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The Changing Face of China's Overseas Investments

This article is based on an exclusive stars interview with ***Huang Shan, Associate Managing Editor and Editorial Board Member of Caixin Media, Beijing****. It was conducted by Jacqueline Tao from the Energy Studies Institute, National University of Singapore, on the sidelines of the 5th stars China symposium in April 2017 in Chengdu. This article has been edited by David Erne, Director Asia at stars.*

The past few months have highlighted the volatility of international politics. However, one trend is clear: there is a rise of nationalism. We are now facing a period of stagnation, if not gradual retreat, of globalization. Many commentators have also pointed out that there increasingly is a vacuum of political and economic leadership. As a result, various staunch believers and advocates of free trade and globalization are in the dark about where the global economic and financial system is headed. What role do Chinese investments play? This article will offer insights into how Chinese trade and investment is likely to impact key economic regions such as North America, Europe and Asia.

Global Politics and Trade

A discussion of international politics and trade is not complete without reference to the largest player in the field: the United States. Prior to President Trump, US trade policies were easier to navigate, with Democrat Presidents traditionally reluctant to push ahead with globalization and free trade agreements while Republican Presidents embrace a pro-business, pro-trade approach. With President Trump, a populist leader embracing a unique ideology of nationalism and protectionism, the stereotypical perception about which party is more pro-business and pro-globalization has largely been reversed. The actions and rhetoric of the first 100 days of the Trump administration clearly reflect his promises on the campaign trail: the withdrawal from the Trans-Pacific Partnership (TPP) and threatening to renegotiate the North American Free Trade Agreement (NAFTA) which was negotiated by President Clinton in 1994. With the prime leader of globalization since World War II taking a back seat, many wonder what is to come of international trade.

Under these circumstances, no country seems ready to ditch the current system; most are adopting either a reactive *wait and see* or a proactive *wait and try* approach. Under the second approach, we can see a rise of bilateralism and multilateralism in international trade policies. A plethora of countries are negotiating all kinds of bilateral and multilateral free trade agreements, competing for the dominant role in a new world (trade) order. In the Asia Pacific, while the US has withdrawn from TPP, China places more efforts on developing the Regional Comprehensive Economic Partnership (RCEP). China appears to rise to the occasion by driving the agenda and actively voicing its support of free trade in the Asia Pacific.

North America

Some dynamics of US-China trade relations could be seen at the summit between President Xi and President Trump at Mar-a-Lago in April this year. The proposed 100 day plan provided market access for US beef and Chinese poultry, respectively, as well as for certain financial services companies and electronic payments providers, while sidelining other critical issues. Take the automobile industry as an example. US cars are consistently slapped with a 25% tariff when imported into China. Conversely, Chinese

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cars only face a 2.5% tariff when imported into the US. This significant gap between the two tariff rates will continue to provide ammunition for the US business community to lobby for lower export tariffs into Chinese markets and to allow for wider market access for US firms and US made products.

On the other hand, Chinese investments in the US present a rosier picture. The Chinese government has highlighted that they are not only in no position to, but also unwilling to increase the trade surplus with the US, indicating a policy of actively seeking to lower their trade surplus. As a result of this policy shift, we will likely see more and more Chinese firms investing in the US in the coming years. Due to ideological reasons and the traditional hostility towards Chinese investments, US regulators often stand in the way of Chinese investments in strategically important US assets. Barred out of the high-technology and other industries of strategic importance, Chinese enterprises instead invest in the US manufacturing sector.

Last year marked a historic year for Chinese investment in the US. The total Chinese direct investment in the US reached USD 45.6 billion, a threefold increase on the previous year (USD 15 billion in 2015). In 2017, another big rise is expected for Chinese investments in the US, not only in the merger and acquisition (M&A) landscape, but also in green-field investments which provide various domestic benefits to the US. Compared to M&As, which most often merely maintain jobs, green-field investments create much more lasting impacts by creating opportunities for local employment and industry growth. As such, large Chinese green-field investments in the US tend to have a positive impact on public sentiments with regards to international trade, which may, to a certain extent, deter protectionist views and ideas. Chinese investments in the US have created around 140,000 jobs since 2000, which makes a great case for the merits of cross-border investments.

In fact, the sentiment towards Chinese investments in the US manufacturing sector is largely favourable, as one could observe from the excitement of US governors, senators, and Congressmen at the opening ceremony of a Chinese automobile window shield manufacturer's new factory based in Ohio. Similar sentiments were observed when the American Chamber of Commerce in China proclaimed that the biggest merit of investment from transnational companies is jobs creation.

Europe

In contrary to the rosy picture observed in the US, Chinese investments in Europe have been met with much criticism and even animosity. In line with China's *Made in China 2025* policy, which aims to make China a technological powerhouse by 2025, a key feature of Chinese investments in the EU is the interest to acquire high-end technological know-how, expertise and branding through M&A business strategies. Due to China's poor track record in protecting intellectual property and accusations against Chinese enterprises about the theft of trade secrets coupled with increasing protectionist and nationalist sentiments in Europe, Chinese investments in the EU currently face strong opposition. There clearly is a need for more patience to persuade Europeans that Chinese investments into Europe do not come at the expense of European companies.

Asia

Chinese investments in Asia also receive lukewarm receptions. In Asian markets, China needs to steer clear from being perceived as hegemonic, and instead has to aim to be seen as a regional economic powerhouse. Various Asian neighbours have long-standing doubts towards Chinese investments due to historical animosities. The previous tribute

system where a lot of the neighbouring countries had to pay tribute to the Middle Kingdom has left scars for many of China's Asian neighbours. Due to China's large geographical size and its economic might, Chinese actions will inevitably have repercussions across the region. At best, Chinese actions may create anxiety, at worst, backlashes are to be expected. Therefore, patience and persuasion is key.

Additionally, more attention should be given to not only project hard power but also to push for soft power influence around the region. China should always aim to portray an image of a peace-loving country that harbours no ambitions to be a regional hegemon or to reinstate its status as the Middle Kingdom, but which is attempting to facilitate mutual growth through co-development. Such advances require a lot of political wisdom and they will take a long process of education of all relevant stakeholders such as the state, the military, the business community as well as the population.

While the flaunting of Chinese power, economic might and military muscle may be tempting for Chinese players, they must be careful not to be arrogant and to behave in manners that are disrespectful to their Asian counterparts. In fact, past behaviour of key Chinese players and the historical rhetoric which is largely perceived as aggressive has already cast Chinese investments in the region in a bad light. As a result, the current environment may not be conducive for further large Chinese investments due to rising anxieties in the region.

Reflection, Reassurance and Persuasion

For Chinese companies, cross-border investments remain a process with a steep learning curve. Since the "Going Abroad" strategy was introduced in 1999, the record of Chinese investments in overseas markets is mixed. To a large extent, failed attempts outnumber success stories. Perhaps now would be a good time for Chinese businesses to rethink their role in rapidly changing global markets. Lessons could be drawn from both successes and failures. The Chinese venture into US markets presents a good example of how strategy plays a big role in ensuring success. Chinese companies were smart to steer clear of the scrutiny of the regulatory barriers in high-tech sectors. They instead help to create much needed jobs and growth in the dwindling US manufacturing sector, which in turn helps inbound Chinese investments to be seen more favourably by the US public at large.

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