else US' power in this region will grow and there is possibility for US to monopolize the oil route, which is not a favorable situation for China. Therefore, China is using outward FDI to establish friendly relationship with these countries, which the ultimate goal is to check on US.

Second, China's outward FDI in South East Asian countries has purpose to ease down the China threat theory in this region. Most of China's FDI in this region is in the form of ODA and is invested in urgently needed infrastructure field. China needs to secure the South China Sea lanes, have hegemonic competition with Japan in this area. Therefore easing down the China threat theory is critical, because supports and cooperation is needed from ASEAN countries for the purposes mentioned above. It is analyzed that China is using ODA formed outward FDI to gain supports and cooperation from ASEAN countries.

Keywords: China's outward FDI, economic diplomacy, Africa, Latin America, South East Asia

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## **I. Introduction**

### **1.1. Research Background**

Economic development is one of the most important factor for all nations in the world because economic development not only contributes to a country's development, but it also influences a country's leverage and position in the international society. For China, which is regarded as one of the major economic power in the world, economic development is critical for stability of domestic politics and expansion of its leverage in international society. Importance of economic development has set China's foreign policy to focus on 'creating favorable international environment in order to develop its economy'. Therefore, it is regarded that economic diplomacy, which is more focused on economic development is vital in Chinese foreign policy.

China had different strategy in using economic diplomacy throughout the years. In the early stage of the open-up revolution, China received ODA from Japan and Western countries in order to stable the domestic chaos and most importantly, for nation building. In the early 90's China adopted market economy system and consequently China approved the inflow of foreign businesses towards China as their economic

diplomacy strategy. From the new century, China is actively promoting outward foreign direct investment as their main strategy to practice economic diplomacy. Since then, the importance of outward FDI is rapidly increasing.

However, many studies on China's outward FDI in studied in economic perspective. Barely any studies are studied in the diplomatic perspective. Therefore, the purpose of this paper is to study on China's economic diplomacy in terms of outward FDI and find out whether it is used as means for political purposes and if so, what kind of political purposes it contains. Unlike most of the papers and research, which is focused on economic part of China's outward FDI, this study focuses on the political and diplomatic part of China's outward FDI.

## **1.2. Scope of Research**

The purpose of this study is to investigate the diplomatic purpose of outward FDI, not economic purposes. Accordingly, the scope of this study is established as follows.

First, this study briefly explains the concept of economic diplomacy. Economic diplomacy is not generally used as military and

propaganda diplomacy. In this section, the study explains why economic diplomacy should be regarded as important as military and propaganda diplomacy. The subject of this section is to imprint the readers that economic diplomacy is also an important diplomacy and that it should be studied more deeply by the academia.

The study then refers to China's economic diplomacy part. How China's economic diplomacy matches with China foreign policy. Further in this part, the study analyze the history of China's economic diplomacy. How China's economic diplomacy has been practicing over 50 years.

Third, the subject of this study is to analyze the current status of China's outward FDI. The flows and stocks of China's outward FDI from 2002-2012 is explained. The distribution of regions and industries of China's outward FDI is analyzed to explain the next step of this study.

Lastly, the present study attempts to explain the political purpose of China's outward FDI in developing countries. Africa, Latin American and South Asian countries were chosen because the FDI in these regions are increasing fast and the actual investment was invested in these regions.<sup>1</sup>

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<sup>1</sup> Some regions were excluded because of tax haven reason

### 1.3. Literature Review and Significance of the Study

Since the new millennium, the flow of China's outward FDI has been increasing rapidly. The average annual growth of China's outward FDI from 2002 to 2012 is 41.6%, which is very high compared to other countries in the world. Behind the rapid growth of China's outward FDI stands Chinese government. Chinese government is strongly supporting outward FDI and they are actively using this for the practice of economic diplomacy. However, most of the studies on outward FDI is focused on the economic perspective, not diplomatic.

First is to solve the oversupply problem.<sup>2</sup> Low price wide use technology is easy to manufacture and for this reason, many Chinese enterprises are massively investing on production facilities. According to Han, China is seeking international market to solve the oversupply problem, and that is one of the motivation for Chinese governments to actively promote outward FDI.

Second, is to develop global Chinese companies. In order to compete with the world big companies such as Samsung, Nokia, Audi and so on, China needs a famous brand. China do not have a global company

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<sup>2</sup> 한병섭, 김병구, “중국의 대외직접투자 결정요인에 관한 실증분석: 중국 내부 요인을 중심으로”, 국제경영리뷰, 제12권 제1호, (2005), 12.

that can compete with the world global and this also gives a reason for Chinese governments to promote outward FDI.

Third, due to rapid economic development, China lacks natural resources such as oil and natural gas. These natural resources are critical for China's economic development. In order to maintain the economic development pace, seeking natural resource is critical. Therefore, Chinese government is pushing ahead with outward FDI, which helps China to achieve more natural resources.

As stated above, previous studies are mainly focusing on economic side of outward FDI. The significance of this study lies in the fact that it analyzes outward FDI in the diplomatic perspective, not economic. Economic diplomacy can be defined in both economic and diplomatic side, but why are the studies only focusing on the economic part? This study tries to argue that diplomatic part of economic diplomacy should also be regarded importantly.

#### **1.4. Research Methodology**

This paper incorporates analysis of prior researches from international organization data, on-line references and more. In order to

analyze this study, I collected data on China's outward FDI through papers, press releases, articles and Chinese official data. The statistic data was collected from UNCTAD and Chinese Ministry of Finance. UNCTAD data was referred on years before 2002, because Chinese Ministry of Finance started to release statistic reports after 2002.

## **II. China's Economic Diplomacy**

### **2.1. Concept of Economic Diplomacy**

#### *What is Economic Diplomacy?*

Economic diplomacy can be defined in two ways. First, it is a foreign diplomacy, which has a purpose to gain state's economic interest. Second, it is also defined as a foreign diplomacy, which uses economic means in order to achieve other diplomatic purposes.<sup>3</sup> In other words, it can be a diplomacy to support a nation's economic interest or a diplomacy that use economic means to support nation's diplomatic, military, cultural

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<sup>3</sup> 何中顺, 新时期中国经济外交 (北京: 实施出版社, 2007), 32. 서승원, 북풍과 태양 (서울: 고려대학교출판부, 2012), 21. 吴白乙, “中国经济外交: 与外部接轨的持续转变,” 外交评论, 总第103期 (2008): 11.

or political interest. Economic diplomacy is defined as these two ways, but this study tempts to focus more on the latter, economic diplomacy that emphasizes means rather than ends.

There are endless disputes on the efficiency of economic diplomacy in the academia of international relations and diplomacy studies. Economic diplomacy, which focuses on using economic techniques (tools) to pursue diplomatic objectives, aims same diplomatic objectives with other general diplomacy but is usually underestimated by the academia.<sup>4</sup> The neglect of economic diplomacy in political science is partly because most of the foreign policy is more focused on the techniques of military and diplomacy, while economic diplomacy is least likely to be considered.<sup>5</sup> Strange stated “what is noticeably missing from the picture are more general studies of international economic relations analytically, with political analysis predominating over the economic analysis.”<sup>6</sup> Then why is economic diplomacy neglected in terms of explaining political diplomacy?

Many scholars such as Blessing, Gilpin and Wallensteen claims that economic techniques such as economic sanction, economic warfare and economic aid are ineffective techniques because it has little influence

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<sup>4</sup> David A. Baldwin, *Economic Statecraft* (New Jersey: Princeton university Press, 1985), 51.

<sup>5</sup> *Ibid.*, 52-53.

