

Changes in China's Global Investment Strategy During the Post-Epidemic Era

Hong Liu *

College of Letters & Science, University of California Davis, Davis, the United States

* Corresponding Author Email: hlliu@ucdavis.edu

Abstract. The emergence of COVID-19 has put the world into a state of tension. Now that the situation has finally been eased, this paper analyzes the various problems during the outbreak from the perspective of China. One part of the problem comes from domestic, a large number of small and medium-sized enterprises due to various policies of the epidemic led to contract default, and finally the capital chain was broken. The other part of the reason is the international market. The sanctions imposed by the United States and Europe and the outbreak of the Russia-Ukraine conflict have created a tense atmosphere around the world. Although China claims to remain neutral, it is clear that the United States and Europe will not let the world's third largest military power stay out of the way. A series of sanctions have forced China to respond. In this paper, the author will make an analysis based on the data available online, mainly focusing on the increase or decrease of China's outbound investment. Obviously, China's investment in Europe and the United States has dropped dramatically during the pandemic, but it is not expected to last long. As the epidemic ends and the international market enters a period of stability, a series of problems facing China will be gradually solved.

Keywords: One Belt One Road; SME dilemma; Russia-Ukraine conflict; foreign company liability law.

1. Introduction

The world has been affected by COVID-19 from 2020 to now, and governments around the world are taking measures to prevent the spread of the virus. However, the global economy continues to be hard hit, with a large number of small and medium-sized enterprises closing down, which in turn has led to many job losses. The outbreak has also caused a global economic slowdown, affecting trade, investment and employment. The response to the epidemic has varied from country to country due to differences in national circumstances. The U.S., for example, has a relatively lenient policy, and they do not strictly require behaviors such as testing and vaccination of the public. However, China, the world's most populous country, has a much stricter policy. As a result, a large number of cities have been forced to regulate the flow of people, close shopping malls and even close cities. The results are also arguably obvious, the most obvious result being the skyrocketing health costs. According to data from the National Bureau of Statistics and the National Health Commission's statistical bulletin on the development of health care in 2021, the two-year epidemic in 2020 and 2021 will cost the country a total of 14.7 trillion yuan in health costs, which is almost the total for the three years from 2016-2018 [1].

In the wake of the COVID-19 outbreak in 2020, local government departments face enormous financial pressure. between January and October 2022, local governments spend \$11.8 trillion (about \$1.65 trillion) more than they take in. According to a Bloomberg analysis, China's fiscal deficit for 2022 is 7.75 trillion yuan (about \$1.1 trillion), a figure that is more than double that of the same period last year. Creating such a huge fiscal deficit is not an accidental phenomenon. As we've said before, China's "dynamic zeroing" policy is the strictest form of epidemic prevention. The government spends huge resources on national nucleic acid testing to screen for new positive cases, builds square pod hospitals to ensure basic medical care for patients, and even pays for the isolation and routine testing of new patients. Add to this the setback to domestic and foreign trade in China under the epidemic. The most obvious example is the severe drop in revenue from domestic land sales. Almost all of the largest monthly revenue stream for local governments in China comes from land sales. As

of November 2022, the national government had received 715 billion yuan from land sales, compared to 552 billion yuan the previous month. Economists at Goldman Sachs Group Inc. noted in a report that land sales revenue has declined at a double-digit rate almost every month in 2022, and that "given the tight funding situation for developers and the COVID-19 is likely to remain subdued in the months ahead" [2].

2. Foreign Investment Strategy

China faces more difficulties in 2021 than in the past. China's direct outward investment (ODI) in 2021 will be \$145.19 billion, up 9.2% year-over-year. Non-financial ODI was \$113.64 billion, with the most significant growth being in the "One Belt, One Road" project at \$116.22 billion, up 12.7% year-on-year. The "Belt and Road" is one of the most important overseas construction investment projects that China has undertaken in recent years. The investment is mainly aimed at developing countries such as Bangladesh, the United Arab Emirates and Kazakhstan [3].

