China's Global Investment Vanishes Under COVID-19

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Key Points

- As expected given COVID-19, China's construction and, especially, investment around the world plunged in the first half of 2020. The decline may be exaggerated by Chinese firms not wanting to report global activity, but Beijing's happy numbers are not credible.
- From what little can be discerned, the Belt and Road Initiative is becoming more important, primarily because rich countries are more hostile to Chinese entities.
- American policy needs to shift. Incoming Chinese investment is now extremely small, but technology is still being lost due to lack of implementation of export controls. Growing American portfolio investment in China is unmonitored and may support technology thieves, human rights abusers, and other bad actors.

COVID 1, CGIT 0.

In the first half of 2020, the SARS-CoV-2 pandemic undermined the usefulness of the China Global Investment Tracker. The pandemic either delayed most Chinese outbound investment and construction, discouraged firms from disclosing transactions as they did from 2005 to 2019, or both. The central government says outbound investment and construction went on their merry way. Reporting by Chinese firms, however, indicates investment plunged and construction suffered similarly.

The China Global Investment Tracker (CGIT) from the American Enterprise Institute and Heritage Foundation approximated official Chinese outbound investment figures from 2005 into 2019, with greater transparency. The CGIT is the most complete public record of China's investment and construction worldwide. More than 3,700 transactions recorded from the start of 2005 through June 2020 are accessible in a public dataset.[1]

The data show decline in the People's Republic of China's (PRC) global activity predates the pandemic. Activity peaked in 2016–17. The peak was an unsustainable drain on China's foreign currency reserves, and Beijing belatedly tightened controls on capital outflow.[2] A second blow, starting in 2018, stemmed from growing foreign doubts about benefits of Chinese investment.[3] This trend is evident in both CGIT and government numbers.

During 2019, the CGIT and government stories start to diverge, the latter showing stability and the former showing further investment declines. The divergence expands sharply with COVID-19. The CGIT has flaws, chiefly exclusion of smaller deals. But it is not alone; no regional or national investment monitor shows the stability China insists on.[4]

In 2019, the CGIT has investment falling 37 percent to $77 billion. Energy and transport, in that order, together drew about half the total. There was no clear country leader. The share of greenfield investment remained at the elevated level seen in 2018: The mergers and acquisitions (M&A) craze has ended. There is little to assess yet in 2020 due to an extremely low total of $11 billion invested. Investment in areas participating in the Belt and Road Initiative (BRI) held up well, while spending in rich countries all but disappeared.

Investment involves ownership and an indefinite presence in a host country. It is often confused with construction of railroads, coal plants, and the like. China's construction and associated loan financing can stretch many years, but they are not indefinite and do not bring ownership rights. The average transaction is smaller than the average investment, but since 2005, there are more $95 million–plus construction contracts than investments.

In 2019, the value of the PRC's overseas construction slipped just 3 percent to $75 billion. Construction contracts are often reported late, so the total for the first half of 2020 will climb. The initial estimate is an anemic $17 billion, but this still outpaces investment.

While Chinese investment in the US vanishes, our investment in China is unmonitored and may support human rights violations or firms that break our laws.

Construction's outperformance reinforces a shift of emphasis from rich countries to the BRI. While the BRI is vaguely defined, the government portal profiles 143 members.[5] At that size, the BRI captures the vast majority of Chinese construction: $425 billion from 2014 through 2019, $67 billion in 2019 alone, and nearly all the value for 2020 to date. BRI participants are less suspicious of Beijing and need help with large-scale projects; this part of the PRC's global footprint will recover quickest.

For the US, Chinese construction is unimportant outside the New York City area.[6] Now Chinese investment is also unimportant. In 2016, the PRC invested over $50 billion in the US. Some large acquisitions made then have unraveled.[7] In 2019–20, Chinese investment totaled less than $6 billion, the bulk of that in early 2019.

PRC entities can still acquire valuable American technology, and the Committee on Foreign Investment in the United States (CFIUS) should prevent this. But there is no rush of predatory Chinese spending. Instead, policymakers should turn to rising American portfolio investment in the PRC and technology lost through American exports. Export controls are not being implemented, putting both national and economic security at risk.[8] And while Chinese investment in the US vanishes, our investment in China is unmonitored and may support human rights violations or firms that break our laws.

