CHINA'S GEOSTRATEGIC POSITION – FDI FLOWS AND STOCK ANALYSIS

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Abstract. *2010 brings news regarding China's economic strategy. It has strengthened its trade relations with emerging economies, making significant investments, plus significant imports and exports, proving again that it is the first commercial power in the world. China, considered being "the manufacturer of the world", along with Brazil and Russia, major exporters of raw materials, and India, the country which offers the cheapest technology services, has made the world organization, named as BRIC. In 2009, China has consolidated its position as the main trading partner with Brazil, a position that enabled it in 2010 to become the largest investor in the Brazilian territory. In the last years, China has made a lot of investments not only in Asian territory, but also in Europe. China has focused its investments in strategic regions, developing its trade relations.*

One of the most important Chinese strategies is the monetary one, through which China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. It is expected that Yuan will become the main currency in Asia, main goal that will be achieved by the constitution of large reserves of Yuan on the Asian territory.

Knowledge of Chinese economic policy and relations with emerging economies is essential, since 2010 shows the economic power of this nation, the largest trading power in the world, which has led the economists to study China's economic situation. We used for this study, data extracted from UNCTAD and ASEAN's reports from 2010, plus various U.S. studies on China's geostrategic position. We tried to analyze Chinese FDI flows and stock in correlation with its economic growth rate, analysis based on an econometric model. This study is based on UNCTAD ASEAN's reports and on an econometrical model which gives us the possibility to create different analysis concerning FDI flow in this country. So we defined a simple regression model, in which the dependent variable is represented by Nominal and real GDP, total and per capita, variable explicated by FDI flows, using as method the Least Squared, including 29 observations. Through this paper, we tried to illustrate the relation between the FDI flows and the economic growth rate in the past years in China, member of BRIC cooperation.

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China's geostrategic position is an important one, especially compared with the other BRIC countries, making energy investments in the Middle East, strategy that was adopted also by India and Russia; so Russia and China created ESPO project, Eastern Siberia – Pacific – Ocean, through which China is making huge investments in energy and Russia is trying to stand out for European markets. Through this paper, we tried to evidence China's financial and trade relations with USA, European Union and emerging economies, in the context of a severe economical crisis, named by Nouriel Roubini in his book, White Swan.

Keywords: *geostrategic position, FDI flows, FDI stock, stock analysis, stock evolution.*

1. Introduction

There are a lot of investors that, nowadays, mention about the business field attractiveness and about the opportunities that China gives them. In another study that we have done involving China's geostrategic position, we mentioned about Jim Rogers, an investor whose name is linked to the index of market goods[1], namely the Rogers International Commodity Index, one of the most successful investors and the cofounder of the Quantum Fund[2]. He's not only drawing attention to the opportunities that China offers at the moment for all the external investors, but also for the internal ones, due to the legal opportunities that the state has created, but also he encourages investments in Chinese mainland, counting on long-term profit opportunities offered by this Asian country.

Why all the investors consider this country more attractive than the other Asian countries, why investing in China? The answer for all this questions will be given through this paper. The main goal of our study is to underline why China is such an attractive business investing mainland, through a personal approach, a personal analysis on GDP per capita, related to FDI flows and stock. This analysis will evidence all the advantages of investing in China.

Currently, even if we are in the middle of a global economic crisis, this country has become an increasingly attractive market and will continue to be. Beginning with 2002, China has created special national programs, such as Qualified Foreign Institutional Investor and Qualified Domestic

[1] World Economics Institute, *International Market, World Economy Information*, No. 41, October 11th 2010, Bucharest, p. 4.

[2] Huidumac-Petrescu, C. E., Joia, R., Babonea A., *China's strategic investments and its relations with developing economies*, EIRP Conference 2011, Danubius University, Galati.

Institutional Investor, programs through which it liberalizes its' markets . In August 2010, China has made an announcement that it would continue the liberalization of capital markets, something that according to experts will lead to the development of Chinese financial markets, almost at the same level as Western ones.

Now, strategically speaking, China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. This can be explained by the fact that the Chinese national currency has begun the single currency in South-East Asia cross-border trade, but also in some trade agreements that China concluded with its partners.

Thus, in 2011 China wants to achieve two strategic objectives, namely financial market liberalization and increasing importance of the national currency. These two strategic steps are primarily aimed to reduce the dependence on the U.S. dollar in foreign trade transactions. According to experts, financial market liberalization will lead to a significant increase in FDI flows in financial markets in China.

2. Chinese FDI flows and stock analysis

The liberalization of the markets has led to a very significant development of the FDI flows. When we make the analysis, we talk about the inward and outward of FDI. Of course there always differences between the FDI flows and stock. These differences we'll try to evidence, correlating them with the spectacular Chinese economical growth. Analyzing the Foreign Direct Investments realized by China, but also the FDI attracted by China is essential in our study.

