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The Varieties of Chinese Capital in the Developing World

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Chinese Foreign direct investment (FDI) has grown from a few million US$ in the 1990s to $2.5 trillion in 2015, spurring economic growth and reducing between-country inequality in the host countries and regions until the early 2000s (Hung 2015). This concentration of Chinese investments in states and sectors with low investment grades has led to China being caricatured as a "bad investor" that corrodes host state institutions, with its recent Belt and Road Initiative (BRI) being motivated primarily by its own territorial geopolitical ambitions.

However, is geopolitical greed the sole driver of Chinese FDI? In a case study of Chinese FDI in the Philippines, drawing on more than 120 interviews with Chinese investors, Philippine politicians and bureaucrats, and civil society leaders since the early 2000s, my research (Camba, 2017) finds that Chinese FDI is hydra-headed: at the very least, it should be decomposed into state, private, and illicit capitals. This kind of disaggregation also responds to CK Lee's (2018) call to study the "varieties of capitals" rather than the "varieties of capitalism."

First, there is state capital, whereby the Chinese government induces large Chinese state-oriented enterprises to invest in strategic sectors and the commanding heights of the economy. Chinese state investments often require a positive diplomatic relationship with the host state, the potential for strategic returns on the investments, and finances provided by Chinese policy banks. At times, this type of capital brings Chinese labor and technology to the project.

The second type is Chinese private capital, which comes from small, medium, or large enterprises owned by Chinese citizens. These investments typically work within and through the rules of the host state, often creating joint ventures with or purchasing assets from business groups in host states and are found in non-strategic sectors. These investments aggressively and flexibly pursue profits.

The final type is illicit capital, such that Chinese investors form ties with host state actors to operate illegally in strategic, yet, controversial sectors. In these cases, Chinese investors provide economic capital while host state regional or non-state actors use their political access to maneuver national regulation and operate in peripheral economies.

Growing anxieties about China have led to the popular conflation of Chinese state capital with the two other types. The resultant controversies are further fanned by pundits, journalists, and political leaders who increasingly treat all types of Chinese FDI (and citizens) as simply tools of the Chinese Communist Party, leading to the cancellation of some Chinese investments despite their growth-enhancing effects (Camba 2017). To counter this situation, host state policy makers need to simultaneously be vigilant, yet, fair to Chinese FDI. I forward three possible recommendations to policy makers.

My research finds that Chinese FDI is hydra-headed: at the very least, it can be decomposed into state, private, and illicit capitals. These three different types of investments underscore the futility of using nationality to generalize about FDI.

First, host states should institute a separate and independent Chinese capital review board whose sole task is to assess and publicize the economic and strategic implications of major Chinese and BRI-related FDI projects. The board would aim to increase transparency and generate much needed public discussions of Chinese capital. This board would have a representative on the decision making body that accepts or rejects Chinese FDI and aid projects, and work with but remain independent from existing economic departments, the military establishment, and the broader government bureaucracy.

Second, the OECD countries should consider recalibrating existing aid policies to address the developing world's current "infrastructure gap," particularly the need for airports, railroad networks, and ports. Since the 1990s, Western countries have focused on "soft infrastructures," leaving much of the financial sources of "hard infrastructures," in the hands of few donor states or commercial banks with higher interest rates and more stringent conditions (Hanlon 2017). Recalibrating existing development aid to target infrastructures not only helps developing countries address the existing gap, but also increases competition between Western and Chinese finances, giving developing country more leverage to acquire the best possible deal (Kentor & Boswell 2003).

And finally, the OECD should create a new aid initiative that funds host state security agencies to exclusively target illicit capital. While policies on strengthening border security exist, these are directed mainly against drugs, terrorism, or human trafficking. The illicit economies of small-scale mining or prostitution rings, which are products of money laundering from China and other places, do not have the same focus as these other issues even though they have similarly pernicious and perhaps longer lasting consequences.

About the Brief:

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