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## CHINA: CAPITALIST EXPANSION IN THE XI ERA

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**Stefan Schmalz**

# The Three Stages of Chinese Capital Export

Abstract *This article identifies three stages of Chinese capital export. A first period started in 1999, when state-owned companies invested in commodity supply and infrastructure in the Global South; a second period after the global financial crisis of 2008, a period in which the focus of investors shifted to the Global North, in particular the EU. During this time, takeovers of tech companies by Chinese private companies became more important. Since 2017, a third period has begun. Chinese state-led internationalization is in crisis: there are growing conflicts with the US and EU member states, while Chinese FDI is decreasing. In this article, these developments will be presented by drawing on world-systems analysis and by analysing data on Chinese investment.*

Keywords *Belt and Road Initiative, Chinese OFDI, US-Chinese trade war, world-systems analysis, currency reserves*

## 1. Introduction

Chinese companies are a major topic of public debate in Western democracies. Huawei in particular, a leading network equipment provider and cell phone producer, has been targeted by the US government and other Western governments with sanctions and restrictions, as they accuse the Chinese government of using networks built by Huawei for intelligence work. The Huawei row is only part of a broader struggle about the foreign activities of Chinese companies. Besides US sanctions against other tech companies such as ZTE, a telecommunications equipment producer, several Western governments have taken measures to control Chinese investment. For instance, in 2016 the takeover of German "Industry 4.0"

robot maker Kuka by the Chinese appliance producer Midea led to a response from the German state, thus, implementing new instruments to impede foreign takeovers of strategic companies.

However, political conflict regarding Chinese Outward Foreign Direct Investment (OFDI) is not new. As early as in 2005, Chinese state-owned company CNOOC Ltd made a move to acquire U.S. oil producer Unocal, but dropped its offer due to political opposition in the U.S. Congress. In order to avoid further backlashes, Chinese investors followed a cautious investment strategy as they focused on countries of the Global South, thereby avoiding conflicts with the West. Only after the financial crisis of 2008/09 did Chinese investors seize the window of opportunity to take over financially stricken companies, thereby investing increasing sums in the Global North (Meunier 2014). As a result, between 2009 and 2018, crisis-ridden Europe experienced a high inflow of about US$ 364.7 billion, thus becoming the most important recipient region of Chinese OFDI worldwide.[1] Today, this development seems to be reaching its limits, as there are serious economic problems and new political restrictions in China, such as high state and company debt, more restrictive authorisation procedures, as well as political concerns over Chinese OFDI in the West.

So far, most literature on Chinese OFDI has focused on its aims (Collier 2018, Hanemann et al. 2019) or its development implications for other world regions (e.g. Jenkins 2019). Other studies have highlighted its geopolitical embeddedness, in particular the Belt and Road Initiative (Xing 2019) or the close connections to China's industrial policy (Wübbeke et al. 2016). More recent works have also pointed out the political reactions to growing Chinese FDI (Li 2019). However, it is difficult to find a debate on the state-driven investment strategy and its changes over time (e.g. Collier 2018), in particular the period since 2017, when Chinese OFDI has stagnated or even dropped.

This article will contribute to this debate by identifying three periods of Chinese investment, thereby providing insights into the role of OFDI in Chinese capital export. The main research question is how the Chinese investment strategy has shifted since the Going Out policy in 1999. Consequently, I will identify three important turning points for capital export. More concretely, I will argue that we are currently experiencing a new stage of Chinese capital internationalisation which is characterised by increasing

conflicts with the US and some of its key allies, and a drop in Chinese investment. Although this period has only started in 2017, it is closely connected to the Xi/Li administration's push for higher political control and a resurgence of the state in the economy (Lardy 2019).

In order to make this argument, I will first present some theoretical considerations inspired by World Systems-Analysis and Comparative Capitalism research, thereby showing that, historically, capital export and in particular FDI flows have been a major feature in challenging hegemonic structures in the capitalist world system. I will then argue that Chinese capital export has unfolded in three stages. In the first stage from 1999 to 2008, Chinese state-owned companies heavily invested in infrastructure and the supply of raw materials in the Global South, while at the same time there were large capital flows into US treasury bonds. A second stage from 2009 to 2016 started after the financial crisis of 2008, when Chinese companies and banks diversified their investment and lending, thus increasingly providing FDI to the EU and North America. With the "Made in China 2025" plan this orientation reached a new level, as the Chinese state began to coordinate OFDI in the tech sector. This led to a more critical view of Chinese OFDI and finally contributed to the current backlash. The new stage of Chinese capital export, starting after the Chinese financial crisis in 2015/2016 and Donald Trump's election in late 2016, is characterized by a drop in Chinese OFDI, higher restrictions by the Chinese state and growing anti-Chinese measures in Western countries. It is unclear whether this development will lead to growing fractures in the world economy.