Over the last 5 years, beginning with 2006, the developing countries from Asia represented a major area of attraction for foreign investors so that they have owned more than two thirds of total FDI flows to this group of countries, especially China. FDI inflows to South, East and South-East Asia have reached in 2006 a new record of $200 billion, meaning an increase of 19% from a year earlier. At the sub regional level, the transfer in favor of South Asia and South East continued, while countries that were the biggest attraction for FDI in the region, namely China (including Hong Kong) and Singapore continued to keep ahead[3].

[3] Huidumac-Petrescu, C. E., Joia, R., Hurduzeu, Gh., Vlad, L. B., *Foreign Direct Investments expansion – essential globalization factor*, Theoretical and Applied Economics magazine, Volume XVIII (2011), No. 1(554), pp. 166-175.

When we talk about FDI, one of the major indicators is the transnational mergers and acquisitions. In China the high corporate profits have increased the transnational mergers and acquisitions. China and India, members of BRIC organization, were during this period the leaders in developing investment projects, especially in the service sector. Nowadays, China, the "world's manufacturer" and India, the "cheapest technology services provider", are two emerging countries with great potential, countries that offer great opportunities in business developing projects. But why China is so attractive, how could we explain this?

To answer to these two questions, we extracted from UNCTAD statistics the value of GDP per capita and the values for FDI flows and stock beginning with 1990 to 2009. So, we have 20 years, which will be analyzed through an econometrical model, we will underline the evolution and correlation between the investments and economical growth, and so we would explain why China has become the "world's manufacturer" and one of the most powerful economies in the world.

In 2007, FDI flows to South, East and South-East Asia were higher than ever, achieving $249 billion. Most sub regions and countries have received greater investments, thanks to favorable perceptions of business course, progress towards deepening regional economic integration and facilities supported by a number of countries. China and Hong Kong (China) remained the top choice, but important FDI have turned to India, ASEAN countries, Afghanistan, Cambodia, Sri Lanka and Timor-Leste. There has also been a record level on FDI outflows, approximately $150 billion. Intra and inter-regional investments were more representatives, but also flows to developing countries increased, including acquisitions and mergers. The stock of FDI out of this area suddenly jumped from $1.100 billion in 2006 to $1.600 billion in 2007.

What has happened in 2008, globally and in China? Globally, FDI flows declined by about 10% in 2008 compared with the record level registered in 2007, standing at approximately $1.870 billion. 2008 marked the end of a cycle of increasing international investments which began in 2004[4]. This situation has generated a considerable reduction of the cumulative value of cross-border mergers and acquisitions, from 29% in 2008 to approximately $1.200 billion. FDI decline was more pronounced in the developed countries, almost 12%, up to about $1.500 billion. In the transition countries, a reasonable growth of around 14% has maintained,

[4] Huidumac-Petrescu, C. E., Joia, R., Hurduzeu, Gh., Vlad, L. B., „*Foreign Direct Investments expansion – essential globalization factor"*, Theoretical and Applied Economics magazine, Volume XVIII (2011), No. 1(554), pp. 166-175.

with a volume of $58 billion. FDI growth in developing countries fell to only 2% to $ 274 billion.

Table 1 presents the data concerning the evolution of inward and outward of FDI flows in China, the evolution of FDI stock in China and also the value of the Chinese GDP per capita starting with 1990 to 2009. As we will see there are 20 observations analyzed.

Table 1

FDI flows and stock evolution & GDP per capita value from 1990 to 2009 in China

Measure: US Dollars at current prices and current exchange rates in millions

Year	GDP	FDI_flows	FDI_stock
1990	404.494,19	3.487,00	20.690,62
1991	424.116,83	4.366,00	25.056,96
1992	499.859,31	11.007,00	36.064,47
1993	641.068,50	27.514,00	63.579,42
1994	582.653,43	33.766,00	74.151,00
1995	756.960,20	37.520,00	101.098,00
1996	892.013,94	41.725,00	128.069,00
1997	985.045,91	45.257,00	153.995,00
1998	1.045.199,12	45.462,00	175.156,00
1999	1.100.776,13	40.318,00	186.189,00
2000	1.192.836,27	40.714,00	193.348,00
2001	1.316.557,94	46.877,00	203.142,00
2002	1.454.040,33	52.742,00	216.503,00
2003	1.647.918,28	53.504,00	228.371,00
2004	1.936.501,83	60.630,00	245.467,00
2005	2.302.719,16	72.406,00	272.094,00
2006	2.779.871,00	72.715,00	292.559,00
2007	3.460.287,55	83.521,00	327.087,00
2008	4.327.024,44	108.312,00	378.083,00
2009	**4.699.911,21**	**95.000,00**	**473.083,00**

Source: Data extracted from UNCTAD statistics[5].