<sup>6</sup> Strange Susan, “International Economics and International Relations: A case of Mutual neglect,” *International Affairs*, XLVI (1970) :308-309.



on the opposite country.<sup>7</sup> David A. Baldwin argues that the concept of economic diplomacy needs more attention and gives his explanations on why economic diplomacy is neglected from the academia. First, Baldwin argues that economic diplomacy is ignored in political science because in this field there is a tendency to focus on policy-making processes rather than policy techniques and outputs. In other words, the discipline of political science in general has devoted little attention to techniques of diplomacy.<sup>8</sup> Therefore, in the study of foreign diplomacy, compared to propaganda diplomacy, military diplomacy, economic diplomacy is least likely to be considered. Second, he also claims that the distinction between high politics and low politics is also an obstacle on thinking about economic statecraft.<sup>9</sup> It is often considered that high politics, which are diplomatic and military affairs, is more important than low politics, which deals trade and investment matters.

Despite all the disputes and ignorance, Baldwin argues that when studying diplomacy, economic diplomacy is as important as other techniques such as military diplomacy or propaganda diplomacy. Also, according to Seo, diplomacy should be verified as following. First, a diplomacy should include information and propaganda. Second, he states

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<sup>7</sup> Baldwin, *Economic Statecraft*, 56.

<sup>8</sup> *Ibid.*, 52.

<sup>9</sup> *Ibid.*, 61.

that diplomacy should also include economic diplomacy, which uses economic means. Lastly, there is military diplomacy, which uses military forces and threat. Seo argues that propaganda diplomacy, military diplomacy and economic diplomacy each have their own characteristics and therefore each should be regarded as complimentary techniques.<sup>10</sup> According to Seo, each diplomacy has different diplomacy range, degree, influence, and time costs. For this reason, in practicing diplomacy, propaganda, military and economic diplomacy needs complimentary cooperation. Seo just like Baldwin also argues that we should pay more attention to the study of economic diplomacy as much as military and propaganda diplomacy. Seo shows a table below that compares the range, degree, influence and time cost of each diplomacy techniques.

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<sup>10</sup> 서승원, 북풍과 태양: 일본의 경제외교와 중국, 1945-2005 (서울: 고려대학교출판부, 2012), 23.

Table1. Comparison of Propaganda, Economic and Military Diplomacy

영역 \ 종류	Propaganda Diplomacy	Economic Diplomacy	Military Diplomacy
Range and Scope	정부 부분 참가 현재 근미래 지향적 중간적 영역에 영향	사회 일반 참가 미래지향적 일반적영역에 영향	군사 안보 부문 참가 현재 지향적 특정 영역에 영향
Degree and Power	완만한/긴급한 움직임 단절적 교섭, 지속적 동맹 시도가 직접적	완만한 움직임 지속적 사용 시고다 간접적	신속한 움직임 단절적 사용 시도가 직접적
Influence	지속적 결과 의식적 성격 의도가 대체로 명확함	비통합적 결과 무의식적 성격 의도가 불명확함	통합적 결과 의식적 성격 의도가 극단적으로 명확함
Time Period	결과의 가역성 행동지침이 명확 단기적 중기적 목표에 효과적	결과의 가역성 행동지침이 불명확 장기적 목표에 효과적	결과의 불가역성 행동지침이 명확 단기적 목표에 효과적

Source: 서승원, 북풍과 태양.<sup>11</sup>

### *Types of Economic Diplomacy*

There are two ways to use economic diplomacy as policy instrument. First is the use of positive economic sanction, which in other words can be described as economic aid like tariff discrimination (favorable), direct purchase, subsidies to exports or imports, most favored nation treatment etc. Economic aid takes place when a country judge that

<sup>11</sup> Ibid.

the opposite party has taken appropriate or desirable behavior. Second instrument is to use negative economic sanction like embargo, boycott, tariff discrimination (unfavorable), black list etc. Negative economic sanction takes place when the opposite country behaves inappropriately or undesirably. The purpose is to give punishment, pressure, loss of interest, or threat to the opposite country.<sup>12</sup> The following table describes positive and negative economic sanction and lists types of economic means that is included in each sanction.

Table 2. Types of Economic Diplomacy (Sanction)

Positive Economic Sanction	
무역/기술	자본
장기무역협정, 최혜국대우, COCOM인가 신청, 특혜관세, 유리한 외환법 개정, 수출입 보조, 수출입면허, 무역불균형 시정, 과학/기술협력, 자원 공동개발, 이상의 약속 등	무상원조 공여, 장기저리차관, 차관프로젝트 계속/재개, 차관 상환기간 유예, 프로젝트 구제, 투자보호, 투자기업 우대, 민간자본 수출장려, 사채/공채 발행 협력, 국제금융기구 가입 유도, 자금환류계획 이상의 약속 등
Negative Economic Sanction	
무역/기술	자본
통상제한, 보이코트, 관세인상, 차별관세, 불리한 외환법 개정, 최혜국대우 폐지, 블랙리스트, 수출규제 강화, 수입제한/외화할당제도, 반덤핑 과세, 이상의 위협 등	자산동결, 원조삭감, 동결, 해외자산 몰수, 불리한 과세, 국제기구 분담금 보류, 이상의 위협 등

Source: 서승원, 북풍과 태양.<sup>13</sup>

<sup>12</sup> Ibid., 24.

<sup>13</sup> Ibid., 25.

However, although each policy instruments are sorted as above, depending on particular situation, the policy instruments above could be used for either positive or negative sanctions.<sup>14</sup> It is because when a country pursues a wide variety of foreign policy goals, policy instrument sorted in negative sanction can be used for positive sanction (vice versa) to achieve policy goals. There could be any types of economic policy instruments to influence the opposite country, therefore the types of economic means are varied.

Sorting types of economic diplomacy into positive and negative sanction is regarded as a broad concept. However, if the type of economic diplomacy is to be sorted more specifically, it could be divided as 1) international economic cooperation diplomacy 2) economic aid 3) energy diplomacy 4) finance diplomacy and 5) economic sanction (negative).<sup>15</sup>

### *Functions of Economic Diplomacy*

A country can achieve various purposes from economic diplomacy. Economic diplomacy can have purpose to achieve economic interest by

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<sup>14</sup> Baldwin, *Economic Statecraft*, 40.

<sup>15</sup> 何中顺, *新时期中国经济外交* (北京: 实施出版社, 2007), 68-72.

using political or military means. On the other hand, economic diplomacy can have purpose to achieve political or military purposes by using economic means. Economic diplomacy contains many kinds of functions.

According to Seo, purposes a country can achieve from economic diplomacy are as follows. In terms of allies and friendly nations, there are purposes such as economic supports, strengthening political ties, treat as most favored country when approaching to its market, expansion of human rights and universal value, change of political system, change of economy system etc. In terms of unfriendly nations and hostile nations, there are purposes such as diplomatic isolation, controlling the spread of specific ideology, restraining the use of force, hindering economic development, impediment to approaching international commodities and services and more.<sup>16</sup>

## **2.2. China's Foreign Policy and Economic Diplomacy**

### *China's Foreign Policy*

Since China's 'Reform and Opening'(改革开放) in 1978, China's

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<sup>16</sup> 서승원, 북풍과 태양, 26.

foreign policy goals are as follows. First, creating peaceful and secure international environment, which favors China's economic development and second, checking on containment policy of US centered western forces and pursue of strengthening its leverage in the international society.<sup>17</sup> China has more specific foreign policy to cope with the rapid change of internal and external state of affairs. The more specific foreign policies are great power diplomacy, neighboring country diplomacy, developing country diplomacy and multilateral diplomacy.<sup>18</sup>

Great power indicates US, Japan and Russia, EU, India and great power diplomacy and China has established strategic partnership relations with these countries. Great power diplomacy is critical in China's diplomacy. US is the most important factor in China's great power policy, because it relates with China's rise in both economic and foreign diplomacy development. This diplomacy pursues maximization of cooperation and minimization of conflict with US. Neighbor country diplomacy focuses on economic cooperation with China's neighboring countries and at the same time has purpose on strengthening crisis management in this area. This policy emphasizes good-neighbor policy in order to solve border dispute, establish stable bilateral relations, active

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<sup>17</sup> 조영남, 후진타오 시대의 중국정치 (과주: 나남출판, 2006), 228-235.

