SILESIAN UNIVERSITY OF TECHNOLOGY PUBLISHING HOUSE

SCIENTIFIC PAPERS OF SILESIAN UNIVERSITY OF TECHNOLOGY 2020
ORGANIZATION AND MANAGEMENT SERIES NO. 144

# INTERNATIONAL MOVEMENT OF CAPITAL IN THE WORLD ECONOMY ON THE EXAMPLE OF CHINA

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**Purpose:** The paper presents the issues related to the movement of capital in the world economy on the example of China.
**Design/methodology/approach**: The study used the World Bank reports from the last ten years.
**Findings:** The findings indicate that, after 2008, developing countries are becoming more and more important industrial producers and markets, establishing a numerous middle class, resulting in the so-called global shift of production and demand in the global economy. The beneficiary of this transfer process is primarily the Chinese economy.
**Originality/value** The publication presents the results of research conducted on the basis of the World Bank reports on capital movements around the world.

**Keywords:** Chinese foreign direct investment, strategy, globalization crisis, development.

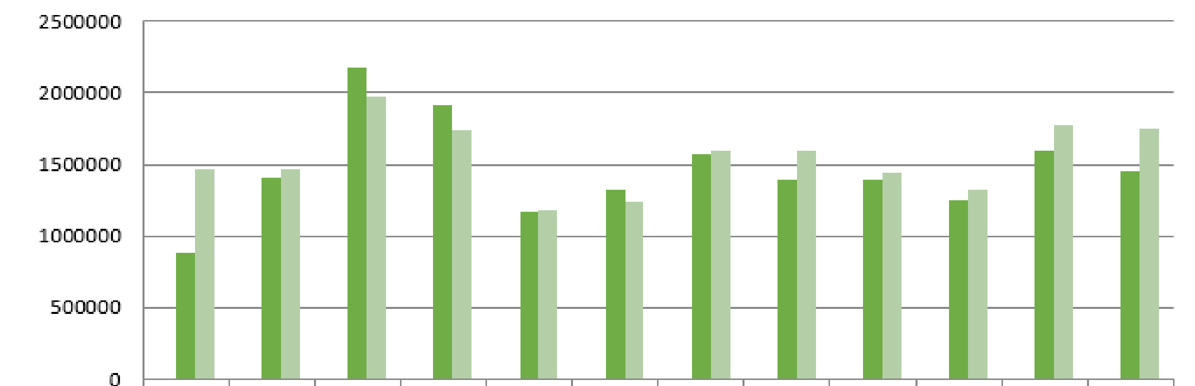
**Category of the paper:** Research paper.

## 1. Introduction

Changes in the international economy are constantly evolving towards new regions and countries of production. At present, the global economy is emerging from the economic crisis in a new shape and with a new distribution of economic forces. The concept of the so-called global shift emerged in the economic literature relatively recently, reflecting the change in the economic balance of power between the countries and regions, as a result of globalization (Kundera, 2018). However, the process of global shifting of economic activity is accompanied not only by moving the production to new locations, but also by the flow of capital, which may give rise to uncertainty of the main investors on the market. While implementing global investment strategies, it was considered necessary to be permanently present on the most important markets for a given company, as well as for its main competitors. Such strategic motives have been defined as “market presence”. This work analyzes the current inter-capital flows in the global economy. The basis of the analysis was statistics and reports on worldwide flows of foreign direct investments, prepared by the World Bank (World Investment Report).

## 2. The global economic crisis of 2008-2009 and modern foreign direct investment (FDI)

The global economic crisis of 2008-2009 clearly reflected on international capital flows in the form of FDI, including the tightening credit conditions or lower profits of enterprises that have weakened their investment capacity. Therefore, many companies, including large transnational corporations, canceled or suspended their projects.




| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Outflow | 882132 | 1405389 | 2174803 | 1910509 | 1170527 | 1323337 | 1576041 | 1388455 | 1399483 | 1253159 | 1594317 | 1452463 |
| Inflow | 1461863 | 1461863 | 1970940 | 1744101 | 1185030 | 1243671 | 1591146 | 1592598 | 1443230 | 1323863 | 1774001 | 1746423 |

**Figure 1.** The volume of global capital flows in the form of FDI in the years 2005-2016 in millions of dollars. Adapted from: James X. Zhan, UNCTAD, World Investment Report, Geneva 2017, United Nations Publication.