## 2. Capital export in historical perspective

From a historical perspective, global capitalism has recurrently reorganised, as the geographical centre of global capital accumulation and political power has shifted from one nation state to another. For instance, Great Britain experienced a fast rise with the development of industrial capitalism in the $18^{th}$ century. In the early 20th century, the United States turned into the largest economy in the world and, after the World War II, became the centre of the capitalist world economy. Today, China with its

large domestic market and its growing economic and technological capabilities is challenging the US world order. These "hegemonic cycles" or "hegemonic transitions" have been one of the important objects of inquiry of world-systems analysis (Arrighi 1994; Wallerstein 2000: 253ff.).

However, there have been divergent notions of how to understand these hegemonic shifts in global capitalism. An important approach is to focus on the dialectics of a "territorial" or "political" and a "capitalist" logic of power (Arendt 2000 [1951]: 148ff.; Arrighi 1994: 33f.; Harvey 2003: 27ff.). Both logics are intertwined and have evolved in the capitalist state system. For capitalists, territory and politics are a means to accumulate capital through increasing territorial scales and political influence, while territorial-political rulers, in turn, utilise capital accumulation to accumulate political power, that is, to increase their influence over territories and states. During the historical development of global capitalism, both logics merged (Arrighi 1994: 159ff), so that the endless capitalist accumulation on a world scale depended on ever larger power structures. In what follows, this development is described as a double logic of globally expanding capital circuits which are interacting with spatially fixed power structures governed by a hegemonic state (Schmalz 2018: 42ff.). Global power structures such as those in security, production and finance are reproduced by capital accumulation, while capital accumulation, in turn, is governed by global power structures. The result of this logic has been ever-larger spatial fixes of state-business organisations, with the US world order after World War II as the most developed yet.

Historically, world orders were undermined by emerging rival centres of capital accumulation which later turned into political challengers (ibid.: 57ff.). Hence, the challenge for existing orders did not only come from military build-ups and wars, but also from the fluid logic of capitalism itself, which tends to overcome the limitations of existing power structures. In earlier hegemonic transitions, capital export to other regions and nations played a major role in challenging hegemonic orders. For instance, the British Empire was not only based on its naval bases around the globe, but, particularly in the late 19th century, its hegemony was both deepened by FDI flows to other world regions and challenged by capital export from competing imperialist powers such as Germany (Arrighi 1994: 172). After World War I, the United States finally emerged as the largest creditor in

the world, as most European countries had accumulated large debt and were heavily indebted to US banks. In the interwar period, these changes were, however, not reflected in global institutions. The financial system was still dominated by the Pound Sterling as the main currency. Later, the height of US hegemony after World War II was not only built on new institutions (IMF, World Bank, etc.), but also on huge capital flows: US financial institutions gave large sums of credits and financial aid for the reconstruction of Western Europe and Japan, and US companies heavily invested there, a process that was often viewed as being a new form of imperialism (Poulantzas 1973). As a result, a US global corporate network emerged which further expanded at the end of the Cold War, when US companies built a large presence in countries such as China and Russia (Starrs 2013). Moreover, despite its current account deficit and its growing foreign debt, the US still has a dominant role in global capitalism (Schmalz 2018: 382ff.). Several of the largest US companies by revenue are among the most profitable worldwide (e.g. the Tech Five: Alphabet, Apple, Amazon, Facebook, Microsoft) and have the biggest FDI stock and most extensive shareholding-networks worldwide. Moreover, the US still controls the largest financial and bond markets, the most important reserve currency (61.2 per cent of all allocated reserves were held in US dollar in mid-2019) and a worldwide network of military bases. Although the US has lost power and is challenged by China on different levels (e.g. by Chinese tech companies such as Alibaba and Huawei), it is an open question whether China's expanding companies and financial institutions will be able to challenge the US-dominated financial and business networks.