<sup>18</sup> Ibid., 231-252.

participation on regional cooperation agencies, and ease ‘china threat theory’. In terms of developing country diplomacy, China tries to take diplomatic responsibility representing developing countries such as Latin America, Central Asia and Middle East countries. Lastly, China tries to gain more leverage in the international society through multilateral diplomacy. China has been focusing on this policy since 1990’s and China is actively participating in international organizations for this. Multilateral diplomacy of China is more concentrated in economy realm than military and security realm.

Besides the above diplomacy policies, China specifies its diplomacy fields. China’s diplomatic fields are divided into economic diplomacy, cultural diplomacy, military and international security cooperation and public diplomacy.<sup>19</sup> After the Reform and Opening policy, China pursues economic development as their priority diplomacy goal and it is their main national task.<sup>20</sup> Therefore, economic diplomacy is regarded as one of the most important diplomacy field.

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<sup>19</sup> “外交新战略助力中国《十二五规划》,” 中国日报网, accessed 2013  
[http://news.xinhuanet.com/world/2011-03/09/c\\_121166558.htm](http://news.xinhuanet.com/world/2011-03/09/c_121166558.htm).

<sup>20</sup> 조영남, 후진타오 시대의 중국정치, 228.



## *History of China's Economic Diplomacy*

If we look at the feature of China's economic diplomacy, it is classified in three stages. First stage is from the establishment of PRC until the early stage of the economic reform era, which China received economic aid from western countries for development of the country. Second stage is from the late 1880s to 1990s. China employed the model of socialist market economy in this stage, and consequently started to focus on attracting foreign companies to invest in China. Third stage is from the new millennium until now, and China is actively promoting outward foreign direct investment (FDI) of home country enterprises<sup>21</sup>.

In the first stage of China's economic diplomacy history (establishment of PRC until the economic reform era), China used ODA as economic diplomacy in this period. Then how did China use ODA as their economic means? China played the role of both aid recipient country and the donor country. China received most of its aid from Japan and western countries and most of the aid were intergovernmental agreement ODAs. In this period, China was very unstable in many realm (politics, social etc.) and China received large amount of ODA and low-interest

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<sup>21</sup> 吴白乙,“中国经济外交: 与外部接轨的持续转变,” 外交评论 总第103期, (2008 Jun), 12.

loans from Japan for nation building and development. In addition, China tried to focus of economic trade cooperation with Japan.<sup>22</sup>

Besides receiving ODAs from developed countries, China also played as a donor country in this stage. From 1950 to 1978, China supported aid to developing countries by providing loans or grand aid. Most of the loans provided in this period from China were interest-free loans and the type of ODA were complete sets of project aid, technology assistance, cash assistance, good aid etc.<sup>23</sup> Since the establishment of PRC until 1971, China provided aid to 30 countries and from 1971 to 1978, 36 countries were additionally added to the aid list. Most of the aid recipient countries from China were Asian, African, and Latin American countries. In addition, there were even countries even from South Pacific Ocean.<sup>24</sup> In this period, China's economic situation and political status was very poor and unstable but still provided aid to developing countries. Then why did China overstrain their ability and support other countries even under such bad condition? The reason why China overstrained and provided aid to developing countries were because China had purpose to maintain friendly relationship with the developing countries and support

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<sup>22</sup> Ibid.

<sup>23</sup> 何中顺, 新时期中国经济外交史: 理论与实践 (北京: 实施出版社 2007), 91.

<sup>24</sup> Ibid., 96.

socialist countries.<sup>25</sup> Therefore, in the first stage China used ODA as means of their economic diplomacy, which had the purpose of 1) nation building and development and 2) to maintain friendly relationship with developing countries and socialist countries.

The second stage is from 1980's to end of 1990's. In this stage, China employed socialist market economy system and starts using FDI as their main economic diplomacy tool and China focuses on attracting foreign countries' investment in China(引进来).<sup>26</sup> Since the start of socialist market economy system, China's main foreign policy changed to focus on 'creating stable and peaceful international environment for country's modernization,' and by this, economic development was considered as nation's priority task. Thus, China started 'open up' strategy to foreign enterprises. Foreign enterprises boosted up their invest in China and because of this phenomena, China was able to increase economic technology cooperation and trade volume with the whole world. Also, China was able to accumulate large amount of foreign currency by this.<sup>27</sup> In the late 1990's, the amount of foreign currency

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<sup>25</sup> Ibid., 100.

<sup>26</sup> 吴白乙, “中国经济外交: 与外部接轨的持续转变”, 13.  
引进来(yin jin lai): Chinese way of saying inward FDI.

<sup>27</sup> 周林, “迈向世界的中国经济: 对外开放二十年的回顾与展望”, 外交学院学报, 1998 第4期, 20-25.

invested in China was around 40-50 billion dollar, increasing around 13.6% of foreign trade volume every year.<sup>28</sup> In the second stage, China's foreign policy was focused on maximizing its economic development and therefore used inward FDI as their economic diplomacy to increase trade volume and accumulating foreign currency.

As explained above, after the reform, China's main foreign policy priority changed from politics and security to economic development and currently it is still regarded as China's priority diplomatic goal. Since the new millennium, China's economic diplomacy has entered the third stage. Chinese government is actively promoting outward FDI (走出去)<sup>29</sup> of Chinese enterprises as their main economic diplomacy means. The amount of outward FDI of Chinese enterprises increased rapidly since the new millennium and government played a critical role in supporting this policy. The investment volume of Chinese enterprises in foreign countries is doubled compared to previous years, and the proportion of China's FDI volume in the world is increasing rapidly. China was able to accumulate foreign currency and develop its economy by attracting foreign enterprises' FDI towards China. However, Chinese government concerned that

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<sup>28</sup> 何中顺, 新时期中国经济外交史, 129.

<sup>29</sup> 走出去(zou chu qu): Chinese way of saying outward FDI.

economic development cannot be sustainable only with inward FDI. Thus, China is now trying to use both inward FDI and outward FDI and use both domestic and international market to sustain its economic development. Chinese government is strongly supporting outward FDI as their economic diplomacy and as result, the size of Chinese outward FDI is increasing rapidly and is predicted to increase more in the future. Over the past years, China has participated in international and regional organizations, that benefits China's economic interest, but in this stage, it is regarded that China is actively using outward FDI as their main economic diplomacy means. The next section answers the questions on why Chinese government is actively supporting outward FDI as economic diplomacy means.

### **III. China's Outward FDI status after 1990's**

#### **3.1. Why Outward FDI?**

China has been enthusiastically promoting outward FDI for the past 15 years. In 2002, Jiang Ze Min announced in 16<sup>th</sup> National Congress of the Communist Party of China, that reform is the way that leads to a powerful country and China needs to pursue socialist market economy by

both inward FDI(引进来) and outward FDI(走出去). Jiang also stated that by combining these two ways of economic means, China should actively participate in international economic technology cooperation and competition. He indicated that outward FDI is an important new stage in terms of the reform, therefore China should cultivate strong, famous and competent global enterprises.<sup>30</sup> After Jiang's statement in 2002 16<sup>th</sup> National Congress of Communist Party of China, 走出去(outward FDI) the term itself became a representative concept for globalizing strategy of Chinese enterprises. Since then, outward FDI(走出去), which emphasizes globalization of Chinese enterprises became part of economic diplomacy goals

In 2004, Chinese government announced various policies and regulations related to acceleration of outward FDI. Few important announcements are “对外投资便利化有关政策解读,” “对外投资国别产业导向目录.”<sup>31</sup>

In addition, on 17<sup>th</sup> National Congress of Communist Party of China in 2007, Chinese leader Hu Jin Tao emphasized the importance of

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<sup>30</sup> “江泽民在中国共产党第十六次全国代表大会上的报告,” accessed March 21, 2013, [http://www.gov.cn/test/2008-08/01/content\\_1061490.htm](http://www.gov.cn/test/2008-08/01/content_1061490.htm).

