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# China on its way to buying the world?

By Zhang Zhongkai
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Just a few months ahead of China's entry into the WTO, former vice trade minister Long Yongtu proposed to name a private firm as "Landbridge" to express his hope for more trade and investment flows between China and the rest of the world.

The Shandong-based Landbridge Group, an energy and infrastructure conglomerate, didn't fail Long's expectations. The company invested 200 million Australian dollars (about 158 million U.S. dollars) in Australia's oil and gas sector by buying Brisbane-based WestSide Corporation in August 2014. The purchase was a landmark acquisition of an overseas listed energy company by a privately owned player.

Landbridge is just one of numerous Chinese firms on an overseas buying spree intended to capitalize on the global thirst for investment and increasingly diverse domestic consumption demands.

**A NET CAPITAL EXPORTER**

Landbridge's success came as China ascended to the club of the world's net capital exporters for the first time, with outbound direct investment (ODI) outweighing capital inflows in 2014.

Chinese investors channeled capital into 6,128 overseas firms in 156 countries and regions in 2014. Outbound investment reached 102.89 billion U.S. dollars, up 14.1 percent from a year earlier, according to the Ministry of Commerce (MOC) last week. China's ODI only stood at about 2.7 billion U.S. dollars in 2002 after its entry into the WTO.

FDI growth was much slower at 1.7 percent totaling 119.6 billion dollars. It was the first time two-way nominal capital flows have been near a balance, marking the rise of new growth engines amid a slowing economy in China.

"If Chinese firms' investment through third parties is included, the total ODI volume would reach about 140 billion U.S. dollars, which means China is already a net outbound investor," said MOC spokesman Shen Danyang at a press conference last week.

"If the past ten-plus years since 2001 have been marked by continuous inflow by foreign firms -- the catfish forcing local players to enhance competitiveness -- the next decade may witness a growing trend of Chinese firms venturing overseas. These Chinese dragons are coming," said Long Yongtu at a forum last November.

**FROM MADE-IN-CHINA TO MADE-FOR-CHINA**

The changing pattern of capital flow is a sign of China's transition from a devoted manufacturer to a sophisticated consumer.

Consumption contributed 51.2 percent to China's GDP growth last year, up three percentage points year on year to become the key engine powering economic growth.

Chinese property magnate Wanda swung into the entertainment market by buying AMC Cinemas, the second-largest cinema chain in the United States, three years ago, and is reported to be in talks with Hollywood film studios Lions Gate Entertainment Corp. and Metro-Goldwyn-Mayer Inc. for stakes.

Wanda's billionaire chairman, Wang Jianlin, has good reason to diversify the company's investments. China is increasingly urban, hungry for entertainment and able to pay for it. More and more acquisitions will be driven by the needs of this growing class of ever-more sophisticated consumers, rather than just the needs of resource-hungry state-owned enterprises.

Chinese overseas investment had primarily focused on natural resources until recently, but targets have become more varied as China undergoes industrial upgrades to move up on the global industrial value chain.

Overseas investment in construction, culture, sports and entertainment grew the fastest among all industries in 2013. Investment in the service industry grew 27.1 percent last year, accounting for 64.6 percent of overall investment.

**NEW MARSHALL PLAN?**

Chinese offshore investment will reach 1.25 trillion U.S. dollars over the next decade, Chinese President Xi Jinping told the APEC CEO summit November in Beijing. That would almost triple Chinese outbound direct investment in the next ten years.

With four trillion U.S. dollars in foreign exchange reserves and continuous supportive policies such as the "One Road and One Belt Initiatives," the potential for a much larger flow of outbound investment is enormous.

"The booming ODI is mainly driven by Chinese firms' growing ambition and hunger for new opportunities and countries' thirst for investment, and it is facilitated by the government's supportive policies," Shen said.

"Therefore, this is not a government-pushed 'Marshall Plan' as speculated," Shen added.

Despite remarkable progress in overseas investment, China still has a long way to go before becoming a more sophisticated capital exporter like the United States and Japan.

U.S. overseas investment capital flow reached over 330 billion U.S. dollars and Japan's neared 140 billion in 2013, while China's just topped 100 billion last year.

Of course, the path is not free of obstacles. Lack of trust with local stakeholders, fierce competition from local and Chinese counterparts and ignorance of the local regulatory and cultural environment have caused trouble in overseas investments and operations, according to Wang Huiyao, head of the Center for China and Globalization, a Chinese think tank.

It requires careful homework and cooperation with government, professional third-party agencies and qualified international talent to be a competent and responsible buyer, Wang added.