In order to understand the internationalisation of Chinese capitalism, it is crucial to analyse the capital-state relationship. Most research on Chinese capitalism agrees on the fact that the Chinese state plays an important role in governing markets. Historically, the Chinese state has not been challenged by other civil society or ideological actors such as the churches in Europe (Jacques 2012: 81ff.). Moreover, political interests often intermingle with economic interests in regulating the economy. Hence, from a Weberian view, Chinese capitalism could be described as a form of "political capitalism" (Weber 2006 [1921/22]: 96), as the commercial interests of companies are often subordinated to the political interests of state actors. Today, the Chinese state has extensive planning tools

to push forward its interests, in particular its five-year programmes, and there are also dense networks between companies and the state such as in the form of personal linkages. A number of scholars have therefore termed Chinese capitalism as a form of "state capitalism" (Naughton/Tsai 2015) or "state-permeated capitalism" (Nölke et al. 2019). Although the relationship between state and markets was rearranged in different reform periods (e.g. in the gradual market reforms between 1979 and 1992 and the more radical reforms in the Jiang Zemin period between 1993 and 2003), the key role of the "restless hand" of the state remained stable (Lu 2008). Thus, not surprisingly, Chinese capital internationalisation has followed a form of "statist globalization" (Harris 2010), whereby state-owned companies and sovereign wealth funds play a key role. Private companies 'going out' are controlled by the state, and the Chinese state has developed an arsenal of instruments to govern Chinese investment abroad, such as planned targets for state-owned companies, subsidies and financial assistance for Chinese companies, and restrictions on OFDI.

To sum up, capital export has been a major feature in building and challenging hegemonic structures in the capitalist world system. FDI has been of special importance in this development, as FDI has shaped the production structures in recipient countries, thus transforming global company networks and increasing the structural power of investing countries.[2] In other words, even though FDI is not the dominating capital flow in today's financial capitalism, FDI flows are leading to a high dependency on investing companies, as, unlike portfolio-investment and speculative capital flows (e.g. short-term credits), FDI is contributing to a control of local production networks. Chinese capital export and OFDI has increased in the last few years, and how these financial flows are governed and will develop are major questions for the further prospects of global capitalism.

Methodologically, I will refer to the world system as a global system with different national units which is characterised by a) a logic of capitalist expansion in non-commodified terrains; b) a spatial hierarchy and c) a cyclical logic of spatial reorganisation (Schmalz 2018: 82). This article refers to the latter dynamic, thereby analysing shifts in a key power structure in the capitalist world system (Strange 1988: 70ff.; Schmalz 2018: 42ff.), namely the global production structure comprising production networks and referring to indicators such as global GDP shares, turnovers

and profits of transnational companies, sectoral composition of GDP, and labour productivity and FDI flows. Changing FDI flows and stocks are a key indicator of shifting power relations in the production structure. By observing FDI flows, I will focus on how the Chinese investment strategy has shifted. By referring to six criteria, I will identify different stages of Chinese capital export : a) the role of Chinese OFDI in overall capital export; b) the changing role of state-owned and private companies as investors; c) the strategic orientation of state planning; d) the regional distribution of Chinese OFDI; e) the sectoral composition of Chinese OFDI; and f) the importance of Chinese OFDI flows and stocks in a global context.

## 3. Modest beginnings: China going global

China's rise as a capital exporter dates back to the late 1990s. At that time, China was still a developing country with a GDP per capita of 750 USD and contributing only about 3 per cent to global GDP (1997). Chinese companies did not hold large amounts of FDI stocks and were integrated at the bottom of global value chains. However, China had grown to a successful exporter of manufactured goods and was generating increasing current account surpluses, reaching US$ 40 billion in 1997. The Chinese model was export- and investment-driven and based on low wages in labour intensive manufacturing (Butollo 2014); most of its exports were going to Western markets; and about a third of all Chinese exports were going to the US.

The export-driven model had two important implications for Chinese capital export. Firstly, Chinese companies and state institutions received high export earnings. The Chinese current account surplus grew quickly after WTO accession in 2001 to up to US$ 352.2 billion in 2007. Consequently, between 1997 and 2007, China accumulated currency reserves of about US$ 1.4 trillion, or 28 per cent of all currency reserves generated worldwide in this period (USDT 2019; Schmalz 2018: 206). As a result, Chinese companies and financial institutions could draw on high currency reserves for foreign investment activities. As Chinese investors preferred low risk-investment and the People's Bank of China had an interest in keeping the Renminbi exchange rate low, they mainly invested in the US

bond market and seemingly low-risk US mortgage-backed securities to ensure steady returns. In particular, US treasury bonds were popular among Chinese investors. The Chinese holdings of US treasuries increased from only US$ 60.3 billion in 2000 to US$ 477.6 billion in 2007 (USDT 2019).