<sup>31</sup> 백권호, 서석홍, “중국기업 해외직접투자의 현황과 평가,” 중국학연구 제35집, (2005), 287.

inward and outward FDI. He announced that China should boost their economy by using domestic and international market and therefore the combination of inward and outward FDI is very important. He said by China should seek new market, promote export of Chinese enterprises in order to improve standard of China's openness. Seeking new ways of amalgamating companies and support development, manufacturing, and selling home country's enterprises is important for developing global and worldwide famous enterprises.<sup>32</sup> China once again emphasized the importance of outward FDI in terms of China's economic development.

As explained above, since the late 1990s, China started to announce detailed policies and regulations related to outward FDI of Chinese enterprises. China not only announced these policies, but also sharply increased organizations related to China's outward FDI to accelerate this policy. Then why is Chinese government highly supporting outward FDI as economic diplomacy means?

According to the policies stated for the past 15 years, reason China actively accelerates outward FDI is explained with the following three factors. First, China can secure natural resources through outward FDI.

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<sup>32</sup> “胡锦涛在中国共产党第十七次全国代表大会上的报告,” 人民日报, October 15, 2007, accessed March 29, 2013.  
<http://www.chinapeople.com/peoplelele/pqerty/pqertyinfo.aspx?pid=4044>.

Second, reduce over supply and solve the problem of over accumulation of foreign currency. Third, outward FDI can be used to develop global enterprises.

First, China needs to supplement and import natural sources from all around the world due to its rapid economic development. The sources provided in China are limited.<sup>33</sup> Therefore, outward FDI can be used as the main means to secure natural resources such as oil, natural gas, woods and more. Securing natural resources is important for China's economic development and in order to secure these natural resources, outward FDI is indispensable.<sup>34</sup>

Second factor is the over supplying phenomena in China. China is experiencing supply excess of industrial products due to the rapid development of manufacturing industry and this problem has been occurring repeatedly for the past years. Cutting-edge technology such as IT, LCD is not seriously over supplied, but low price wide use technology such as brown goods, clothes, stuffed toys are in serious over supply. It is because low price wide use technology is easier to manufacture and for

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<sup>33</sup> 杨培栋, “中国充分利用外交资源大力推动经济外交,” 中国经济周刊, 总第347期 (2006): 32.

<sup>34</sup> 贺晓琴, “中国企业“走出去”的发展态势及其目标,” 世界经济研究, 第10期, (2008):18.



this reason, many Chinese enterprises are massively investing on production facilities.<sup>35</sup> Thus, accelerating outward FDI can help solve problems of oversupply and over investment in the domestic market.

The last factor is the development of home country's enterprises into global enterprises. As it was announced in 2002 and 2007 National Congress of Communist Party of China, developing a global company that has capacity and competitiveness is one of China's economic diplomacy goals. After the reform, many foreign companies have been investing in China and in result, Chinese companies entered into cutthroat competition for its survival. Developing global companies is critical for Chinese companies to strengthen their competition in the domestic market, which is already dominated by foreign companies. For these reasons, China has been pushing ahead with developing global companies. By developing outstanding global groups and letting compete in the world market can benefit Chinese economy in the long run, because in this way, China can acquire new cutting-edge technology and information on new products.

As for the reasons indicated above, Chinese government is seeking

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<sup>35</sup> 한병섭, 김병구, “중국의 대외직접투자 결정요인에 관한 실증분석: 중국 내부 요인을 중심으로”, 국제경영리뷰, 제12권 제1호, (2005), 12.

many ways to actively accelerate outward FDI of Chinese enterprises. Therefore, outward FDI is regarded as Chinese government's main means for economic diplomacy. The factors indicated above are mostly studied in the economic side of economic diplomacy. Most of the studies are related to motivation or strategies of outward FDI. However, the purpose of this study relies on diplomatic side of economic diplomacy. Before examining the diplomatic implications of China's economic diplomacy, the following section tries to explain current status of Chinese outward FDI.

### **3.2. China's Outward FDI Status**

The charts, tables and numbers indicated in this section prove that Chinese government is actively using outward FDI as their economic means. China is increasing its outward FDI scale, and the increasing speed is very fast compared to other countries in the world. This section shows the current status of China's outward FDI and examines how much it is increasing by looking at the scale of investment, investing regions and types of investment. 'Statistical Bulletin of China's Outward Foreign Direct Investment'(对外直接投资统计公报), which is government released document by Ministry of Commerce of People's Republic of China(中华人民共和国商务部), National Bureau of Statistics of People's Republic of

China(中华人民共和国国家统计局) and State Administration of Foreign Exchange(国家外汇管理局) was mainly used for the research, along with 'World Investment Report' release by UNCTAD.

### *Scale of Investment*

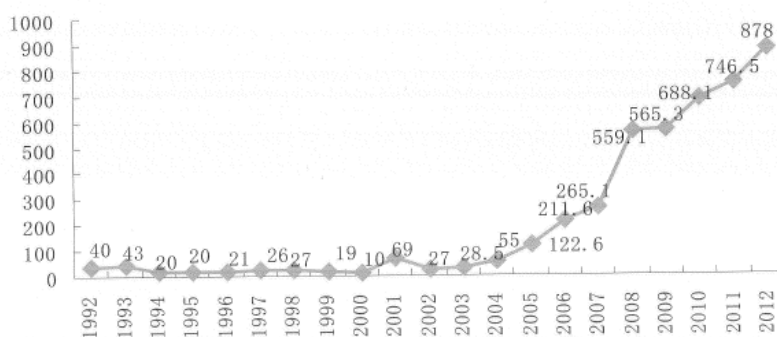
Since the early 2000s, the start of Chinese government's outward FDI policies, China's outward FDI scale started to increase rapidly. Since 2002, Ministry of Commerce of People's Republic of China(中华人民共和国商务部) started to release 'Statistical Bulletin of China's Outward Foreign Direct Investment'(对外直接投资统计公报) every year and has released up to year 2012. The statistics before 2002 are calculated from UNCTAD.

Within eleven years, China's outward FDI has increased rapidly. In the 2002 release, it is shown that China's outward FDI flow recorded 2.7billion dollars and the shard of China's flow in the world was about 0.4%. After eleven years, in 2012, China's outward FDI flow recorded 87.8billion dollars, which shares 6.3% of the world's total flow. China's investment flow ranks third after US(total flow: 328.8 billion dollars) and Japan(total flow: 122.5 billion dollars). China's total stock in 2002 was 29.9billion dollars and within eleven years, it recorded 531.9billion dollars

in 2012. China ranks thirteenth after countries such as US, UK, France, Germany in the world's total stock share.