CGIT vs. MOFCOM

The CGIT contains investment and construction transactions worth $95 million or more. There are no bond purchases, loans, or trade deals. The CGIT uses corporate sources, usually the Chinese participants but also foreign partners where available. Transactions may be disclosed by companies, then revised, and the CGIT is revised biannually. Single-year results can be misleading in countries that have sparse corporate reporting requirements or, as now, when investment or construction is low.

Chinese firms rarely disclose depreciation of specific foreign assets, so depreciation is not estimated. Outright disinvestment was notable in 2018–19. When such sales incur losses, they count as "troubled transactions," in which investment or construction is impaired or failed after a commercial agreement was finalized. Disinvestment is not otherwise captured.

Investment is thus measured as gross outlay, matching the practice of China's Ministry of Commerce (MOFCOM). From 2005 through 2019, the CGIT documents well over 1,600 investments worth more than $1.2 trillion. It includes 1,700 construction projects worth more than $800 billion. There are close to 300 troubled transactions worth nearly $400 billion.

MOFCOM publishes only aggregated monthly and annual data, not individual transactions. Its monthly and annual investment numbers differ. In 2018, for example, MOFCOM reported outbound investment of $130 billion as a 4 percent rise, then gave $143 billion as a 10 percent fall.[9] The difference is reinvestment: When it was published, monthly reinvestment summed to less than the annual total. MOFCOM is not currently publishing the monthly series, and annual reinvestment has become unstable. It doubled in 2017, then fell 40 percent in 2018 (the latest year). More broadly, MOFCOM does not disclose revisions, and they may appear as odd data the next year.

From 2005 through 2018, the CGIT and MOFCOM matched fairly well in totals and growth. (See Table 1.) Both show China working up slowly to try to buy the world, binging in 2015–16, and then backing off. Occasional, large single-year clashes could be mere slips from Q4 in one series to Q1 in another. Over 2019, however, the CGIT and MOFCOM diverge, the divergence becoming overwhelming in the first half of 2020. For 2005 through 2019, the CGIT investment total was about 87 percent of MOFCOM's, fading at the end.

Table 1. Two Views of Chinese Outward Investment

	CGIT ($ Billion)	MOFCOM Headline ($ Billion)	CGIT Growth (%)	MOFCOM Growth (%)
2005	10.2	12.3	N/A	N/A
2006	20.4	21.2	+100	+72
2007	30.1	26.5	+48	+25
2008	57.7	55.9	+92	+111
2009	56.1	56.5	–3	+1
2010	66.0	68.8	+18	+22
2011	70.3	74.7	+7	+9
2012	79.8	87.8	+14	+18
2013	78.7	107.8	–2	+23
2014	100.9	123.1	+28	+14
2015	119.5	145.7	+18	+18
2016	164.8	198.2	+38	+36
2017	170.6	158.3	+4	–20
2018	123.0	143.0	–28	–10
2019	77.3	117.1*	–37	–10*
Total	*1,225.6*	*1,396.9*	*N/A*	*N/A*
2020H1	10.8	49.6**	–61	–2**

Note: Numbers may not add due to rounding. The CGIT is revised with each update. * Initial figure excludes reinvestment and is not (yet) directly comparable to 2018. ** Extrapolated from results through May 2020.

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, http://www.aei.org/china-global-investment-tracker; Ministry of Commerce, National Bureau of Statistics of the People's Republic of China, State Administration of Foreign Exchange, "2018 Statistical Bulletin of China's Outward Foreign Direct Investment," September 2019; Ministry of Commerce, "Brief Statistics On China's Direct Investment Overseas in 2019, January 23, 2020, http://english.mofcom.gov.cn/article/statistic/foreigntradecooperation/202002/20200202933533.shtml; and Xinhua, "China's Outbound Investment Dips," June 18, 2020, http://www.xinhuanet.com/english/2020-06/18/c_139149626.htm.