Secondly, rapid economic growth of the manufacturing sector and large-scale infrastructure investment in China went along with a rising demand for commodities (Farooki/Kaplinsky 2012: 71ff.). As a result, China had to import large amounts of commodities. Accordingly, the Chinese state leadership pushed OFDI in order to secure the supply of commodities. Officially, this orientation was adopted in 1999 with China's Going-Global-strategy or Go-out-policy. Since then, the Chinese state has supported Chinese state-owned companies in investing abroad (Salidjanova 2011: 4). Of course, Chinese OFDI was not only aimed at securing raw material supplies, but also at improving transport routes, gaining market access and, in some cases, even at buying brands and accessing technological knowledge. However, according to the China Global Investment Tracker (AEI/Heritage Foundation 2019), between 2005 and 2007, about 51.3 per cent of Chinese investment went into the energy sector (31.7 per cent) and metals (19.6 per cent). Most of these OFDI went into large projects in countries of the Global South such as Angola, Brazil, Iran, South Africa, and India, and resource-rich developed countries such as Australia. Moreover, the main investors during this time were state-owned companies such as Minmetals and Sinopec.

A second important aim was infrastructure investment (transport, utilities, etc.) representing about 13.5 per cent of all OFDI. In many cases, these projects were linked to larger cooperation agreements, including raw material supply. These agreements followed the so-called "Angola Model", whereby Chinese negotiators awarded low-interest loans of about approximately US$ 4.5 billion by 2007 for large-scale infrastructure projects by Chinese construction companies in exchange for long-term oil supply (Davies 2010: 14ff.). The model acted as a precedent for further projects such as concessional deals with countries such as Nigeria (2005, construction of a hydropower plant, U$ 298 million, payable in oil) or Congo (2008, road and rail construction, US$ 6 billion, copper and cobalt). Consequently, China also emerged as a donor in the Global South, in particular in Africa.

In sum, the first stage of Chinese capital export lasted until 2007, the year before the global financial crisis hit China. During this stage, Chinese capital export was comparatively low, mainly flowing into low-risk US treasury bonds. Although Chinese OFDI became more important, it ranked only 17th in a worldwide comparison in 2007 (see also Fig. 1). The Chinese FDI stock abroad had a similar size to that of Denmark's. Moreover, OFDI primarily went into commodity supply and infrastructure projects to satisfy the growing Chinese demand for commodities, and thus, low value chain activities. Consequently, Chinese OFDI was mainly oriented towards the Global South, in particular Africa and Asia. State-owned companies dominated OFDI flows. However, as current account surpluses had risen tremendously, the Chinese investment strategy turned into a hotly debated political issue. In particular, low returns on the huge investment assets became an important topic, so that some Chinese state officials argued for assets with higher returns such as housing or finance (Wu et al. 2011: 126ff.). Consequently, the Chinese government set up CIC (China Investment Corporation), a sovereign wealth fund with a capital volume of today about US$ 200 billion, in order to coordinate its new investment strategy.

## 4. The Global Financial Crisis as a turning point

The Global Financial Crisis of 2008 was a turning point for Chinese capital export. After the crisis, the priority for both OFDI and other financial flows changed. Firstly, the Chinese government, by then the third largest economy in the world, contributing 7.2 per cent to global GDP, questioned the existing focus on buying US treasury bonds and mortgage-backed securities. Chinese financial institutions decided to decrease their holdings in treasury bonds starting in 2011. This was mainly for two reasons: firstly, Chinese policymakers began to question the dominant position of the US dollar, the US bond market, and Wall Street in global finance, and their role in extracting rents and influencing global financial flows (Overbeek 2012: 150ff.). Although the epicentre of the crisis was in the US, investors flew into US bonds markets as a safe haven, and the costs of the US stimulus package were partly refinanced by low interest rates

on foreign debt. The Chinese leadership therefore aimed at changing the power relations in and the regulation of the financial system by pushing forward a reform of the IMF and World Bank, internationalising the Renminbi to compete with the US-Dollar, and by forging new alliances, in particular the BRICS group (e.g. Liu 2016).

Another approach was to diversify investment away from low-interest yielding treasury bonds. However, the strategy to invest in finance and housing failed. Before the crisis, Chinese investors had made first acquisitions, e.g. a nine per cent share of the US investment bank Morgan Stanley which was close to filing bankruptcy in September 2008, but was later bailed out by the FED. Even some seemingly low risk investments such as the mortgage backed securities held by Fannie Mae and Freddie Mac turned out to be insecure, as both of these had to be nationalised due to bad debt.[3] Consequently, Chinese investors were searching for new investment possibilities. These were often outside the US, as China invested in the European bond market and also granted huge sums of loans to governments in the Global South (CARI 2019; Gallagher/Myers 2019).[4]

Secondly, the crisis also changed Chinese OFDI flows, as it was a window of opportunity for investors to buy raw material deposits and crisis-stricken companies. Whereas the first aim was rather temporary, the second objective turned out to be a major change in Chinese investment strategy. The reason was that the Eurozone crisis after 2010 opened up new investment possibilities in infrastructure and, more importantly, in tech companies (Meunier 2014).[5] The motivation behind this orientation was market access, brands and technological knowledge.