Graph 1. 1992-2012 China's Outward FDI Annual Flow Status

(Unit: hundred million dollar)



Source: Statistical Bulletin of China's Outward Foreign Direct Investment, Ministry of Commerce of People's Republic of China

Table 3. China's outward FDI Flow and Stock 2002-2012

(Unit: hundred million dollar)

Year	Flow		Stock
	Amount of Money	Increased Rate Compared to Previous Year	
2002年	27.0	—	299.0
2003年	28.5	5.6	332.0
2004年	55.0	93.0	448.0
2005年	122.6	122.9	572.0
2006年	211.6	43.8	906.3
2007年	265.1	25.3	1 179.1
2008年	559.1	110.9	1 839.7
2009年	565.3	1.1	2 457.5
2010年	688.1	21.7	3 172.1
2011年	746.5	8.5	4 247.8
2012年	878.0	17.6	5 319.4

Source: Statistical Bulletin of China's Outward Foreign Direct Investment, Ministry of Commerce of People's Republic of China

According to '2012 Statistical Bulletin of China's Outward Foreign Direct Investment,' the world's FDI flow decreased 17% in 2012, but China's outward FDI increased 17.6% compared to the previous year. From 2002 to 2013, for over ten years, China's outward FDI flow has increased in annual average growth of 41.6%, which is very high and explains how much Chinese government is promoting outward FDI policy. Until 2011, around 13,500 Chinese enterprises have been investing in 177 countries in the world and the number of Chinese enterprises in the world recorded 18,000. Every year around 500 to 1000 Chinese enterprises are newly established and this promotes Chinese companies to go global. Most

of the enterprises going abroad are state-owned enterprises. In 2012, 59.8% of the total outward FDI was invested by the state-owned enterprises.<sup>36</sup>

### *Geographical Distribution*

China is investing in all the main economic entity in the world, which are Asia, Europe, North America, Latin America, Africa and Atlantic Regions. Over the past decade, the major invested entity is Asia. Asia has been always invested overwhelmingly compared to other entities. After Asia is followed by Latin America, Europe, Pacific Region, Africa and North America.

Table 4 shows the statistics of the outward FDI flow on each entities. Asia is overwhelmingly invested region, however over the past years, investment in other entities such as Africa and Latin America is increasing fast.

Table 5 shows the investment flow by each countries. Hong Kong, British Virgin Islands and Cayman Islands always ranked as top three invested countries over the past decade. In 2011, over half the total flow was made in these three regions. However, these three regions are used

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<sup>36</sup> The statistic refers only on non-financial part.

as tax haven for Chinese enterprises.<sup>37</sup> Therefore, this study excluded the research on these tax haven regions.

When these three regions are excluded, countries such as France, Singapore, US, UK, Sudan, Russia, Iran, Indonesia, Cambodia ranked as top invested countries. According to the 2012 official data, 86.3% of total stock is from the developing countries, which is 731.3 billion US dollars and 13.7% from developed countries, which is 315.38 billion US dollars. From the developed countries US, Australia, Canada rank high in terms of the total stock.

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<sup>37</sup> Leonard K. Cheng, Zihui Ma, "China's Growing Role in World Trade," (Chicago: University of Chicago Press, March 2010, 557.

Table 4. China's Outward FDI Flow by Economic Entities

Country	2003		2004		2005		2006		2007		2008		2009		2010		2011		2012	
	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%
Asia	150503	52.7%	301399	54.8%	448417	36.6%	766325	43.5%	1659315	62.6%	4354750	77.9%	4040759	71.5%	4489064	65.2%	4549445	60.9%	6478494	73.8%
Latin America	103815	36.4%	176272	32.1%	646616	52.7%	846874	48.0%	490241	18.5%	367725	6.6%	732790	13.0%	1053827	15.3%	1193582	16.0%	616974	7.0%
Europe	14503	5.1%	15721	2.9%	39549	3.2%	59711	3.4%	154043	5.8%	87579	1.6%	335272	5.9%	676019	9.8%	825108	11.1%	7039509	8.0%
Pacific Region	3388	1.2%	12015	2.2%	20283	1.7%	12636	0.7%	77008	2.9%	195187	3.5%	247998	4.4%	188896	2.7%	331823	4.4%	241510	2.8%
Africa	7481	2.6%	31743	5.8%	39168	3.2%	51986	2.9%	157431	5.9%	549055	9.8%	143887	2.5%	211199	3.1%	317314	4.3%	251666	2.9%
North America	5775	2.0%	12649	2.3%	32084	2.6%	25805	1.5%	112571	4.2%	36421	0.7%	152193	2.7%	262144	3.8%	248132	3.3%	488200	5.6%
Total	285465	100.0%	549799	100.0%	1226117	100.0%	1763397	100.0%	2650609	100.0%	5590717	100.0%	5652899	100.0%	6881149	100.0%	7465404	100.0%	8780353	100.0%

(Unit: hundred million dollar)

Table 5. China's Top 20 Invested Countries (Flow and Proportion from the Total Flow)

Country	2003		2004		2005		2006		2007		2008		2009		2010		2011		2012	
	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%
Hong Kong	114898	40.2%	262839	47.8%	341970	27.9%	693096	39.3%	1373235	51.8%	3864030	69.1%	3560057	63.0%	3850521	56.0%	3565484	47.8%		
British Virgin Islands	20968	7.3%	38552	7.0%	122608	10.0%	53811	3.1%	187614	7.1%	210433	3.8%	161205	2.9%	611976	8.9%	620833	8.3%		
Cayman Islands	80661	28.3%	128613	23.4%	516275	42.1%	783272	44.4%	260159	9.8%	152401	2.7%	536630	9.5%	349613	5.1%	493646	6.6%		
France	45	0.0%	1031	0.2%	609	0.0%	560	0.0%	962	0.0%	3105	0.1%	4519	0.1%	2641	0.0%	348232	4.7%		
Singapore	-321	-0.1%	4798	0.9%	2033	0.2%	13215	0.7%	39773	1.5%	155095	2.8%	141425	2.5%	111850	1.6%	326896	4.4%		
Australia	3039	1.1%	12495	2.3%	19307	1.6%	8760	0.5%	53159	2.0%	189215	3.4%	243643	4.3%	170170	2.5%	316529	4.2%		
USA	6505	2.3%	11993	2.2%	23182	1.9%	19834	1.1%	19573	0.7%	46203	0.8%	90874	1.6%	130829	1.9%	181142	2.4%		
UK	211	0.1%	2939	0.5%	2478	0.2%	3512	0.2%	56654	2.1%	1671	0.0%	19217	0.3%	33033	0.5%	141970	1.9%		
Luxembourg	-	-	-	-	-	-	-	-	419	0.0%	4213	0.1%	227049	4.0%	320719	4.7%	1265000	1.7%		
Sudan	-	-	14670	2.7%	9113	0.7%	5079	0.3%	6540	0.2%	-6314	-0.1%	1930	0.0%	3096	0.0%	91186	1.2%		
Russia	3062	1.1%	7731	1.4%	20333	1.7%	45211	2.6%	47761	1.8%	39523	0.7%	34822	0.6%	56772	0.8%	71581	1.0%		
Iran	782	0.3%	1755	0.3%	1160	0.1%	6578	0.4%	1142	0.0%	-3453	-0.1%	12483	0.2%	51100	0.7%	61556	0.8%		
Indonesia	2680	0.9%	6196	1.1%	1184	0.1%	5694	0.3%	9909	0.4%	17398	0.3%	22609	0.4%	20131	0.3%	59219	0.8%		
Kazakhstan	294	0.1%	231	0.0%	9493	0.8%	4600	0.3%	27992	1.1%	49643	0.9%	6681	0.1%	3606	0.1%	58160	0.8%		
Cambodia	2195	0.8%	2952	0.5%	515	0.0%	981	0.1%	6445	0.2%	20464	0.4%	21583	0.4%	46651	0.7%	56602	0.8%		
Canada	-730	-0.3%	512	0.1%	3244	0.3%	3477	0.2%	103257	3.9%	703	0.0%	61313	1.1%	114229	1.7%	55407	0.7%		
Germany	2506	0.9%	2750	0.5%	12874	1.0%	7672	0.4%	23866	0.9%	18341	0.3%	17921	0.3%	41235	0.6%	51238	0.7%		
Laos	80	0.0%	356	0.1%	2058	0.2%	4804	0.3%	15435	0.6%	8700	0.2%	20324	0.4%	31355	0.5%	45852	0.6%		
Zimbabwe	3	0.0%	71	0.0%	147	0.0%	342	0.0%	1257	0.0%	-72	0.0%	1124	0.0%	3380	0.0%	44003	0.6%		
Mauritius	1027	0.4%	44	0.0%	204	0.0%	1659	0.1%	1558	0.1%	3444	0.1%	1421	0.0%	2201	0.0%	41946	0.6%		

