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FDI stabilized and ODI curtailed as nation improves its portfolio

Foreign direct investment into China stabilized in the first half of 2017, and the nation's outbound direct investment took a nosedive as authorities curbed irrational deals and fine-tuned the investment portfolio, Ministry of Commerce officials said on Thursday.

FDI in China rose by 2.3 percent year-on-year in June to 100.45 billion yuan ($14.82 billion). During the first six months, the inflow stood at 441.54 billion yuan, down by 0.1 percent, the Ministry of Commerce said on Thursday.

Nonfinancial outbound direct investment fell by nearly half in the first six months of 2017 as curbs took effect over capital outflows deemed by regulators to be irrational or illegal.

Gao Feng, the ministry's new spokesman, said the slump in ODI was a result of an optimized portfolio of outbound investment, plus a high comparison basis from last year.

China had already taken measures to prevent unwise and illegal overseas investment by State-owned enterprises, especially in real estate, hotels, sports and entertainment businesses. This year, the country may introduce its first regulation on ODI to better oversee the sector and fend off potential cases of irrational investment and money laundering, central government officials have said.

Gao said the FDI volume was basically stable in the first half, and the investment structure was further optimized and improved.

China's manufacturing sector attracted 128.6 billion yuan in foreign investment in the first half, up 3 percent year-on-year and accounting for 29.1 percent of the total FDI. High-tech manufacturing especially benefited, with its FDI remaining robust between January and June, growing 11.1 percent year-on-year to 34.97 billion yuan.

In the service sector, FDI reached 309.99 billion yuan, accounting for 70.2 percent of the total.

"Foreign companies are inclined to invest in China's high-end and consumer-oriented manufacturing and service business, as they are gradually moving low-end factories and heavily polluting businesses to other emerging markets," said Daniel Starta, managing director for China of the US-based consulting firm AT Kearney.

From January to June, the number of newly founded foreign companies rose by 12.3 percent year-on-year to 15,053, according to the ministry.

In a report that the American Chamber of Commerce Shanghai released on Wednesday, about 77 percent of US companies surveyed remained profitable and 73.5 percent of companies reported revenue growth in China in 2016.

Forty percent of respondents said they thought that the US government should use investment reciprocity as a tool to gain US companies greater market access to China.

"FDI to China is likely to remain stable in the second half of this year as foreign companies are realizing that China's growing middle class will have higher levels of disposable income and that the country is shifting to a productivity-driven growth model," said Wang Zhile, a senior researcher on foreign investment at the Chinese Academy of International Trade and Economic Cooperation.

To attract more FDI, China will release the 2017 Catalog for the Guidance of Foreign Industries to offer more favorable policies and further improve the market environment for global companies by the end of this month, said Gao, of the Commerce Ministry.

Johnson Controls Inc, a US-based manufacturer of control systems and batteries, started the operation of its second global headquarters last month in Shanghai. The facility, to better coordinate its business in the Asia-Pacific region, has a capacity for 1,600 employees, the company said.

German mobility, industrial and software conglomerate Robert Bosch GmbH also opened a plant for its automotive electronics business division in Changzhou, Jiangsu province, in April. The investments in this plant will reach $118 million by 2019, with more than 1,300 associates to be employed.