Compared to the ODI figures, the figures for outbound contracting (EPC) are slightly lower. There were 4518 new projects along the "Belt and Road", with a new contract value of RMB 662.86 billion, down 16.4% year-on-year. Completed turnover was RMB 495.16 billion, up 0.8% year-on-year. Among them, there is a significant increase in the number of projects in the transportation sector, most likely influenced by the epidemic's choice to develop infrastructure to reduce the impact on industries such as basic staff work and logistics and transportation. Compared to 2022 data, 4,632 new projects were signed between countries along the "Belt and Road" and China, with approximately RMB 657.91 billion, down 0.7% year-on-year. The completed turnover is RMB 482.09 billion, down 2.6% year-on-year [4]. In the global downturn, even important state-led projects are contracting to some extent. It is not difficult to guess that the total investment in the project will continue to rise in 2023, but engineering projects may further reduce profit margins.

Chinese outbound investment is not just about national-level construction and investment projects; the game between companies is also an important measure. According to 2021 data released by Ernst & Young, Chinese companies announced a total of \$57 billion in overseas M&A, up 19% year-over-year. The number of overseas M&A was 516, down 4% year-on-year. The five sectors with the largest share were TMT, real estate, advanced manufacturing and transportation, healthcare, and consumer goods. Most notable were healthcare and real estate M&A, at +240% and 131% respectively. If calculated by number of deals, the healthcare sector is firmly in first place at +64%, the highest ever for the same period. This includes medical aesthetic companies, raw material suppliers and regionalization of the industry chain. Comparing the data of the first half of 2022, the total amount of overseas M&A of Chinese companies was \$16.06 billion, down 36% year-on-year. The state of the epidemic, sanctions against China in Europe and the US and other countries and the tightening of local policies have led to Chinese companies having to slow down their expansion. In the current form, the TMT, real estate and healthcare sectors still dominate investment. However, it is important to note the avoidance of countries such as the U.S., the U.K. and Germany, where the total value of Chinese M&A in the U.S., Germany and Australia fell by 41%, 79% and 40% respectively in 2021. 2022 figures do not explicitly show the total investment in Germany, but the U.S. and the U.K. fell by 36% and 59%, second only to Indonesia at 83%. However, In Philippine and India grew 7693% and 106% year-on-year, respectively. Investments in South Korea also rose by 73% [5]. At the same time, the total number of M&A also reflects the fact that Chinese companies are in a wait-and-see mode for investments in Europe and the United States, most notably in the U.S. The total number of M&A in the U.S. in the first half of 2021 was 64, while the total for the same period in 2022 was 34 [4]. It can almost be said to be cut in half, the same data performance is also the United Kingdom, Germany and Canada are showing a downward trend. This is not only due to the continued restrictions imposed on China by Europe and the United States, but also partly due to the fact that global financial markets have become more volatile as a result of the Federal Reserve's significant interest rate hikes in response to inflation.

Not only has Chinese foreign investment been affected by the epidemic, but domestic SMEs are also facing tremendous pressure. Smaller companies tend to have a harder time weathering the economic crisis and relatively speaking they do not have enough resources to adapt to the changing market conditions. The arrival of the global Black Swan event led to tremendous pressure from the government, and in order to curb the spread of COVID-19 China had to implement an embargo policy. The policy has severely impacted the business activities of SMEs, especially in the service and restaurant sectors. In accommodation and food services, 76% of the companies surveyed indicated that the partial and full embargo has severely impacted their business operations [6].

COVID-19 imposes additional costs on the production and operation of businesses in terms of epidemic prevention and reduces their profitability. It also raises the capital requirements of enterprises and increases their capital costs. Due to the common financing difficulties of SMEs, they are overly dependent on internal cash flow for investment. As the social risk level increases during the epidemic, the speed of capital circulation in the market decreases significantly, exposing SMEs to risks such as losses and difficulties in recovering funds, which may eventually lead to a break in the capital chain and bankruptcy of the enterprise. However, thanks to the "Notice on Further Strengthening Financial Support for the Prevention and Control of the New Coronavirus Pneumonia Epidemic" issued by the Central Bank, banking institutions around the world are required to increase their financing support for SMEs affected by the epidemic and experiencing difficulties in production and operation. At the same time, monetary policy has also become more relaxed: on February 3, the central bank conducted 1.2 trillion reverse repo operations and cut 7-day and 14-day reverse repo rates by 10 basis points; on February 17, the central bank conducted 200 billion yuan of medium-term lending facilities (MLF) operations and 100 billion yuan of 7-day reverse repo operations, and cut MLF rates by 10 basis points; on February 20, the 1-year and 5-year LPRs issued by the central bank were also cut by 10 basis points. LPR was also lowered by 10 and 5 basis points, respectively [7].