(Unit: ten thousand dollar)



### *Industries of Outward FDI*

In terms of China's FDI industries, this study referred to 'Statistical Bulletin of China's Outward Foreign Direct Investment' from 2002-2011. Since the data was released from 2002, the years before 2002 were not able to be included. China started the release of the official data since 2002, however specific investment data were published from 2004, and thus this study only includes data from 2004.

Regarding Table 6, in 2004, industries of mining, manufacturing, transportation and retail services were the major invested industries. Later in 2006, the finance industry was included in the official data and finance industry was also regarded as one of the top invested industry. Up until 2010, agriculture was one of the high-invested industry, but started to drop down recently. Since 2008 to 2010, business service is the most invested industry, but it is used as tax haven therefore there is no need to investigate this part in this study. From 2011, mining, manufacturing, power and other utilize and construction industry is ranked high.

Table 6. Distribution of China's Outward FDI Flow by Industries

(Unit: ten thousand dollar)

Category	2004	%	2005	%	2006	%	2007	%	2008	%	2009	%	2010	%	2011	%
Leasing and business service	74931	13.6%	494159	40.3%	452116	21.4%	560734	21.2%	2171723	38.8%	2047378	36.2%	3028070	44.0%	2559726	34.3%
Mining	180021	32.7%	167522	13.7%	853951	40.3%	406277	15.3%	582351	10.4%	1334309	23.6%	571486	8.3%	1444595	19.4%
Wholesale and retailing	79969	14.5%	226012	18.4%	111391	5.3%	660481	24.9%	651413	11.7%	613575	10.9%	672878	9.8%	1032412	13.8%
Manufacture	75555	13.7%	228048	18.6%	90661	4.3%	212650	8.0%	176603	3.2%	224097	4.0%	466417	6.8%	704118	9.4%
Finance				0.0%	352999	16.7%	166780	6.3%	1404800	25.1%	873374	15.5%	862739	12.5%	607050	8.1%
Transport, postal service	82866	15.1%	57679	4.7%	137639	6.5%	406548	15.3%	265574	4.8%	206752	3.7%	565545	8.2%	256392	3.4%
Real estate	851	0.2%	11563	0.9%	38376	1.8%	90852	3.4%	33901	0.6%	93814	1.7%	161308	2.3%	197442	2.6%
Power and other utilitise	7849	1.4%	766	0.1%	11874	0.6%	15138	0.6%	131349	2.3%	46807	0.8%	100643	1.5%	187543	2.5%
Construction	4795	0.9%	8186	0.7%	3323	0.2%	32943	1.2%	73299	1.3%	36022	0.6%	162826	2.4%	164817	2.2%
Agriculture, forestry, husbandry, fishery	28866	5.3%	10546	0.9%	18504	0.9%	27171	1.0%	17183	0.3%	34279	0.6%	53398	0.8%	79775	1.1%
IT	3050	0.6%	1479	0.1%	4802	0.2%	30384	1.1%	29875	0.5%	27813	0.5%	50612	0.7%	77646	1.0%
Science research, service and geo-survey	1806	0.3%	12942	1.1%	28161	1.3%	30390	1.1%	16681	0.3%	77573	1.4%	101886	1.5%	70658	0.9%
Residential and other services	8814	1.6%	6279	0.5%	11151	0.5%	7621	0.3%	16536	0.3%	26773	0.5%	32105	0.5%	32863	0.4%
Water, environment and public facility management	120	0.0%	13	0.0%	825	0.0%	271	0.0%	14145	0.3%	434	0.0%	7198	0.1%	25529	0.3%
Residential and other services	203	0.0%	758	0.1%	251	0.0%	955	0.0%	2950	0.1%	7487	0.1%	21820	0.3%	11693	0.2%
Cultural, sports and entertainment	98	0.0%	12	0.0%	76	0.0%	510	0.0%	2180	0.0%	1976	0.0%	18648	0.3%	10498	0.1%
Education				0.0%	228	0.0%	892	0.0%	154	0.0%	245	0.0%	200	0.0%	2008	0.0%
Public health and social welfares	1	0.0%		0.0%	18	0.0%	75	0.0%		0.0%	191	0.0%	3352	0.0%	639	0.0%
Public management and social organization	4	0.0%	171	0.0%		0.0%		0.0%		0.0%		0.0%				0.0%

#### **IV. China's Regional FDI Strategy and Implications**

According to 'Statistical Bulletin of China's Outward Foreign Direct Investment' from 2002-2012, distribution of outward FDI flow by industries can be classified into three big categories. The biggest category (when excluding leasing and business service due to the tax haven phenomena) lies on mining, natural gas industry. The investment of first category, mining, natural gas industry is focused on African countries such as Sudan, Zambia, Iran, and Pakistan and Latin American countries such as Brazil, Ecuador and Venezuela. Following are the manufactory, construction and transport postal industry. This category industry is focused on South East Asian countries such as Cambodia, Laos, Philippines, Singapore, Indonesia. The third biggest category is IT, science research and these industries are mainly invested in developed countries in US and West Europe.

The next section of this study tries to answer the questions on what kind of purposes China's outward FDI contain. The section is divided into three parts. First part studies on the purpose of China's outward FDI as economic diplomacy in African and Latina America. Second part in South East Asia and the third part in US and Europe. The study divided into these three parts because they are the main outward FDI regions.

#### **4.1. Energy Seeking and Checking on US: Africa and Latin America**

China's outward FDI in African countries started actively in earnest after the establishment of Forum on China-Africa Cooperation (FOCAC) in 2000.<sup>38</sup> As table 7 shows, in 2011, China's FDI flow in Africa is 3.77 billion US dollars, which takes only 4.3% of China's total share. However, the growth of the flow is increasing very fast. In 2011, China's investment in African increased over 50% compared to previous year, and there are many cooperation in the field of economics and other field, which predicts that China's FDI in Africa will increase more in the future.

China's outward FDI in Africa is mainly focused to secure natural resources. Unlike most of the western countries investing in Africa, China's FDI enterprises are state-owned enterprises and the amount of capital is very big scaled. It is shown in many reports that petroleum and natural gas is the main interest that China seeks in Africa. Then why is China seeking so much natural resources in Africa?

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<sup>38</sup> 박영호, “중국의 아프리카 진출 가속화 동향 및 시사점”, 지역경제포커스, Vol.5 No.37 (2011).