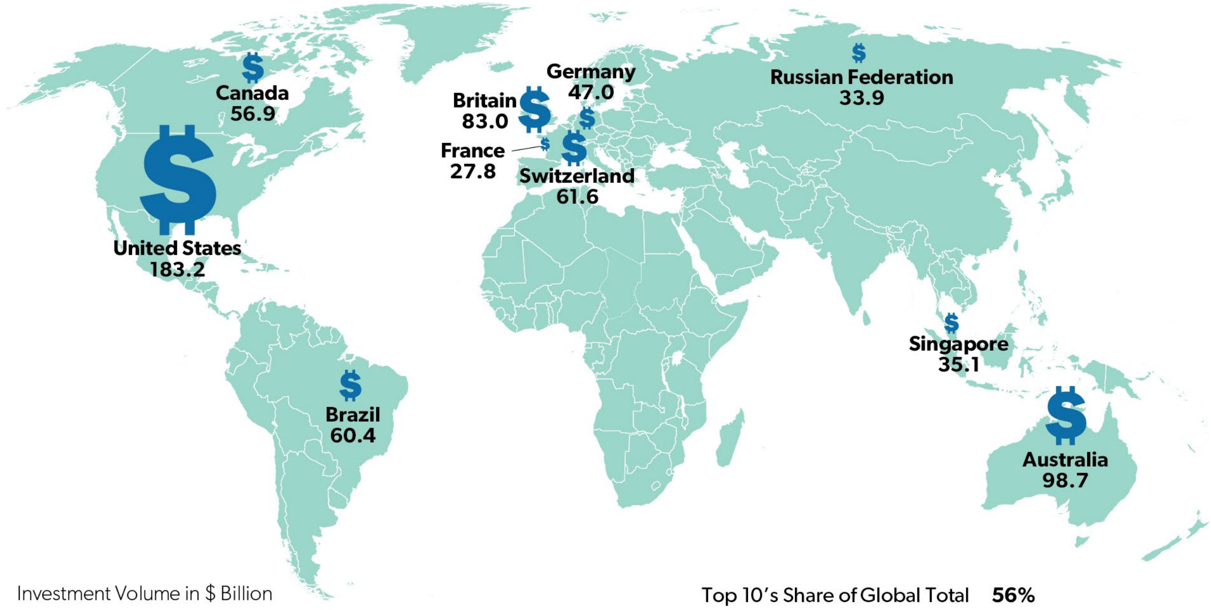
For the first half of 2020, it is barely 20 percent. There was far less disclosure at the corporate level of global investment deals involving China. For some announcements, investment value was not quantified, disqualifying them from the CGIT. Average transaction size fell in 2019, and it would not be at all surprising if more transactions fell below the $95 million threshold in 2020. Finally, state-owned enterprises (SOEs) may not wish to publicize business activities overseas during a difficult economic time at home. For these reasons, the 2020 CGIT result is certainly too low.

But MOFCOM's is just as surely too high. As with most things, the Communist Party insists on stability. In the first 11 months of 2019, nonfinancial investment was said to slip only 1 percent. When December was included, however, it fell 8 percent for the year.[10] In 2020 thus far, stability has returned, unconvincingly. The CGIT records a typical December/January, and then the bottom drops out as COVID-19 intensifies. Yet MOFCOM reported investment volumes near $8 billion for each month of January–April, which seems highly unlikely.

Large investments are hardest to miss, and the number of $1 billion–plus deals in the CGIT has dropped sharply since 2018. The BRI may be the biggest tell. It is never clear what Beijing counts in the BRI, but MOFCOM put 2019 investment outside the BRI at $95 billion. The CGIT figure for non-BRI investment was less than half that. Independent third parties put 2019 Chinese investment in the EU, US, and Australia (historically the number two national recipient) at $21 billion *combined*.[11] Where is all this money MOFCOM reports supposed to be going?

In the first five months of 2020, MOFCOM's non-BRI investment exceeded $35 billion.[12] The CGIT cannot document even $5 billion in the EU, US, and Australia. These areas are transparent with regard to Chinese investment and recently hostile to it. Extremely small numbers make far

Figure 1. Top Recipients of Chinese Investment, 2005–19 ($ Billion)



Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker.

more sense than large, hidden investments. If countries outside both the BRI and China's traditional options among rich countries saw high investment in 2019 and 2020, that should also be noticeable. No partners report high volumes. The 2020 CGIT decline is exaggerated but still appears more accurate than what MOFCOM chooses to disclose.

In any case, the CGIT does not capture all genuine Chinese investment overseas. Over time, though, it has at least two crucial advantages over official data: Individual transactions are available, and Hong Kong is not treated as an external customs port. Hong Kong is said by MOFCOM to receive well over half of Chinese outbound spending. In fact, funds flow through Hong Kong to their final destinations, but the ministry does not follow them for legal reasons (at least for now). Official bilateral figures, such as for Sri Lanka, are therefore far too low. The CGIT follows money to the true recipient, providing superior bilateral results.

