Benefits and Costs of Outward Foreign Direct Investment: An Assessment of China's "Going-Global" Strategy

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Abstract

For six years since 2003, China has emerged as one of the most significant sources of outward direct investment (ODI) in the world. China's ODI flows rose 21 times, from $2.5 billion in 2002 to $52.2 billion in 2008 (in 2009 with the global crisis, China's ODI flows still reached as high as $43.3 billion), and the ODI stock increased almost six times over 2003-09, from $33 billion to $191 billion. By the end of 2009, Chinese firms have established over 10 thousands companies in more than 160 countries and regions. Why do Chinese firms go multinational? How does the ODI affect the Chinese economy? In particular, what benefits and costs does the ODI bring about? This paper intends to answer the questions. The most important benefit from ODI to China may be the improved competitiveness and performance of the firms ad industries involved. Such benefits may translate into broader economic gains and enhanced competitiveness by contributing to industrial transformation and upgrading of value-added activities, improved export performance, higher national income and better employment opportunities. At the same time, ODI may pose several risks for China: ODI may result in reduced domestic investment and lower additions to capital stock, a "hollowing out" of parts of the economy and loss of jobs. The net outcome for China in the long run depends, among others, on the firms' underlying motives and strategies for overseas investment and on the characteristics of the Chinese economy.

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