3. Impact on Chinese Companies

The outbreak and continuation of the Russia-Ukraine conflict has led to a period of very tense environment globally, especially as the shortage of energy and basic resources has led to the breeding of panic among the population in Europe and the United States and other countries. Despite the financial sanctions imposed on Russia by the US-led European and American groups, Russia insisted on using the ruble to settle the prices of various resources. As for the move, it breaks the long-standing pattern of globalization and further deepens the panic of countries. The most obvious one is the increase in military spending. According to Sina Finance, Germany has announced 1,000 euros for the modernization of the army. At the same time, the proportion of military spending has increased from the original 1.21% of total GDP to 2% per year. This, coupled with the massive influx of Ukrainian refugees into Europe, further exacerbates the financial pressure on European and other countries. This is one of the reasons why the number of funds and projects acquired by Chinese companies in European countries has declined in the last two years [8].

The ongoing conflict between Russia and Ukraine has led many Western countries to call for greater involvement of neutral countries such as China to isolate Russia and de-escalate the situation. However, China's neutral stance in this conflict has led to increasing U.S. scrutiny and criticism, and could lead to a more aggressive approach to technical and economic sanctions against China. At the same time, the United States and other Western countries have become increasingly concerned about China's economic and technological capabilities and have sought to restrict China's access to U.S. technologies and markets. The United States has also imposed sanctions on Chinese companies and individuals for various reasons, including human rights violations and intellectual property theft. The increased tension between the United States and China over the conflict in Ukraine could have far-reaching implications for the global economy and the stability of international relations. This situation underscores the complexity and interconnectedness of international conflicts and the challenges of

finding effective solutions to global problems. According to a December 16 report in the New York Times, the United States blacklisted 36 more Chinese companies and institutions. With this addition of 36 companies, 69 Chinese companies have already been banned in 2022 alone. The U.S. has been taking measures against foreign-invested companies since 2020, and the Foreign Company Accountability Act requires Chinese companies listed in the U.S. to be inspected and audited by the Public Company Accounting Oversight Board (PCAOB), which is appointed by the U.S. Securities and Exchange Commission (SEC). Companies that fail to be formally audited for three consecutive fiscal years face delisting. Internet companies such as China's Jingdong have already made it clear that they are included in this list. In May 2021, three Chinese state-owned companies, China Mobile, Unicom and Telecom, were asked to delist from the U.S. capital markets [9]. The delisting order is seen as a major escalation of tensions between the U.S. and China, as the companies affected are some of the largest and most influential companies in China. The move also raises questions about the stability and openness of global financial markets and the possibility of further restrictions on Chinese companies in the future. The Chinese government has criticized the delisting order, calling it political repression and protectionism. Affected companies are reportedly exploring alternative ways to access international capital markets, including listing on exchanges in Asia and Europe. The long-term impact of the delisting on the affected companies and on the broader U.S.-China relationship remains uncertain. However, it is clear that this is a complex and sensitive issue with significant implications for the global economy and the stability of international financial markets.

In the U.S. view, the line between China's military and civilian industries is too blurred. In October 2022 the U.S. announced sweeping restrictions on China's semiconductor exports. At the same time all companies that produce that product with U.S. technology must be subject to strict U.S. scrutiny to prevent China from continuing to purchase semiconductors through special channels. The U.S. has imposed restrictions on Chinese-made semiconductors out of concern for national security and technological competition. The restrictions are part of a broader effort by the U.S. government to limit the ability of Chinese technology companies to acquire key components and technologies. In a statement, Deputy Secretary of Commerce for Industry and Security Alan Estevez said, "Today, we are building on actions taken in October to severely restrict the People's Republic of China's ability to use artificial intelligence, advanced computing and other powerful commercial technologies for military modernization and human rights abuses to protect U.S. national security" [10]. Semiconductor restrictions limit the ability of Chinese companies to purchase or use advanced U.S.-made chips, which are critical to many high-tech applications. These restrictions are designed to slow the growth of China's semiconductor industry and protect U.S. technological superiority.

