Sustainable Development Leading Chinese Overseas Investment

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Abstract. Chinese overseas direct investment (CODI) shall pay attention to the sustainable development of host state, local community and themselves. CODI is under spotlight because its tremendous amount in value, growth rate, economical, social and environmental impact on both global and local levels. Even though CODI contributes to the economy mostly, a few of sustainable development issues, like environment protection and labor condition, have not been properly arranged in some cases. Chinese investors shall bear sustainable development in mind, and adopt the legal concept of sustainable development into their investment activities as soon as possible.

Introduction

Globalization offers opportunities and challenges for sustainable development. Globalization and interdependence are offering new opportunities for trade, investment and capital flows and advances in technology, including information technology, for the growth of the world economy, development and the improvement of living standards around the world. Meantime, there remain serious challenges, including serious financial crises, insecurity, poverty, exclusion and inequality within and among societies. Sustainable development is a comprehensive legal concept that integrates the scientific theories and ideas of ecology, economics and sociology from the general structure of environment, economy and society. Sustainable development demonstrates from the three dimensions of environmental, economic and social aspects at the same time, and the goal of sustainable development should be achieved in a series of systematic and coordinated system design. However, sustainable development and the new international economic order have the same problem, namely its specific indicators are not clear, and to be based on scientific analysis and demonstration on the basis of more specific requirements.

Countries around the globe are gradually reaching a consensus on achieving global sustainable development goals and promoting transnational direct investment as a positive factor in the development process. CODI is blooming since the beginning of new decade with steady increase yearly. It has continued to grow for ten years since 2005 either in annual flows or total stock.

CODI Figures in 2005-2015

CODI annual flow grew more than doubled from USD 68.81 to 145.67 billion in 2010-2015, and increased by 112%. CODI covers 188 countries (and regions) of the world in 2015 with a broad range
of industries, such as agriculture, real estate, construction, finance, transportation and utilities, technology, media and telecommunications (TMT), and so forth. The CODI stock reached USD 1,097.8 billion in 2015, twenty times the USD 57.2 billion recorded in 2005. (Figure 1)

![CODI Figures in 2005-2015 (USD Billion)](image)

Figure 1. Source: national bureau of statistics of China, ministry of commerce.

In such a high volume of the CODI, the industrial distributions are changing. The CODI becomes more sectorally diversified since 2010. For example, the outflows into energy and mining fell by 57% from those in 2009, while flows into manufacturing rose by 108%. CODI is moving from energy and mining toward diversification as the following chart (Figure 2) shows: the annual M&A share of energy and mining down from 61% in 2010 to 16% in 2014. The share of technology, media and telecommunication (TMT) rose significantly. The former industries of energy and mining are usually environmentally sensitive.

![Share of China's outward M&A deal value (by sector)](image)

Figure 2. Source: mergermarket, EY knowledge analysis.

**The Issue of the Sustainable Development for the CODI**

CODI could contribute to the sustainable development. From early energy and mining focused stage, CODI moved to diversification since 2013. In the year ahead of 2013, energy and mining investments took nearly a half of annual flows of the CODI (Figure 2). In terms of energy and mining industry, host states generally concerned their environment protection issues. In the initial definition of sustainable development in Our Common Future (Brundtland Report), “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

CODI contributes to local sustainable development by creating job opportunities, build infrastructures, and bring into capital, skilled human resources, technologies (CHR&T). CODI brings
capital, technologies, human resources, and other production factors into the local communities to build or upgrade infrastructures in the host countries. Besides M&A investment lay down jobs sometimes for greater efficiency, most investments create job opportunities for local people. Each CODI project shall base on synergistic effect even if investors sometimes laying-off local workers in merger and acquisition (M&A) cases in order to achieve greater business efficiency. More and more CODI companies are willing to take job-saving clauses in the investment agreement during the global financial crisis. Many Chinese construction companies participate in overseas infrastructure projects in developing world, for instance, in Africa, South East Asia and South America accompanied with long-term low interest loans in terms of Engineering Procurement Construction (EPC), Build-Operate-Transfer (BOT) and/or Public Private Partnership (PPP), etc. these infrastructure projects include transportation (including but not limited to roads, high-speed ways, railways, train lines, airports), sanitation, electronic power plants, hospitals, schools, dams, educational and sports facilities and other public facilities so forth. Experienced Chinese companies manage to adapt local culture with skilled Chinese workers, and train local managers, for example, in Africa. FDI has spillover effect in technologies. All of the above benefit the local social development and economic growth confronting for the poverty, epidemic disease, and inequality or imbalance of development of the world as a whole.