Clear declines related to the consequences of the financial crisis began to emerge in 2008 (Figure 1). According to data prepared by UNCTAD, the global value of FDI inflows in the world in 2008 fell to over USD 1.74 trillion. Global flows of foreign direct investments (FDI) increased slightly in 2010 by about 5% to USD 1.24 trillion. In 2015, FDI flows in the world increased by 38%, mainly due to mergers and acquisitions, to USD 1.77 trillion, which is the highest level since the beginning of the global economic and financial crisis of 2008. After an increase in 2015, foreign direct investments (FDI) fell in 2016 by approx. 2% to the level of USD 1.75 trillion. The medium-term forecasts predict a further increase in FDI flows already in 2017, and in 2018 it is assumed that their level will exceed USD 1.8 trillion. During the crisis, the outflow of capital in the form of FDI showed similar trends as in the inflow of these investments. The breakdown in the upward trend in outflows in 2008 and 2009 is noticeable. The increase in the value of the global outflow is visible in 2010 and 2015, while in 2016, a decline is noticeable. Foreign direct investment (FDI) in the world fell in 2017 by 23%, according to the annual World Investment Report published by UNCTAD. Asia has regained the position of the largest recipient of FDI in the world. In 2017, it equaled to USD 476 billion.

**Table 1.**
*The largest recipients of FDI in the years 2015-2016 in billions of dollars*

| Country (place in 2015) | FDI in 2015 | FDI in 2016 |
|---|---|---|
| USA (1) | 348 | 391 |
| United Kingdom (14) | 33 | 254 |
| China (4) | 136 | 134 |
| Hong Kong (3) | 174 | 108 |
| Netherlands (7) | 69 | 92 |
| Singapore (5) | 71 | 62 |
| Brazil (8) | 64 | 59 |
| Australia (16) | 19 | 48 |
| India (10) | 44 | 44 |
| Russia (25) | 12 | 38 |
| Canada (11) | 42 | 34 |
| Belgium (15) | 21 | 33 |
| Italy (17) | 19 | 29 |
| France (9) | 47 | 28 |
| Luxembourg (21) | 16 | 27 |
| Ireland (2) | 188 | 22 |
| Sweden (38) | 6 | 20 |
| Spain (24) | 12 | 19 |
| Angola (20) | 16 | 14 |

Source: Own study.

Table 1 presents the largest recipients of FDI in the years 2015-2016 in billions of dollars.

Analyzing the above data, it can be concluded that the first place in acquiring FDI is occupied by the USA with a result of USD 391.1 billion. Great Britain also took a high position with a result of USD 253.8 billion (increase by 669.1% compared to 2015). Third place was taken by China, USD 133.7 billion, Hongkong (USD 108 billion). Despite the worries about Brexit, the investments of Great Britain in 2016 grew. The reasons for this were mergers and acquisitions. Investments in the Netherlands increased by 33.8%, reaching USD 92 billion in 2016. The top five recipients of FDI among the developed countries also included Australia, which recorded investments equal to USD 48.2 billion and a jump of 147.4%. Canada is also in the group, in which the inflow of investments has decreased (by 18.8% to USD 33.7 billion).