From Table 1, we can see the uptrend of all the three indicators, an increasing evolution; China has not been very affected by the financial crisis. We can observe that the cycle 2004-2008 is a period of continuous

[5] http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88

growth of FDI flows and stock, 2008 being the year in which the highest value of FDI flows has been reached. 2008 represents a year of high value only for the FDI flows, because the stock of foreign investments in 2009 was higher than in 2008, even if the FDI flows value was lower than in 2008. What about 2010?

Generally, in 2010, FDI flows to developing economies rose some 10% to $525 billion in 2010[6], thanks to a relatively fast economic recovery and increasing South–South flows[7]. Thanks to its position as a leader of the global economic recovery, FDI flows to **South, East and South-East Asia** have picked up markedly, outperforming other developing regions. After a 17% decline in 2009, inflows to the region rose by about 18% in 2010, reaching $275 billion, due to booming inflows in Singapore, Hong Kong (China), China, Indonesia, Malaysia and Viet Nam, in that order. FDI flows (in the non-financial sector) to China, for example, reached more than $100 billion[8].

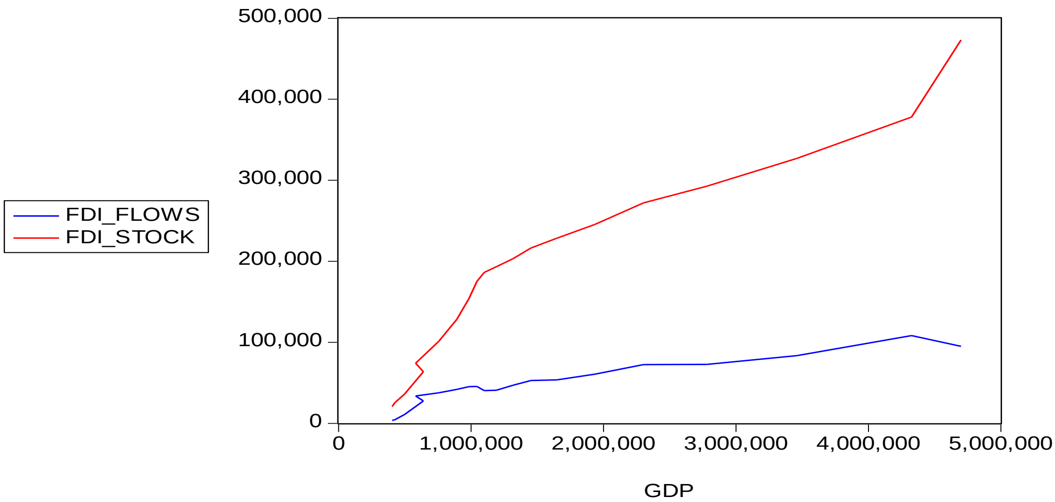

Figure 1. FDI flows and stock evolution & GDP per capita value from 1990 to 2009 in China.

Source: Data extracted from Table 1.

If we compare Table 1 with Figure 1, we can see that 2009 is very well underlined. While FDI flows are going down, the FDI stock is rising. 2009 represents an essential year for the FDI flows analysis, not only in case of China, but for all the regions, because it is in the middle of the

[6] UNCTAD, Global Investment Trends Monitor, No. 5, 17 January 2011, p. 4.
[7] World Investment Report 2010.
[8] UNCTAD, Global Investment Trends Monitor, No. 5, 17 January 2011, p. 5.

economical crisis. China has attracted investments but also has invested itself outside the cross borders less that in 2008. Even if this has happened, the stock of FDI achieved in 2009 is the highest one from all the analyzed years.

In Table 2, it is presented the econometrical model that we have done to see the exact correlation that exist between the FDI flows, FDI stock and GDP per capita, in case of China.

Table 2

Least Squares Method – case of China

Dependent Variable: GDP
Included observations: 20

	Coefficient	Std. Error	t-Statistic	Prob.
FDI_STOCK	7.034159	2.610908	2.694143	0.0154
FDI_FLOWS	13.51879	11.39277	1.186612	0.2517
C	–372098.8	189163.2	–1.967079	0.0657

R-squared	**0.910943**	Mean dependent var	1622493.
Adjusted R-squared	0.900466	S.D. dependent var	1275054.
F-statistic	86.94470	Durbin-Watson stat	**0.157628**

Regression slope value is 7.034159 and 13.51879, statistically higher than 1, which does not show a marginal propensity to make investments; if the slope was less than 1, China's economy have had a marginal propensity to investment; the slope is positive, so the parameters are significant and correct, this being showed also by the value of R-squared, which is 0.910943, an addiction of 91.09% between the GDP per capita and the FDI flows and stock. In case of China, there is a significant relation between stock, flows and GDP per capita, relation which is highlighted by R-squared and Adjusted R-squared values, but we can not say that these foreign investments (stock and flows) lead to an increasing evolution of the Chinese GDP level, which has been achieved at this moment; this is demonstrated by the Durbin-Watson statistic, which is 0.157628. The value is higher closer to 1.5 or 2, the correlation and dependence between the analyzed variables is higher. In our case, the value is 0.157628, which means that the addiction, correlation or dependence is not so significant, because the value of the Chinese GDP per capita is not due only to FDI flows and stock, but also to others economic activities.

