Potential Impact of Recent China Economic Events on China FDI

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One of the issues raised by the upheavals and events taking place in China's economy and markets is what impact these will have on China's outbound investment a/k/a foreign direct investment (FDI). Over the last several years China's FDI has grown dramatically, reaching a new high in 2014 of just under $100 billion, and being expected to continue to grow. The United States is widely expected to receive an increasing percentage of this FDI.

However, China is experiencing dramatic and challenging economic and financial events at home. Its GDP has dropped to by far its lowest level in many years, to a reported annual rate of 7%, with some analysts thinking this number is overstated. Meanwhile as of the date of this post the SSE Composite is virtually flat for the year while having dropped from a high in June of approximately 5165 to approximately 3200, or approximately 38%. Furthermore the Chinese yuan has been devalued to its lowest level in several years.

While accurately predicting the consequences of these events is difficult, in this author's opinion, the rational response by China companies and high net worth individuals should be to maintain, if not step up, their rate of FDI over the long term as well as even the near term. It is true that the decline in the yuan has made FDI somewhat more expensive. However, many analysts have long felt the yuan has been maintained at an artificially high level which it will not return to in the foreseeable future. This decrease is not only relatively small, but likely the new norm. On the other hand these other events should spur China FDI. The drop in GDP makes it harder for Chinese companies to achieve the domestic return on investment they had earned in recent years, and the rate is now much more comparable to what may be achieved overseas. Finally, the drop in China’s stock markets shows the risks inherent in the lack of geographic diversification in investments. It is true that some, if not many, parties will have to work around the declines in worth and liquidity resulting from the market decline. However, the market decline should encourage Chinese companies and high net worth individuals to make foreign acquisitions as a means of furthering this diversification in addition to the potential strategic benefits of such transactions.

In sum, while China must address these new challenges, in the view of this author in the long run these events should stimulate China FDI and U.S. parties should look to avail themselves of this.