## 3. Shift of capital flows to China after the 2008 crisis

China is currently classified as one of the two largest economic powers in the world, alongside the United States. Year after year, they have recorded an economic growth, incomparably greater than the highly developed countries of the West. The beginning of the dynamic economic development of the People's Republic of China can be traced to the end of the 1970s. It is largely a result of economic reforms initiated in 1978 by Deng Xiaoping. The authorities then adopted the reform program of "four modernizations" – in agriculture, industry, national defense and in the area of science and technology. It was also decided to open the country to external influences (Żmuda, 2009). In addition to the introduced reforms, the process of integration of the China's economy with the world economy began. The "open door" policy resulted in a huge increase in foreign trade and inflow of foreign direct investment. Another milestone in China's integration with the world economy was joining the World Trade Organization (WTO). This meant not only an increase in foreign investment in China, but also initiated the process of "going outside". In 2008, the inflow of the China's investments to Asian countries reached USD 45 billion, clearly dominating the other continents. The inflow of FDI to the countries on other continents often changes. The decline of Chinese investments to Europe and North America in 2007-2008, caused by the financial crisis, mainly affected highly developed countries. The tendency of global shifting of economic activity is defined by economists by taking into account primarily the level of gross domestic product (GDP). In the years 2008-2016 the GDP statistics (see Table 2), known as the sum of products and services produced during the year or the sum of revenues created in this period, show significant changes in production and income between countries. The main locations of economic activity have long been concentrated in the regions of North America, Europe and partly Asia, led by Japan. In 2008, the world's largest economies were the European Union countries with a total GDP of USD 18,340 billion, US – USD 14,220 billion, Japan – USD 4,850 billion, China – USD 4,520 billion, Germany – USD 3,620 billion, France – USD 2,830 billion, Great Britain – USD 2,650 billion, Italy – USD 2,310 billion, Russia – USD 1,660 billion, Brazil – USD 1,650 billion.

**Table 2.**
*The largest world economies by GDP level in 2008-2016, in billions of dollars*

| **Years** | **2008** | **2016** |
|---|---|---|
| 1. European Union | 18,340 | 16,408 |
| 2. United States | 14,220 | 18,569 |
| 3. Japan | 4,850 | 4,938 |
| 4. China | 4,520 | 11,218 |
| 5. Germany | 3,620 | 3,466 |
| 6. France | 2,830 | 2,463 |
| 7. United Kingdom | 2,650 | 2,629 |
| 8. Italy | 2,310 | 1,850 |
| 9. Russia | 1,660 | 1,280 |
| 10. Brazil | 1,650 | 1,798 |

Source: J. Kundera, Gospodarka światowa po kryzysie 2008 r., E-Wydawnictwo. Prawnicza i Ekonomiczna Biblioteka Cyfrowa, Wydział Prawa, Administracji i Ekonomii Uniwersytetu Wrocławskiego, Wrocław 2018.

Although EU and US countries remained the largest producers and markets in 2016, it can be seen that the weight of their markets towards Asian countries and oil countries is diminishing. Fast economic growth, especially of new industrial countries, and the long-term recession of industrialized countries lead to convergence of development and changes the directions of production and sales. As a result of many years of dynamic growth in production and export expansion, China has become an industrial factory in the world where 2/3 of photocopiers, toys, footwear, microwaves, half of the world's production of DVD players, textiles and digital cameras are manufactured (Jacques, 2013). China advanced to the first position, when, during the global downturn of 2008, they developed relatively quickly, while the developed countries have undergone deep depression. While, at the beginning of the crisis, China's GDP in real terms amounted to half of the US national income, in 2017, it exceeded the real income of the US and the EU amounting to USD 23.194 billion. The size of the total GDP of the EU member states remains similar to the US income in 2008 (EU – USD 15.118 billion, US – USD 14 billion), and in 2017 (EU – USD 20,852 billion, US – USD 19,417 billion). In 2017, India's national income (USD 9,489 billion), calculated according to the purchasing power parity, placed this country in the fourth place in the world, ahead of Japan and Germany. At the same time, China's economy is still at least four times greater than India's economy (Kundera, 2018).

This relatively new trend is related to the government's policy, based on the "go global" strategy, presented in 2001. The strategy assumed state aid for Chinese enterprises in investing abroad, and as the most important, the field of global expansion was mentioned: creating production activities, exploitation of raw materials with local partners, international implementation of contracts for engineering projects and an increase in the export of employee services. The priority of the Chinese government within the "go global" strategy is to create the so-called global champions – large international companies with a globally recognized brand, that will be able to compete with the most important transnational corporations on the international market. Special hopes lie in companies that have been successful at internal market and were able to export competitive products (Gradziuk, Szczudlik-Tatar, 2012).

## 4. Notes in the main text

The process of delocalization of production has intensified, especially during the economic crisis initiated in highly developed countries. After 2008, developing countries are becoming more and more important industrial producers and markets, they are building a numerous middle class, resulting in the so-called global shift of production and demand in the global economy. The beneficiary of this transfer process is primarily the Chinese economy. In the recent years, we have seen a marked increase in the importance of the Chinese economy. The fact is also the huge, unprecedented growth of Chinese investments in the world.

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