All these changes were part of a conflict-ridden transformation of the Chinese economic model away from the export-and-investment driven low-wage model. The 2008 crisis challenged the existing "Chimerica"-constellation, which had implied a 'symbiosis' of the US and the Chinese economic models, with China as the export nation and workshop of the world on the one hand and the US as the indebted consumer of last resort on the other (Ferguson 2008: 260ff.; Liew 2010). This constellation was characterised by a growing Chinese current account surplus with the US, reaching the level of US$ 258.5 billion in pre-crisis 2007. Consequently, Chinese policymakers aimed to reduce export dependency, thereby also trying to stimulate domestic consumption. This strategy was partly successful: the export

share of China's GDP went down sharply from 35.4 per cent in pre-crisis year 2007 to 19.5 per cent in 2018, while the consumption share increased slightly from the all-time low of 36 per cent in 2010 to about 39 per cent in 2016 (Lardy 2019: 28f.). Moreover, Chinese politics also aimed at industrial upgrading (Butollo 2014). Soon after the crisis, Guangdong's then-party secretary Wang Yang coined the slogan that it is time to "empty the cage to exchange the birds", meaning that it was necessary to replace labour-intensive low-tech export industries with more technologically-advanced industry. With its "Made in China 2025" plan, China aimed at producing high value products and services, thus promoting smart manufacturing and increasing the market shares of local suppliers. These changes were accompanied by loosening investment restrictions and were reflected in the capital outflows, as Chinese OFDI increasingly aimed at acquisition of technology. By 2015 Europe became the most important regional target for Chinese OFDI. According to a study of Merics and Rhodium Group (Wübbeke et al. 2016), in 2016, US$ 35 billion was invested in Europe, with about half of the money going into the acquisition of technology in strategic sectors identified in "Made in China 2025".

This shift did not mean that Chinese engagement in the Global South was decreasing. Chinese investors realised huge infrastructure projects, and in 2013 investment in the Global South was still at a dominant level (AEI/Heritage Foundation 2019). In the case of Latin America, OFDI projects such as the Central Bioceanic Railway Corridor between Brazil and Peru were also accompanied by increasing sums of loans and credits. In Latin America, Chinese state banks overtook the IMF and World Bank as the most important creditors. Between 2005 and 2018, the overall credit volume reached US$ 141 billion (Gallagher/Myers 2019). However, the most important project was the Belt and Road Initiative (BRI) kicked-off in late 2013, comprising different networks such as the land-based Silk Road Economic Belt and the ocean-going 21st century Maritime Silk Road. An important aim of BRI is to link China with Europe and to contribute to economic integration within Eurasia (Callaghan/Hubbard 2016; Wang 2016). BRI was strongly motivated by Xi Jinping's more offensive foreign policy, and was designed to counter the American strategy of a pivot in East Asia while also designing a grand strategy for the Asian continent. For this goal, China plans to invest heavily in infrastructure such as railways,

highways, and harbours. China has also initiated the establishment of the Asian Infrastructure Investment Bank with a capital volume of US$ 100 billion and currently 69 members in order to provide loans for joint infrastructure projects. The estimates on BRI-related investment measures vary, but today seem to amount to several US$ 100 billion.[6]

To sum up, there was a regional shift of Chinese investment to Europe and a sectoral shift to high tech-industries, while traditional recipient regions (Africa and Latin America) and sectors (commodities) still remained important objectives. The changing investment strategy aimed at a better coordination (Made in China 2025 and Belt and Road Initiative) of Chinese OFDI. In this setting, private companies became more important investors. OFDI reached US$ 266.1 billion in 2016, making China the second largest provider of OFDI worldwide with a share of 10.5 per cent of global OFDI (see figure 1). The Chinese FDI stock had also grown to a size comparable to Germany's FDI stock abroad. These developments also led to growing concerns echoing the double logic of Chinese capitalist-political expansion: on the one hand, US and European policy makers were alarmed by the potential upgrading of Chinese manufacturing, and on the other they were skeptical about the geostrategic implications of increasing Chinese OFDI.