The PRC may own few assets in a country yet sign contracts worth billions to build highways, dams, and other infrastructure, owned locally. The CGIT's $800 billion–plus in construction underestimates the true level of activity. Early years are undercounted due to poor corporate disclosure, and new projects trickle in more slowly than outright acquisitions.

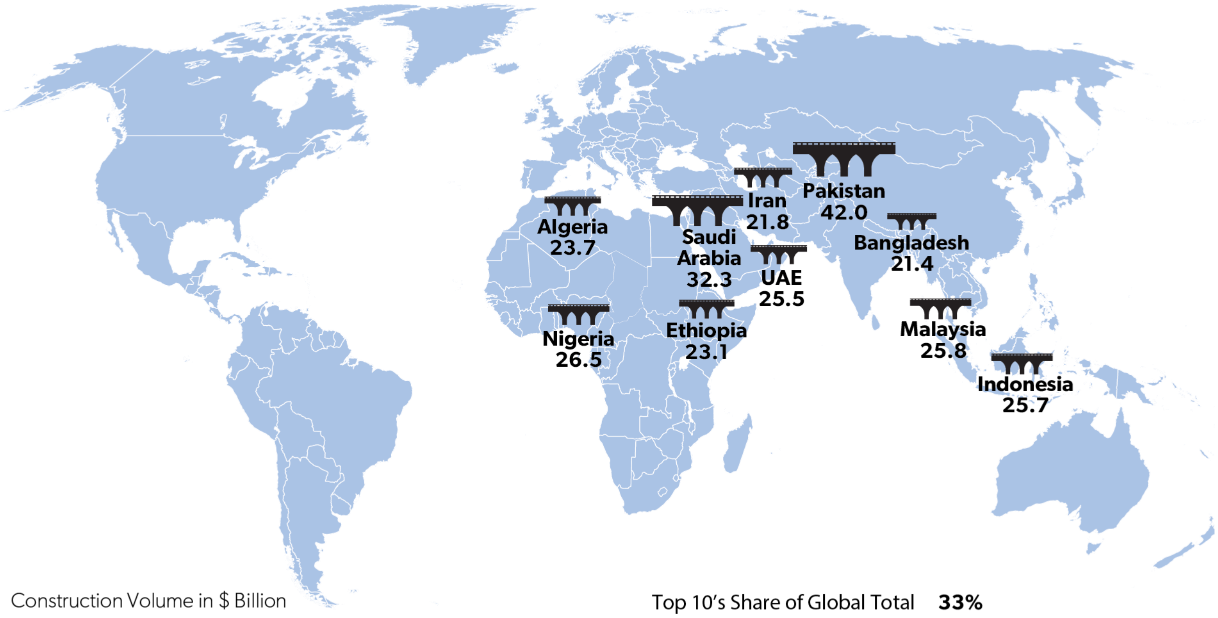
While CGIT construction figures are not directly comparable to MOFCOM's on overseas projects, the comparison matches the investment comparison. Using the full set of 143 members, the BRI dominates China's global construction, and through 2019, CGIT construction totals fit official claims about the BRI. Financing amounts cited by People's Bank Chairman Yi Gang in mid-2019, for example, match the CGIT.[13] But for 2020, MOFCOM puts the value of new contracted projects overseas 14 percent higher year on year in the first five months. Moreover, larger, easier-to-spot contracts were said to outperform. CGIT construction numbers were solid at the end of 2019 but plunged in 2020, which is far more reasonable in the midst of a pandemic.

China's Global Footprint

The CGIT's far more accurate bilateral figures clarify the geographic pattern of investment. Hong Kong does not attract the lion's share, and until recently, neither did the BRI. The US easily leads in gross investment received, but the gap adjusted for economic size is unimpressive, as American gross domestic product is far larger than the rest of the top 10 countries combined (Figure 1).