Table 7. China's Outward FDI Flow in African Countries

Countries	2003		2004		2005		2006		2007		2008		2009		2010		2011	
	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%
Africa Total	7481	100.0%	31743	100.0%	39168	100.0%	51986	100.0%	157431	100.0%	549055	100.0%	143887	100.0%	211199	100.0%	317314	100.0%
Sudan	-	-	14670	46.2%	9113	23.3%	5079	9.8%	6540	4.2%	-6314	-1.1%	1930	1.3%	3096	1.5%	91186	28.7%
Zimbabwe	3	0.0%	71	0.2%	147	0.4%	342	0.7%	1257	0.8%	-72	0.0%	1124	0.8%	3380	1.6%	44003	13.9%
Mauritius	1027	13.7%	44	0.1%	204	0.5%	1659	3.2%	1558	1.0%	3444	0.6%	1421	1.0%	2201	1.0%	41946	13.2%
Zambia	553	7.4%	223	0.7%	1009	2.6%	8744	16.8%	11934	7.6%	21397	3.9%	11180	7.8%	7505	3.6%	29178	9.2%
Nigeria	2440	32.6%	4552	14.3%	5330	13.6%	6779	13.0%	39035	24.8%	16256	3.0%	17186	11.9%	18489	8.8%	19742	6.2%
Algeria	247	3.3%	1121	3.5%	8487	21.7%	9893	19.0%	14592	9.3%	4225	0.8%	22876	15.9%	18600	8.8%	11434	3.6%
Kenya	74	1.0%	268	0.8%	205	0.5%	18	0.0%	890	0.6%	2323	0.4%	2812	2.0%	10122	4.8%	6817	2.1%
Lybia	10	0.1%	6	0.0%	25	0.1%	-851	-1.6%	4226	2.7%	1054	0.2%	-3855	-2.7%	-1050	-0.5%	4788	1.5%
South Africa	886	11.8%	1781	5.6%	4747	12.1%	4074	7.8%	45441	28.9%	48786	8.9%	4159	2.9%	41117	19.5%	-1417	-0.4%

Table 8. China's Outward FDI Flow in Latin American Countries

Countries	2003		2004		2005		2006		2007		2008		2009		2010		2011	
	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%	Flow	%
Latin America	103815	100.0%	176272	100.0%	646616	100.0%	846874	100.0%	490241	100.0%	367725	100.0%	732790	100.0%	1053827	100.0%	1193582	100.0%
British Virgin Island	20968	20.2%	38552	21.9%	122608	19.0%	53811	6.4%	187614	38.3%	210433	57.2%	161205	22.0%	611976	58.1%	620833	52.0%
Kayman Islands	80661	77.7%	128613	73.0%	516275	79.8%	783272	92.5%	260159	53.1%	152401	41.4%	536630	73.2%	349613	33.2%	493646	41.4%
Peru	12	0.0%	22	0.0%	55	0.0%	540	0.1%	671	0.1%	2455	0.7%	5849	0.8%	13903	1.3%	21425	1.8%
Brazil	667	0.6%	643	0.4%	1509	0.2%	1009	0.1%	5113	1.0%	2238	0.6%	11627	1.6%	48746	4.6%	12640	1.1%
Venezuela	622	0.6%	466	0.3%	740	0.1%	1836	0.2%	6953	1.4%	987	0.3%	11572	1.6%	9436	0.9%	8177	0.7%
Mexico	3	0.0%	2710	1.5%	355	0.1%	-369	0.0%	1716	0.4%	563	0.2%	82	0.0%	2673	0.3%	4154	0.3%
Paraguay		0.0%		0.0%		0.0%		0.0%		0.0%	300	0.1%	647	0.1%	2783	0.3%	557	0.0%

China's fast economic development needs massive amount of energy and resources. China, as one of the most oil consuming country in the world, needs to secure natural resources such as oil and natural gas from Africa because China cannot provide the entire consuming amount. Therefore, China has the choice to import oil from African countries, but instead of importing oil, China is actively investing in oil-producing business. For example, Chinese enterprises such as CNPC have been investing in oil and natural gas enterprises in Sudan, Angola and Algeria.<sup>39</sup> China is seeking friendly partnership relations with these countries' enterprises, investing big amount of money or is acquiring shares in the company. China has been trying its best to establish friendly bilateral relationship with oil-producing countries to gain natural resources by outward FDI.

China has also been trying their best to seek natural resources in Latin American countries. Since Hu JinTao's visit to Latin American in 2004, China's outward FDI in this region has been growing in massive amount. China's investment in Latin American is focused on petroleum seeking, nickel plant, and copper mining.<sup>40</sup> The amount of investment in the field of natural resources in Latin America is increasing in fast speed

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<sup>39</sup> Chris Alden, "China in Africa," *Survival: Global Politics and Strategy*, 47:3 (2006).

<sup>40</sup> Kerry Dumbaugh, Mark P. Sullivan, "China's Growing Interest in Latin America," *Foreign Affairs* (2005).

and the scale is also increasing. Similar to the investment in African countries, China is trying to establish friendly relationship with Latin American countries to seek natural resources and Latin American countries are welcoming China's FDI.

Then why is China focusing on natural resources by outward FDI? What is the main purpose of the investment? Since the Hu JinTao era, Chinese leaders' abroad visits were focused on oil-producing countries.<sup>41</sup> This explains that energy seeking is critical in China's diplomacy. China is establishing friendly relationships with major oil-producing countries such as Angola and Sudan by economic cooperation through outward FDI.<sup>42</sup> The main reason for this is because China regards that by friendly relationship, China can enlarge its security and influence in this region.<sup>43</sup> Outward FDI enables to establish friendly economic relationship with African countries, and only by maintaining friendly economic relationship can China further establish military relationship in the future and gain their leverage in this region.

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<sup>41</sup> 주재우, "21세기 중국의 외교" 대한정치학회보, 제11집 2호, (2003) 23-43

<sup>42</sup> Michael Klare & Daniel Volman, "America, China & the Scramble for Africa's Oil," Review of African Political Economy, Vol. 33, No. 108, North Africa: Power, Politics & Promise (Jun., 2006): 297-309

<sup>43</sup> US Department of Defense (DoD), Office of the Secretary of Defense, "The Military Power of the People's Republic of China, Annual Report to Congress," Washington, DC: DoD, (2005): 10.

The purpose of China's outward FDI on African countries and Latin American countries is to maintain their friendly economic relationship, which can further enlarge to military relationship. However underneath all these there is another purpose, which is to check on US and this is one of the critical diplomacy policy in China. Currently, US is investing in oil-producing countries to secure oil and they are also strengthening their military relationship by selling weapons and sending troops in these regions.<sup>44</sup> When comparing US and China's investing regions, in terms of both natural resources and military field, they show similar routes. Countries US and China are investing is overlapping a lot. Since 2000, China increased their military relationship with Sudan, Ethiopia, Zimbabwe and Nigeria and these countries are important for US in terms of military relations.<sup>45</sup>

Thus, besides China purpose to seek natural resources in African and Latin America, FDI is regarded as stepping stone to enlarge China's military influence in this region. Eventually, tightening military relationship is to check on US so that US cannot monopolize the resource and influence in these two regions.

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<sup>44</sup> Ibid.

<sup>45</sup> Seygun Adeyemi, "Jane's Defence Weekly", 29 September 2004.



## 4.2. ODA and Easing ‘China Threat Theory’: South East Asia

According to table 6, the industry of construction, postal service and manufacturing rank high following the natural resource seeking field. It is shown in China’s official data that most of the investments in these fields are invested in South East Asian countries. China’s outward FDI towards ASEAN recorded 5.9 billion dollars in 2011. It has increase 34.1% compared to the previous year and around 2400 enterprises are investing in ASEAN countries.