These restrictions have had a significant impact on the Chinese semiconductor industry, as many Chinese companies are now unable to purchase advanced chips from U.S. suppliers. This has led to increased costs for Chinese companies and reduced their competitiveness in the global marketplace. It remains to be seen how U.S. restrictions on Chinese semiconductors will evolve in the future and what impact they will have on the global semiconductor industry and China's technological development.

4. Conclusion

Overall, the figures for 2020-2022 show that the revenue generated by countries along the Belt and Road to China is still on the rise, but the year-on-year growth rate is actually slowing down. Overseas acquisitions are also frequently unpredictable, and countries such as Europe and the US are facing huge pressure on their own financial situation. In such a situation the US and other countries are still imposing technological sanctions on Russia, which in the long run is likely to lead to Russia's decoupling from Europe and the US and other countries. According to the past performance of globalization, Russia's exports of energy and basic resources occupy about 50% of the European market, and it is likely to cause a major market shock in the event of a major conflict between Russia and Europe. Even in the current situation, panic has been present in European and American markets.

The direction of China's investments in 2023 is likely to contract inward, for example by expanding the proportion of investments in Asian markets. This is also reflected in the data on overseas M&A by Chinese companies in 2022. Investment in the Philippines grew by a staggering 7,693 per cent year on year, and even South Korea saw a 73 per cent increase. Thus, compared to the instability of the European and American markets, the Asian market is relatively smooth and a home base for China. Instead of going head-to-head with the old powers, it is better to increase investment in domestic and neighboring countries.

Not only is it good for the domestic economy to rebound, but also for geopolitics. Domestic companies have suffered heavy losses due to the epidemic, but those that survived should recover quickly due to the central bank's policy encouragement. The Chinese government has taken several measures to support businesses, including monetary stimulus and central bank policy support. The central bank has introduced policy measures such as low-interest loans and accommodative monetary policies aimed at helping companies tide over and recover from the shock. These measures are expected to help businesses get back on their feet and resume operations, leading to a stronger and more resilient economy going forward. It is also worth noting that some businesses in China were able to adapt to the new situation and even thrive during the epidemic. For example, the shift to online commerce has created new opportunities for businesses, and many companies have been able to shift and take advantage of these trends. Overall, while the epidemic has been a major challenge for Chinese businesses, the economy is expected to recover in the months and years ahead, driven by a combination of government support and the resilience and innovation of businesses.

References

- [1] In the past two years of the epidemic, China's health expenditure of 14.7 trillion yuan has changed. https://news.caijingmobile.com/article/detail/472028?source_id=40. Last accessed 2023/2/1.
- [2] China's Budget Deficit Hits Record \$1.1 Trillion on Covid Zero Slump. <https://www.bloomberg.com/news/articles/2022-12-20/china-s-budget-deficit-hits-record-1-1-trillion-on-covid-zero-slump?leadSource=verify%20wall#xj4y7vzkg>. Last accessed 2023/2/1.
- [3] From January to November 2021, China's investment and cooperation with countries along the "Belt and Road" go out public service platform. <http://fec.mofcom.gov.cn/article/fwydyl/tjsj/202112/20211203231675.shtml>. Last accessed 2023/2/1.
- [4] Overview of China outbound investment of 2021. EY China Overseas Investment Network, 2022.
- [5] Overview of China outbound investment of H1 2022. EY China Overseas Investment Network, 2022.
- [6] COVID -19: the great lockdown and its impact on small businesses. International Trade Centre, 2020.
- [7] COVID-19 industrial impact and future development trend. KPMG, 2020.
- [8] Xu, H. The negative impact of Russia-Ukraine conflict on China's economy and its countermeasures. Centre for China and Globalization, 2022.
- [9] Wang Y. U.S. distrust of Chinese companies listed in the U.S. is hard to dispel. FT Chinese, 2022.
- [10] Swanson, A. U.S. Cracks Down on Chinese Companies for Security Concerns. The New York Times, 2022.