Further, the predominance of the US and other rich countries is slowly eroding. Using the full set

Figure 2. Top Countries for Chinese Construction, 2005–19 ($ Billion)



Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker.

of members, the BRI's share of investment rose in 2018 and again in 2019, reaching roughly half the total. It is not that Chinese investment in BRI countries has soared; rather, it has held steady while investment in rich countries has plunged. Both the willingness of the latter to accept Chinese capital and Beijing's financial resources are limited as compared to 2016. At least some BRI members remain interested, and smaller amounts of investment in these countries can have a larger impact than in, say, Switzerland.[14]

In this sense, investment is becoming more like construction. The PRC's construction has always been concentrated in poorer countries, for the obvious reason that these countries are more in need of technical assistance and skilled labor. Pakistan is routinely discussed as receiving tens of billions in Chinese investment when it is in fact largely construction activity with local ownership.

During 2019 and into 2020, the average size of a construction transaction dropped, meaning the CGIT missed more. As with investment, there was no clear country leader for 2019. The full 2005–19 results are more informative: The CGIT shows all top 10 construction recipients in the current BRI (Figure 2). It accounts for 90 percent of construction volume from 2014 to 2019 (and a bit more in 2020). BRI construction since its launch is more than half again as large as Chinese investment in those countries, and assessments of the BRI should understand China as building rather than directly owning.

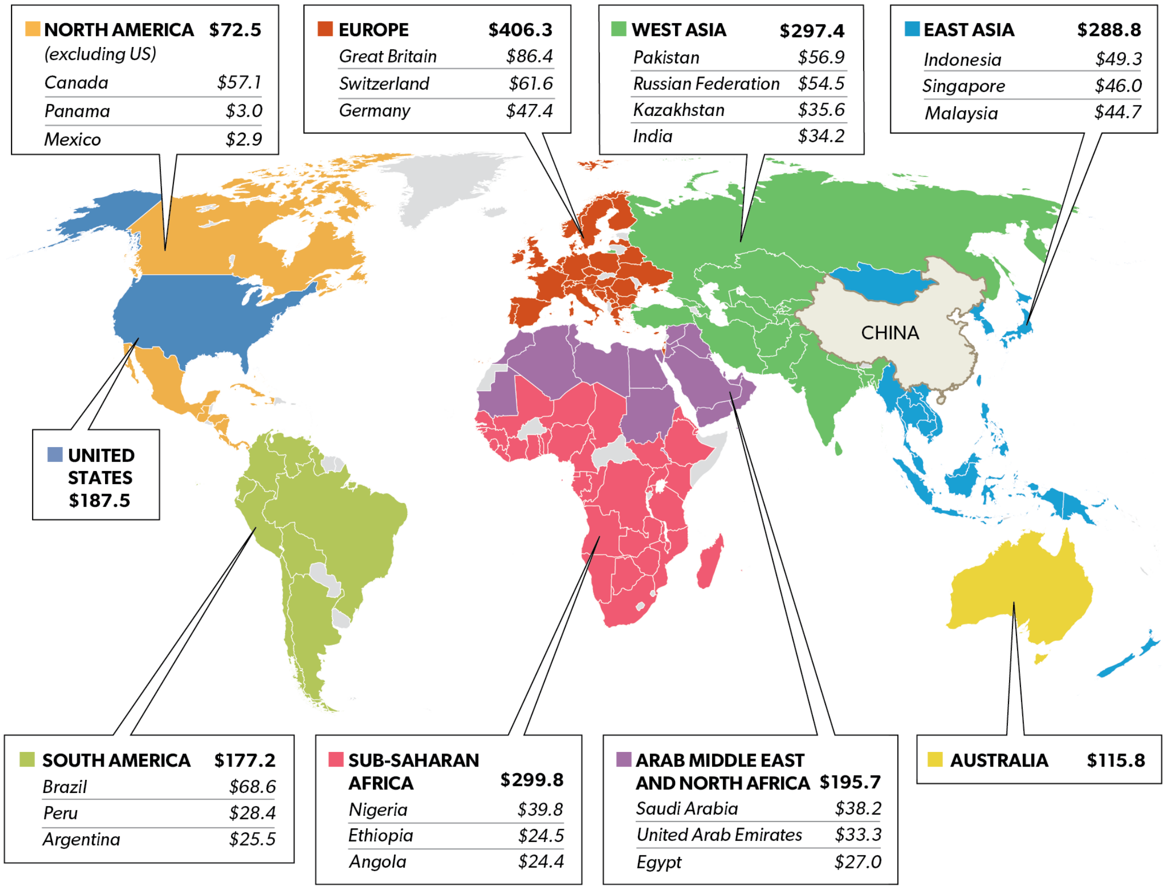
Also important to the BRI: Construction dominance is state dominance. The private sector has at times played a vital role in China's global investment, but SOEs such as Sinomach account for nearly all construction. SOEs have proven capable of completing large projects in difficult settings, in China and now overseas. They frequently incur losses and rely on highly concessionary finance from state institutions. American and other foreign companies will not compete for such projects without similar financial support. Policymakers should consider if it is worthwhile for American taxpayers to pay for roads in Cambodia or Cameroon.