However, in the history, FDIs caused accidents to host states. In 1984, U.S. company Bhopal’s Indian plant made a disaster to local community. CODI is not well rounded yet. As many other FDIs, CODI is often criticized by environmental distortion in developing countries, mostly in Africa. Media in western countries had already accused CODI as neo-colonialism due to ecological and environmental problems raised by Chinese outbound investment. Some Chinese energy and mining companies were condemned for their poor labor conditions. Some countries raised national security concerns for the CODI in particular in the IT, infrastructure, energy and mining industries. In the year of 2009-2013, Huawei, Lenovo, and Sany’s investments in the U.S. were blocked, and even asked for divestment, by the U.S. government as of national security reasons. National security is the top concern for countries.

Learned from those unpleasant experiences, CODI companies start to help local communities build roads, schools and hospitals. Such infrastructures raised living standard of local people, and therefore better changed the image of CODI, which is good for the public relationships between Chinese investors and the local communities.

Beyond the Environment to the Economic and Social Sustainable Development

The idea of sustainable development is based on a realistic attitude towards the critique of the neoliberal economy and globalization. Sustainable development represents the new international economic and political order under the influence of globalization, which is different from the
international economic and political order established after World War II and after the Cold War. The critique of neo-liberalism in sustainable development reflects the universal demands of the new international economic and political order in the context of globalization. Much similarly, the internationalization of Chinese enterprises is for better development of itself and its own country on the one hand, on the other hand, to promote the local development of the host country.

One of most meaningful legal document on international sustainable development is the Plan of Implementation of the World Summit on Sustainable Development (Johannesburg Plan). Johannesburg plan expanded the legal concept of sustainable development from sole environment to social and economic dimensions. It emphases that institutional framework including standards, agencies and rules, capacity building are all important for accomplishment of the goal of sustainable development.

In the areas of environment, economy and society, the principle of sustainable development is leading the development of domestic law and international law, especially in the context of some environmental, economic and social problems, and the guiding ideology of sustainable development is more important and clear. In the field of international trade and international investment, the principles of sustainable development are still faced with a core challenge in their implementation and implementation: how to ensure that international law and domestic law rules encourage and protect investments in the international multilateral governance process, and governments and investors provide sufficient motivation and space to promote the sustainability of development.

The CODI has been overwhelming. Nevertheless, Many Western companies have long been established in the international market, but Chinese enterprises are the beginning to arrive. In case western investors are holding many vested interests, scholars began to advocate the greater policy of the host country to adjust the space to ensure the sustainable development of the host country. Is it fair and transparent, it would be beneficial to the development of the host country. China, as a host country, needs to ensure the sustainability of development as well. This may be, however, bring greater risks to Chinese enterprises. Change in legal policy and trend of more stringent control will improve the transnational operating costs of Chinese enterprises, so that Chinese enterprises are in an unfavorable competitive position. Only in advance to prepare, dare to take the initiative to assume corporate social responsibility obligations, adhere to the host country in line with the sustainable development strategy to maximize the investment could avoid such a legal competitive disadvantage, to avoid the risk into reality.
Our governments also need to strike a balance between sustainable development and attracting foreign investment. It is necessary to create a good natural ecological and social development environment for the people while developing the economy, and to take full account of the possible changes in legal and policy negative impact. We should first fully emphasize the voice in the international community, fully participate in international multilateral governance mechanism, on behalf of the vast number of developing countries to express the majority of developing countries on the sustainable development, so that the future international rules fully reflect the position of the emerging developing countries.

Conclusion

Sustainable development is a reflection of human behavior patterns starting from the environment, and extended to more aspects of human life. Sustainable development has become a global, all-round concept of social development. From the new international economic order to sustainable development, it is neither a slogan choice nor a vocabulary conversion for developing countries to strive for their own interests, nor is it a new strategic means established according to the changes in the international situation. It is a goal that in the globalization of the world economy, the sensitivity of the ecological environment, the deepening of the interdependence between countries, after the end of the Cold War, the large-scale reduction of conflicts and antagonism between countries, the broader view of cooperation in the development of a stronger background with rational orientation of the international economic framework. It has largely broken through the limitations of the new international economic order, showing a more persuasive and appealing prospect, which is conceptually easier to be accepted by the North and the South at the same time.

Reference