## 5. The backlash: trade war and shrinking investment

The year 2017 turned out to be the second turning point for Chinese capital export, as Chinese FDI was stagnating and, in some cases such as FDI to the US, was even shrinking. This trend became more pronounced in 2018, when Chinese FDI experienced a sharp decline from US$ 269 billion to only US$ 198.5 billion. Also, regional sources on loans and credits in Africa and Latin America indicate a decline of loan commitments (CARI 2018; Gallagher/Myers 2019). There were different reasons for this development. One can argue that some of them have been internal factors, while others have been external ones. The internal or inward-driven factors were mainly related to China's growing financial problems and the resultant increasing control of capital outflows by the Chinese state. The Xi/Li administration was pushing for tougher controls and restrictions

of capital outflows, thereby stopping any attempts for a liberalisation of capital accounts. The external or outward-driven factors were due to the growing mistrust of recipient states and their harsh reactions to the expansion of Chinese tech companies. This development was closely connected to China's rise as a challenger to US hegemony. By 2017, China was already the second largest economy in the world, contributing about 12 per cent to global GDP, with its high-tech sector turning into a competitor for American companies (Li 2019).

The internal factors for shrinking Chinese investment were related to the growing economic problems in China from about 2015. The Chinese investment and construction-driven model was in crisis due to a transformation of the model, as there were high overcapacities in heavy industry sectors and huge imbalances in the housing market (McMahon 2018: 43). As a result, growth rates shrank to 6.9 per cent in 2015, a 25-year low, and company debt began rising. Also, the state-controlled financial system was under pressure. A major blow was a stock market crash in summer 2015. In only a few months several trillion RMB of market capitalisation was lost. There were capital outflows of up to US$ 676 billion in 2015 (with US$ 216 billion unregistered outflows) and of about US$ 891 billion in 2016 (IIF 2016: 4; Wildau 2017). These outflows of hot money were often related to OFDI (in particular in finance and real estate), as many Chinese investors feared a devaluation of the Renminbi and a loss in value of their savings.

The PBoC had to devalue the Renminbi and sell large sums of currency reserves totaling about US$ 405 billion in 2015 alone. As a reaction to capital flight, the government imposed severe restrictions on OFDI in late 2016. For instance, new authorisation procedures were introduced for major acquisitions of more than U$ 10 billion, investment in real estate of more than U$ 1 billion, and investment in areas outside of the main business area of a company of over U$ 1 billion (Collier 2018: 1162). These initiatives were supplemented by draconian measures against companies that had disguised speculative flows. The most far-reaching case was that of the private insurance company Anbang, where Chinese regulators temporarily seized control and detained its head, Wu Xiaohui. Besides these political measures, the economic downturn implied that Chinese investment funds and state banks were less willing to finance foreign acquisitions. This development was intensified by the deteriorating current account balance,

which went down from US$ 202.2 billion in 2016 to US$ 49.1 billion in 2018. Consequently, Chinese capital outflows and in particular Chinese OFDI were stagnating in 2017 and even decreased in 2018.

Also, the growing foreign investment led to fierce political reactions in the recipient countries, which also had a sizeable impact on OFDI. A major change was the election of Donald Trump as the president of the US in late 2016. Trump had campaigned with a tough stance towards China, as he argued that American industry had suffered massively from Chinese competition due to the People's Republic's low wages and environmental standards, and unfair trade practices. As a result, industrial workers had contributed strongly to his voting success, as formerly Democrat-leaning states in the so-called US-American Rust Belt such as Pennsylvania surprisingly voted for Trump (Fraser 2017). In May 2018, the Trump government initiated a trade war by imposing import duties on Chinese products (Scherrer 2019). In the subsequent year, the trade war intensified as the US and China did not find a final solution and both countries set up further duties, so that, today, most of US-Chinese trade is taxed with import duties.

The US tried to use its current account deficit position as a leverage in the trade war. Despite shrinking trade balances with other countries, the Chinese trade balance with the US hit an all-time high with a surplus of US$ 419.5 billion. The US aimed to use its "structural power" (Strange 1988) in the global production structure, as the position of its industry in global value chains was still higher than most of its Chinese competitors[7]. In particular, US policymakers targeted the emerging Chinese high-tech sector. The US imposed sanctions and restrictions against tech-giants such as ZTE, Fujian Industries and Huawei. These measures were justified by security concerns, but obviously had additional motivations such as competition for the construction of 5G networks (Inkster 2019). Particularly in the case of Huawei, the sanctions were very far-reaching, as a result of which Huawei was placed on a blacklist, meaning that American companies such as Google could not sell their latest software updates on Huawei cell phones.

The US also started to push its allies to take a tough stance against China. Some countries followed the US model and implemented restrictions on Huawei's activities. For instance, Australia and New Zealand,

both members of the Five Eyes (US, UK, Canada, Australia, New Zealand) spy network, banned Huawei from providing 5G equipment to its telecommunication infrastructure. Also, in several countries Chinese investment was increasingly perceived as a threat. For instance, the German "National Industrial Strategy 2030" includes new instruments to impede foreign takeovers of strategic companies through state shareholdings, a move which is mainly aimed at curbing Chinese investment activities in the manufacturing sector. Additionally, in other European countries such as France, Italy, the UK and Hungary, investment restrictions and screening mechanisms were implemented or tightened (Hanemann et al. 2019: 16f.).