A dollar spent on engineering and construction services has less value than a dollar spent on acquiring an asset. The main reason is that an investment dollar generates an indefinite stream of returns while contract payments are fixed term. Nevertheless, combining the long-term preeminence of rich economies in investment and poorer economies in construction illustrates the scope of the PRC's activity.

The combined figure from 2005 through 2019 exceeds $2 trillion (Figure 3). China is present in

Figure 3. China's Worldwide Reach

From 2005 to 2019, the combined value of China's global investment and construction exceeds $2 trillion. Developed economies have drawn the most investment, with Europe the leading region and America the leading country. Developing economies such as Pakistan and Indonesia see the bulk of construction activity.



Note: Figures are in billions of dollars.
Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker.

every corner of the globe. Other than the US, no country exceeds 5 percent of the total, with Chinese activity in the US fading. Each continent exceeds $100 billion in combined investment and construction, and, if Australia is grouped in East Asia, each identified region exceeds $200 billion.

Policymakers instinctively focus on geography in China's investment and construction, but the firms themselves think about sectors in which they operate. Sector diversification is poor (Table 2). Energy leads investment—topped by oil—and construction, in the form of building hydro and coal plants especially. Transportation is a second pillar for construction, with rail projects getting the most money and roads seeing the most deals. The PRC builds both expensive commercial properties and affordable housing overseas. Other sectors are of little importance.

Even if energy is ignored, investment remains focused on commodities, featuring spending on metals and agriculture. In the past, the CGIT understated property investment because home purchases fell below the $95 million threshold (with a few amusing exceptions). However, home purchases in rich countries have fallen along with everything else.[15] That part is China's choice; large-scale technology purchases, instead, have been halted mostly by American intervention at home and belated technology restrictions in other countries.[16] Notwithstanding issues of method and COVID, energy and transportation continued to be the leading sectors in 2019–20.

The World Shrinks

The PRC can open more doors to its investment by supporting greenfield transactions instead of acquisitions. It could also genuinely open some of its own sensitive sectors, though that would require undoing Xi Jinping's record as general secretary. Without some sort of major change, "Going Out" will continue to look like the regional exercise of 2018–20 rather than the global project of 2015–17.

Beijing recognized in 2017 that it did not have the money to buy all it wanted. A foreign exchange squeeze has limited and will continue to limit China's global investment and construction. Foreign currency holdings remain the highest in the world yet are also insecure. Reserves hit $4 trillion in spring 2014 but tested $3 trillion lows in early 2017 and have held steady near $3.1 trillion since (say official data).[17] This is why tight controls on outbound capital were imposed and remain in place. Foreign exchange is required because no one wants the RMB. Its share in global reserves is 2 percent, not far ahead of the Canadian dollar.[18]

Table 2. Sector Patterns, 2005–19 ($ Billion)

Sector	Investment	Construction	Troubled
Energy and Power	395.0	336.2	139.6
Metals	147.7	34.6	70.1
Transport	129.9	241.3	54.2
Real Estate	104.8	87.3	21.0
Agriculture	83.5	15.4	12.4
Finance	81.6	—	41.4
Technology	62.7	16.5	28.6
Entertainment	52.3	3.2	6.8
Tourism	44.0	8.7	7.5
Logistics	37.1	5.1	1.9
Health	22.4	3.7	0.5
Chemicals	12.6	21.6	2.0
Other*	52.5	41.8	5.9
Total	*1,225.6*	*815.4*	*391.8*

Note: * In other investment, the lead sector is consumer goods; in other construction, it is utilities.
Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker.

