CHINA’S OVERSEAS DIRECT INVESTMENT

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Executive Summary

1. China is a capital surplus economy. Her foreign currency reserves have exceeded US$1.2 trillion to become the world's largest, with the expectation that they will increase another 30% by the end of this year (its current account surplus in the first two months of 2007 was US$39.6 billion, 57% higher than last year). This means that after another three years, China's foreign currency reserves could reach US$2 trillion.

2. The unstoppable increase is poised to become a macroeconomic problem for the Chinese government. China recently announced the creation of what could be the world's largest government investment company modeled after Singapore's Government of Singapore Investment Corporation (GIC) and Temasek Holdings.

3. A survey showed that in 2005, 60-70% of China's overseas mergers failed, with the share prices of three quarters of the merged companies plummeting by more than 20%. Some researchers pointed out that 30% of Chinese overseas investment companies made losses, 40% broke even and only 30% made profits.

4. A new challenge for China is in the efficient use of this huge fund for ODI. With her relevant expertise, Singapore could share with China her experiences and networks. Both Singapore and China could explore the benefits of cooperating in joint investment projects in third countries.

5. The Chinese government hopes to distinguish between its economic security and activities of business enterprises. It hopes that the global community will not take China's increasing outward going ODI, especially in sensitive industries such as oil and gas, as a threat. It wants to show that China's ODI are all market driven and investments are based on sound corporate policies.

6. China’s outward ODI, though increasing at 1% of the global total, is still miniscule compared to the rest of the world. In 2005, China’s total cumulative outward ODI exceeded US$ 50 billion and non-financial related outward ODI totaled US$ 6.9 billion, a 25.8% increase over 2004. Total outward ODI totaled US$ 11.3 billion in 2005. US$ 60 billion is projected to be outbound by 2010.

7. Singapore can stand to benefit from cooperating with China in joint investment projects in third countries, including in the ASEAN region and beyond.

8. Singaporeans are emerging as the top pick for managerial talent across Asia with their deep knowledge and experiences in business law, accountancy, finance, and merger and acquisition. Singapore and China could also cooperate in talent hunting and training for China’s new multinational SOEs. Eventually, this will lead to more Singaporeans working in Chinese companies as well as more Chinese working in Singaporean companies.