The year 2018 can also be seen as a backlash against China's activities in foreign aid and development finance, which are closely connected to OFDI. The Xi Jinping administration had expanded China's foreign aid and loan commitments for infrastructure investment (more than 300 US$ billion by Export-Import Bank of China, and China Development Bank alone by early 2018), in particular in Belt and Road Initiative countries. However, the high loans have led to first cases of debt problems such as in Sri Lanka, which handed out port infrastructure for a 99-year lease in exchange for a debt relief of roughly U$1 billion. As a consequence, the US government today is aggressively campaigning against China's so-called "debt trap diplomacy" (critically: Kratz et al. 2019). Today, China is increasingly cautious in granting foreign loans in order to avoid a political fallout.

In sum, the restructuring of the Chinese economy and conflicts over China's capital internationalisation led to shrinking OFDI. According to the data of the Global Chinese investment tracker, OFDI went down from US$ 269 billion (2017) to US$ 198.5 billion (2018), following a global trend of declining FDI flows, thus keeping China's role in global FDI flows stable (see figure 1). However, Chinese OFDI developed in a spatially uneven pattern, While FDI to the US shrunk between 65 per cent to 90 per cent in 2018 and by about 40-50 per cent to Europe in the same year, other regions were less affected (AEI/Heritage Foundation 2019; Hanemann et al. 2019; Rappeport 2019). For instance, in Sub-Saharan-Africa FDI flows even slightly increased in the same period. The stark drop in some regions apparently was linked to the changing political environment and new restrictions on takeovers, and was closely connected to events such as the

US-Chinese trade war or was part of a more cautious investment strategy (e.g. in the EU). Due to this development, the share of market-seeking and technology-based investment was shrinking, while state-owned companies invested less than in years before. Generally, the current stage of Chinese capital export seems to be characterised by new conflicts over China's growing financial and business networks.

## 6. Conclusion: clash of capitalisms?

This article has shown that Chinese internationalisation of capital has gone through three different periods (see table 1). In a first period until 2008, the role of OFDI was less prominent and mainly connected to infrastructure projects and the supply of raw materials in the Global South. After the financial crisis in 2008/09, Chinese investors increased their OFDI in the EU and North America and gave larger loans to countries of the Global South. Both periods though were characterised by a specific form of "statist globalization" (Harris 2010), where state-owned companies, state banks and sovereign wealth funds played a key role, with private investors becoming more important in the second period. More recently, since 2017, Chinese OFDI and development finance have led to growing anti-Chinese measures in Western countries and have – also due to new investment restrictions and economic problems in China itself – resulted in a drop of OFDI, in particular to the US and Europe.

However, from a historical perspective, the Chinese expansion is still at its beginning, as US corporate networks continue to dominate global capitalism. US companies have the largest FDI stocks worldwide and their Chinese counterparts are struggling to internationalise. Moreover, Chinese statist globalisation implies the construction of a different world order which is based on a network-based economic governance which prioritises the creation of physical infrastructure of trade and investment flows over general liberalisation (Schmalz 2017). The reactions of Western countries to this statist approach culminated in the US-China trade war, investment restrictions and sanctions. The "clash of capitalisms" (Johnson 1998) between Western and Chinese capitalism is already leading to fractures in the world economy. For instance, the US trade policy has made it easier

for other countries to use similar measures for political purposes. Japan has recently started a trade war with Korea for political reasons, restricting the export of materials critical to the production of semiconductors. Generally, the global economy seems to have gone into a phase of de-globalisation, as trade flows are currently stagnating and FDI flows are shrinking. It is an open question whether these fractures in the world economy will deepen and whether the clash of capitalisms will also contribute to a revival of state intervention in Western countries.

| | **1999-2008** | **2009-2016** | **Since 2017** |
|---|---|---|---|
| **Chinese OFDI in global comparison** | China as regional investor, comparatively small FDI stock | China as investor no. 2, FDI stock comparable to Germany's | Stable role, but shrinking FDI flows |
| **OFDI and capital export** | Focus on low risk-investment, OFDI less important | OFDI becomes important form of investment | ODFI remains important capital flow |
| **State-owned vs. Private Companies** | Dominance of state-owned companies | Growing importance of private capital | Crisis of state-owned capital export |
| **Regional distribution** | Focus on Global South | Europe as most important recipient region | Shrinking role of EU and US as recipient regions |
| **Sectoral composition** | Focus on energy, commodities and infrastructure | Growing role of market access and technology | Fewer technology-seeking takeovers |
| **Role of state planning** | Focus on commodity supply and infrastructure | Strategic planning, industrial upgrading more important | No major changes, more cautious strategy |