A steady $3 trillion is more than enough to cover basic import needs, but not enough for constant acquisitions in developed economies and engineering projects in more than 140 developing economies. Over the past few years, Beijing's choice about where to concentrate its reduced resources was preempted by first the US and then other rich countries. Most of the developed world has become more hostile to Chinese enterprises, a hostility the COVID-19 outbreak is almost certain to intensify.[19]

As a result, impressive cumulative figures cannot obscure a three-year decline, on multiple dimensions. Despite their recent differences, the CGIT and MOFCOM both place the investment peak between mid-2016 and early 2017. Construction volume peaked at about the same time. (Loans may have peaked in 2015.[20]) Construction has been fairly stable since, but investment has dropped like a stone. In MOFCOM's view, it has slipped back to 2012–13 levels; the CGIT puts investment at more like 2007 levels.

There will be a recovery when COVID-19 recedes, but it may be shallow. Gross capital outflow remained high in 2019, a sixth straight year that RMB sought other shores.[21] The practice of loan-financed construction in poor countries strains China's foreign reserves because many projects and loans are not commercially sound.[22] It is therefore not a surprise that, even before COVID-19, it become harder to find credible, large construction deals by SOEs. MOFCOM says otherwise, but MOFCOM also insists a pandemic is good for Chinese builders overseas.

Investment in rich countries would support the PRC's somewhat precarious balance of payments, more than paying for itself through annual returns. But sentiment in rich countries has also turned negative. Linking the two deteriorations is Beijing's statism. Made in China 2025 tells domestic firms outside blessed sectors they are not welcome, especially if they are private, and tells foreign partners they are a means to a one-sided end.[23]

One way to change hearts and minds is greenfield investment, in which job creation occurs in the partner country and feared technology extraction is far less likely than with acquisitions. Even rich countries might welcome SOEs if they create jobs. It can be difficult in developing economies to know if a project was viable before foreign involvement, and the CGIT is therefore cautious with the greenfield label. Its share may be underestimated in Table 3. With M&A collapsing since 2017, the greenfield share has rebounded, but raw spending seems to have peaked in 2014 and can go higher again, if Beijing allows.

In contrast, private investment will probably continue to suffer. It was frantic private spending that pushed Beijing to impose capital controls. Since then, the private share has been range-bound even while aggregate investment falls (Table 4). Private companies are generally more welcome in host countries than SOEs are and, with less political influence, are less likely to be able to draw on official foreign exchange reserves.[24] Against that, Xi's China has become an exceptionally inhospitable place for private firms to take any kind of risk.[25]

Foreign exchange shortages, rich countries blocking acquisitions, and private Chinese firms cowering in the corner make for less opportunity for "troubled transactions." The PRC faces greater difficulty getting investment and construction off the ground in the first place, but a troubled transaction occurs only when a finalized commercial agreement is impaired or fails outright.

For those, indefinite ownership brings indefinite investment risk. At close to $300 billion since 2005, losses due to impaired investment are nearly three times higher than construction. The top two recipients of the PRC's investment, unsurprisingly, see the most problems (Table 5). It usually takes time for finalized agreements to unravel, so most troubled transactions appear with a lag. Still, the falling number of transactions and lower investment volume since 2017 reduced the number of (partial) failures. The US again saw the most problems by country and energy the most by sector in 2019–20, but the amounts were lower across the board.

New US Priorities Needed

As Chinese investment in the US soared in 2015 and 2016, ensuring it did not harm the national interest was a top policy priority. Since the middle of 2017, however, the quantity of the PRC's spending here has been trivial. While technology loss is still possible, even that calls for more attention to export controls and Chinese coercion of American companies, not M&A. As for investment, it is actually American money heading for China that requires better monitoring.

There have been concerns expressed about a revival of Chinese acquisitions, especially of firms struggling due to COVID-19. CFIUS can already protect advanced technology and personal data, due to an improved regulatory framework[26] and the fact that the PRC does not have enough money to prey widely on vulnerable targets. While official reserve

Table 3. The Greenfield Share of Investment Since 2010 (Percentage)

Year	Share
2010	26.6
2011	35.6
2012	24.5
2013	29.0
2014	38.2
2015	27.7
2016	10.7
2017	10.3
2018	33.5
2019	33.4

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker.

Table 4. The Private Share of Investment Since 2010 (Percentage)

Year	Share
2010	9.5
2011	11.0
2012	13.9
2013	27.9
2014	30.0
2015	33.9
2016	47.6
2017	30.0
2018	38.7
2019	33.8

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker.

assets have barely budged in more than three years, this hides vulnerability.