Our econometrical model shows that FDI flows and FDI stock have a huge importance in the creation of the GDP per capita (this being highlighted by the value of R-squared), being a part of this macroeconomic variable, but the value of Durbin-Watson test underline that the three analyzed variables are not correlated during 1990 to 2009. So, China can achieve a high level of GDP per capita without FDI flows. Table 2 shows once again the complexity of Chinese economy.

Our model was created based on the next equation:

Estimation Equation:

$$GDP = C(1)*FDI\_STOCK + C(2)*FDI\_FLOWS + C(3)$$

After the calculations, we got the following results:

$$GDP = 7.03415861514*FDI\_STOCK +$$

$$+13.5187912036*FDI\_FLOWS - 372098.838331$$

China, as we can see from our study, represents a very complex economy and very interesting to be analyzed. So, we tried different analysis on FDI flows, FDI stock and GDP, to underline the exact correlation between them.

Table 3

GDP vs. FDI flows – case of China

Dependent Variable: GDP
Method: Least Squares
Included observations: 20

	Coefficient	Std. Error	t-Statistic	Prob.
FDI_FLOWS	42.87891	3.856210	11.11944	0.0000
C	–471805.3	215355.8	–2.190818	0.0419
R-squared	**0.872919**	Mean dependent var		1622493.
Adjusted R-squared	0.865859	S.D. dependent var		1275054.
F-statistic	123.6420	Durbin-Watson stat		**0.466563.**

The results are identically with Table 2, the same interpretations are kept. The analysis from Table 3 has been done to strengthen what we already have mentioned above. We made a similar study for Romania, where we have got different results, concerning the correlation between the FDI flows and GDP per capita, results in Table 4.

Table 4

GDP vs. FDI flows – case of Romania

Dependent Variable: REAL_GDP
Method: Least Squares
Included observations: 19 after adjustments

	Coefficient	Std. Error	*t*-Statistic	Prob.
FDI_FLOWS	12.04560	1.088876	11.06242	0.0000
C	27071.14	5912.561	4.578581	0.0003

R-squared	**0.878029**	Mean dependent var	68598.74
Adjusted R-squared	0.870854	S.D. dependent var	55406.32
F-statistic	122.3770	Durbin-Watson stat	**1.480325**

The regression slope value, the R-squared value and Adjusted *R*-Squared value are similar to China, but there is a huge difference, represented by the Durbin Watson test. The value of Durbin Watson statistic is 1.480325, closer to 2, which indicates that errors are independent and leads to the conclusion that the dependency equation is correctly specified. So, in case of Romania, for our economy is better to stimulate the inward and outward of FDI flows and it is better to create FDI stock. We have a different type of economy. The period that has been analyzed is from 1991 to 2009 and in this period the FDI flows have had a huge contribution for GDP per capita, the variables being correlated, not like in the case of China. Of course, we cannot compare China with Romania. We did not compare the two economies, but we wanted only to underline the two different types of results.

3. Conclusions

In 2011, China offers a lot of business opportunities. Most of the world's investors encourage investments in Chinese mainland, counting on long-term profit opportunities. Under the impact of the global economic crisis, we can say that this country has become an increasingly attractive market.

China announced that the liberalization of capital market would continue, according to experts this will lead to the development of Chinese financial markets, almost at the same level as Western ones. One of the most important effects of the financial market liberalization is the development of the inward and outward FDI flows. Strategically speaking, China is trying to grow internationally Yuan's importance, reducing the dependence on the dollar by driving autonomous trade flows. In Asian territory, Yuan has become an exchange currency in trade markets.

Through our study, we tried to evidence why China has succeeded, which is the key of success. We underlined the complexity of the Chinese economy. Our multiple regression model evidence that FDI flows represented only one part of the Chinese economy, one little part of the GDP per capita value. They have a real great contribution to the GDP value, but the diversity of the economical activities could be the success of a huge economy and strong one. So, in our opinion, let's take the advice of the investors and let's make partnerships with China. The results that we have got during our study show that China is indeed one of the world's economical powers.

We consider that China's position in BRIC organization, China as "the manufacturer of the world", along with Brazil and Russia, major exporters of raw materials, and India, the country which offers the cheapest technology services, will help it in keeping the actual position as trade leader. If Nouriel Roubini mentions in his work about a White Swan, we could say that China is the White Swan of the global economy.

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