Table 1: The Changing Role of Chinese Investment Strategy
*Source: Own Depiction*

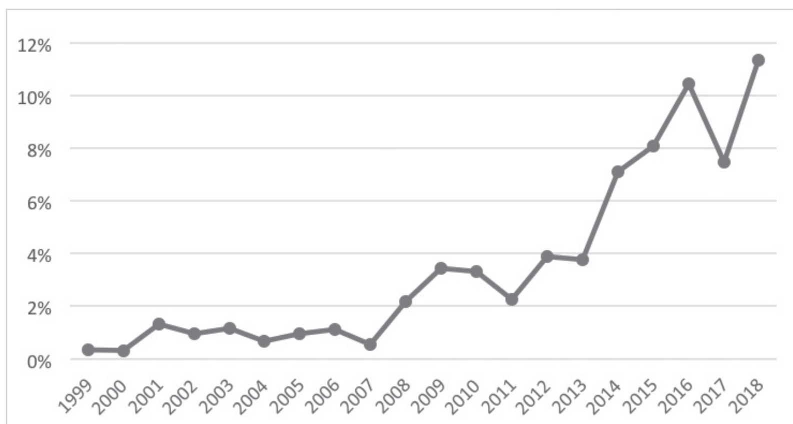


Figure 1: China's Share of Global OFDI (in per cent)
*Source: Own Depiction, Based on World Bank 2019*

1 In this article, for FDI-flows I will mainly draw on the Chinese Global Investment Tracker published by the American Enterprise Institute and the Heritage Foundation (2019). Unlike Chinese official data on FDI, the outgoing flows through Hong Kong are not subsumed under the label of Hong Kong but recorded as Chinese FDI. Moreover, I will also refer to two alternative non-public datasets compiled by the Rhodium group which use a different methodology and focus on Europe and on the US.

2 Another important indicator is changing creditor-debtor relationships in the global political economy, such as the shift from Great Britain to the US as the main creditor after World War I. However, the leverage of these relationships is less powerful if the debt is held in the debtor's own currency such as in the case of US debt held by Chinese investors.

3 Chinese institutions had invested up to US$ 400 billion in securities held by Fannie Mae and Freddie Mac. There were signs that Chinese officials warned the US administration not to let the mortgage security institutions go bankrupt (Schmalz 2018: 233).

4 Most sources on global Chinese loans and development finance seem not to be very reliable, but there are good sources and data bases on a regional scale (CARI 2019; Gallagher/Myers 2019).

5 Of course, there have been earlier Chinese acquisitions of tech companies in Europe and the US, such as Lenovo's takeover of IBM's desktop PC business in 2005 for US$ 1.25 billion. However, the crisis was a window of opportunity to buy more tech companies and brands in the Western world, in particular the EU.

6 There are different estimates of Chinese loans for construction projects and in-

vestment. Whereas Yi Gang, the governor of the Chinese Central Bank, indicates that Chinese financial institutions have provided about US$ 440 billion for BRI projects in April 2019, the China Global Investment Tracker counts projects of about US$ 651.1 billion between 2013 and 2018 (AEI/Heritage Foundation 2019). BRI today should therefore be understood as a highly flexible project to coordinate investment globally, while the original initiatives indicated in 2013 seem to have drawn less investment than originally envisaged.

7 A crucial part of Trump's trade strategy was to use the bottleneck of supply with semiconductors to Chinese companies. A relevant case was the Chinese telecommunications equipment supplier ZTE which was sanctioned in spring 2018 by the US, as it had violated sanctions on Iran and North Korea. As a result, ZTE had to shut down its business for several days until the US government agreed on a deal where ZTE had to pay a fine of US$ 1.2 billion.

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ABSTRACT *Der Beitrag beschreibt drei Phasen des chinesischen Kapitalexports: Nach einer Periode ab 1999, in der vor allem Staatsunternehmen in Ressourcenzufuhr und Infrastruktur im globalen Süden investierten, legten chinesische Investoren nach der globalen Finanzkrise 2008 den Fokus auf den globalen Norden (insbesondere die EU). Privatunternehmen und Übernahmen von Technologiekonzernen wurden wichtiger. Seit 2017 befindet sich die staatsgetriebene Internationalisierung in der Krise: Es kommt zu Konflikten mit den USA und den EU-Staaten, die chinesischen FDI sind rückläufig. Die Entwicklungsdynamiken werden mit Bezug auf den Weltsystemansatz analysiert; zudem werden Daten zur chinesischen Investitionstätigkeit ausgewertet.*

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