The primary feed into Beijing's foreign currency holdings has been America's bilateral merchandise trade deficit. From 2002 to 2019, it totaled nearly $5 trillion. Over that period, PRC reserves increased less than $3 trillion.[27] No US deficit = no Chinese money. In 2019, the merchandise trade deficit fell $70 billion, and it is on pace to do roughly the same in 2020. The phase 1 deal, if ever implemented, would expand US exports yet maintain most US tariffs, cutting further into the PRC's foreign currency. More broadly, China's labor force is shrinking so its competitiveness is unlikely to improve, also pressuring its balance of payments.

Table 5. Most Troublesome Countries, 2005–19 ($ Billion)

Country	Troubled Transactions
United States	69.8
Australia	53.1
Iran	25.9
Germany	19.1
Russian Federation	14.3
Libya	12.7
Nigeria	11.5
Venezuela	9.8
Britain	9.4
Canada	8.9
Top 10's Share of Global Total	*60%*

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker.

Trade patterns have changed. What has not changed is some American technology companies' dependence on the Chinese market. In 2018, Goldman Sachs found more than a dozen major companies received one-third of their revenue or more from Greater China, including Intel, Micron, and Qualcomm.[28] Beijing has no need to buy into these or other firms; it can just make clear their access depends on technology transfer.

The US has tools to both prevent loss of technology and punish those benefiting. But they have been badly used. By far the most important tool for prevention is tighter export controls, as directed by Congress in mid-2018. It was widely recognized then that the process strengthening CFIUS should bolster export controls.[29] The Department of the Treasury has finalized CFIUS changes, while the Department of Commerce has barely scratched the surface of *draft* export regulations. China does not have to acquire or steal; it can count on the Department of Commerce to flout congressional authority and permit technology to flow.

The US has taken punitive actions but misfired. The Section 301 investigation was launched to stop intellectual property theft and coercion but became a trade deficit exercise, with no attempt to single out Chinese enterprises benefiting from stolen or coerced American technology. The Department of Commerce's Entity List could have applied broad sanctions to those firms but has instead largely become a farcical game with Huawei, featuring five "temporary" exceptions from sanctions and counting.[30]

A CGIT update in 2014 called for blocking Chinese firms that have benefited from coerced or stolen technology from investing in the US. That proposal is badly outdated, since there is little investment and still no effective punishment of firms that have benefited for years.[31] Technology acquisition is central to Beijing's development model.[32] Half measures and hopeful negotiations will have no effect.

To deter theft and coercion, the US should try to force the worst violators out of business using global financial sanctions. Short of that, American companies should be banned from any commercial exchanges with repeat offenders, including in the PRC itself.

That last point raises the issue of an investment flow entirely outside the CGIT: American portfolio investment into China. While Chinese spending in the US was plummeting from 2016 to 2019, the stock of US portfolio investment in the PRC was more than doubling. American investment in the Cayman Islands was rising more than $600 billion.[33] We do not know what investment in the PRC enables or where investment in the Cayman Islands ends up because, unlike with CFIUS, there is almost no monitoring of outbound portfolio investment.

Portfolio investment that immediately or eventually reaches the PRC may support Chinese enterprises benefiting from stolen or coerced intellectual property. It may support Chinese enterprises developing technology we wish to keep in the US. It may support Chinese enterprises involved in human rights abuses. It may end up supporting the People's Liberation Army.[34] The financial community acts as if profitability is the highest national interest. It's not, and transparency in the final recipients of American portfolio investment is badly needed.

The debate over the gains from and risks of China's investment in the US is moot at the moment, because there is so little. Yet the risk of technology loss is still as high as ever. The US is still not enforcing export controls legally tightened two years ago and has little information about whether increasing American capital flows serve to boost technology thieves or relocation of technological development to China. The challenge has evolved, and policy is lagging behind.

About the Author

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Notes

1. American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, July 2020, https://www.aei.org/china-global-investment-tracker/.

2. People's Republic of China, State Administration of Foreign Exchange, The Time-Series Data of International Investment Position of China, June 24, 2020, https://www.safe.gov.cn/en/2018/0928/1459.html; and Xufeng Jiang, "Economic Watch: China Guards Against Overseas Investment Mania," Xinhua, March 26, 2017, http://www.xinhuanet.com//english/2017-03/26/c_136159275.htm.

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