Table 9. Distribution of China's Outward FDI by Industries in ASEAN

(Unit: ten thousand dollar)

Industry	Flow	%	Main Invested Countries
Transport, postal	108820	18.4%	Singapore
Power and other utilise	100641	17.0%	Singapore, Cambodia, Laos
Wholesale and retailing	75273	12.7%	Singapore, Indonesia
Finance	61999	10.5%	Philiphines, Thailand, Vietnam, Indonesia
Manufactory	56863	9.6%	Singapore, Thailand, Vietnam, Indonesia, Cambodia, Philiphines
Leasing and business	56674	9.6%	Singapore, Laos, Malaysia, Vietnam
Mining	44609	7.6%	Myanmar, Indonesia, Cambodia
Construction	44273	7.5%	Cambodia, Singapore, Thailand, Laos
Agriculture, foresty, husbandary, fishery	19072	3.2%	
Science research, service and geo-survey	14918	2.5%	
Residential and other services	2713	0.5%	
Real estate	2675	0.5%	
Cultural, sports and entertainment	887	0.2%	
Others	598	0.1%	
IT	518	0.1%	
Hotels, restaurants	11	0.0%	
Total	590524	100.0%	

China’s main FDI in ASEAN countries are Cambodia, Myanmar and Indonesia. These countries are relatively undeveloped regions, and

therefore China is supporting infrastructure business or investment funds. When looking at China's main investing fields in these countries, China is focusing on investing electric business, road building, and communication business. China's FDI in ASEAN countries are usually related to urgently needed infrastructures.

Then why is China investing in these urgently needed infrastructures? It is because by investing and supporting investment funds, China can present good image to ASEAN countries.<sup>46</sup> Some countries are pessimistic on China's fast development. They call it the 'Chinese threat theory,' which states that China's rise will bring disorder in the current world order and due to China's rise, it will eventually arrogate many countries' interests.<sup>47</sup> For these reasons, China needs to ease the 'China threat theory' to many countries. As to developing countries, Chinese leaders think that China should give good image to them showing that they are a responsible great power. Chinese leaders often states that they are seeking world's economic development and peace. They claim that China is a big country, which knows how to take

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<sup>46</sup> 원순구, “인프라구축사업에 대한 중국투자의 확대”, 중국지역정보, Vol.139 (2005) 20-21

<sup>47</sup> 조영남, 후진타오 시대의 중국정치, 206

responsibility in the world.<sup>48</sup>

Therefore easing China threat theory is important for China, especially when China is having disputes on South China Sea with many ASEAN countries. ASEAN countries are a strategic spot for China because China is trying to seek natural resources in this region, China is having a hegemonic competition with Japan in this area and this spot is an important spot for the marine transportation, which is critical for China's economic development.<sup>49</sup> In terms of securing South China Sea lane, securing control over this area is a policy option China cannot give up because it is very important for China in the long term. Therefore, in order to ease down China threat theory, China is investing in urgent infrastructure and ODA format FDI to curry favor with the ASEAN countries. The most important political purpose of outward FDI in this region is easing down the China threat theory.

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<sup>48</sup> Ibid.,207.

<sup>49</sup> 설규상, “중국의 대외개발원조와 소프트파워론: 대동남아시아 개발원조에 대한 평가와 함의를 중심으로,” 사회과학연구 제48집 1호(2009): 32.

## V. Conclusion

Since the new millennium, China's outward FDI has been increasing rapidly. Chinese government is actively promoting outward FDI as China's economic diplomacy and Chinese leaders are often mentioning the importance of outward FDI and exploring world market by using this method. It is regarded that China's is using outward FDI as important means for economic diplomacy.

According to the research, Chinese outward FDI has two main purposes. First, in African and Latin American countries, China's diplomatic purpose is to secure natural resources and at the same time, China is trying to check on US in these regions. China is trying to check on US by establishing friendly relationship with African and Latin American countries. Establishing economic and military relationship is important, or else US' power in this region will grow and there is possibility for US to monopolize the oil route, which is not a favorable situation for China. Therefore, China is using outward FDI to establish friendly relationship with these countries, which the ultimate goal is to check on US.

Second, China's outward FDI in South East Asian countries has purpose to ease down the China threat theory in this region. Most of

China's FDI in this region is in the form of ODA and is invested in urgently needed infrastructure field. China needs to secure the South China Sea lanes, have hegemonic competition with Japan in this area. Therefore easing down the China threat theory is critical, because supports and cooperation is needed from ASEAN countries for the purposes mentioned above. It is analyzed that China is using ODA formed outward FDI to gain supports and cooperation from ASEAN countries.

In general, diplomatic perspective of economic diplomacy is neglected in the academia. However, this paper argues that economic diplomacy can be used as a tool to study diplomacy. Economic means can be used as same means with both military and propaganda diplomacy, therefore the study on economic diplomacy should be regarded more importantly in the future.

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## 국문초록

본 연구는 해외직접투자의 경제외교적 측면을 분석하려 하였다. 기존 중국 해외직접투자에 대한 연구들은 국가의 경제적 이익을 추구하는 경제외교의 측면에서 분석한 사례가 많았다. 하지만 본 연구는 중국 해외직접투자의 경제적 이익을 추구하는 경제외교 측면이 아니라, 해외직접투자를 수단으로 사용하여 어떠한 정치적 목적을 추구하는지에 대한 연구를 진행하였다. 즉, 해외직접투자의 경제적 목적이 아니라, 내적 되어 있는 정치적 목적을 연구하였다.

먼저 중국의 자원확보를 위한 채광업, 전력·가스·용수산업종의 투자 지역을 살펴보면 주로 아프리카 석유국가에 집중되어 있다. 중국은 2000년대부터 아프리카 수단, 에티오피아, 짐바브웨, 나이지리아와 같은 나라들과 우호적인 관계를 맺고 이 지역에 투자하기 위해 노력해왔다. 하지만 중국의 주요 석유투자국가들을 살펴보면 그 루트가 미국과 겹치는 부분이 많은 것을 알 수 있으며, 특히 미국과 군사관계가 깊은 나라들과의 투자가 늘어난 것을 볼 수 있다. 중국은 투자를 늘리는 것뿐만 아니라 석유 국들과의 군사관계 또한 증진시키고 있다는 점에서 해외직접투자는 단순 자원확보를 위한 투자 이외에, 미국을 견제하기 위함도 포함하고 있는 것이다. 즉, 해외직접투자를 통해 석유국들과 우호적인 관계를 맺으며 이를 밑바탕으로 군사관계 또한 증진시켜, 미국이 이 지역의 자원독점과, 영향력 확대를 미연에 방지하려는 목적을 지니고 있다고 할 수 있다.

두 번째로 중국 해외직접투자의 상위 투자 업종을 보면 제조업, 물류업, 건축업이 높은 것을 알 수 있는데, 이 업종의 투자는 주로 동남아시아 국가에 투자되고 있다. 중국의 대 동남아시아 투자는 주로 인프라 시설인 전기산업, 도로공사, 통신등과 같은 투자에 중점을 두고 있는 것으로 보이며, 이는 주로 원조 형식의 투자로 이루어지고 있는 것을 알 수 있다. 그렇다면 중국이 동남아시아 국가에 투자를 주로 ODA형으로 하는



이유는 무엇인가? 중국 ODA형식의 해외직접투자 주요 이유는 시장확보를 위한 경제적 이유도 있지만, 이에 함의되어 있는 정치적 목적은 동남아시아 해역의 해상교통로, 남중국해에 대한 통제권 확보, 이 지역에서 타이완의 영향력 감소, 그리고 역내 지역패권 경쟁을 벌이고 있는 일본을 견제하기 위함이라고 할 수 있다.

따라서 중국 해외직접투자는 경제적 이익을 위함이 있을 뿐만 아니라, 아프리카 지역의 미국견제, 동남아시아지역에서의 영향력 확대를 위한 정치적 목적을 달성하기 위해 수단으로도 사용된다고 할 수 있다.

**주제어:** 중국 해외직접투자, 경제외교, 아프리카, 라틴아메리카, ASEAN

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