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China's Global Investments: Data and Transparency Challenges

During the past 20 years, the People's Republic of China (PRC or China) has significantly increased its investment overseas. In 1999, China launched its "Go Global Strategy" to support the expansion of Chinese firms abroad and make them more globally competitive. Since then, these firms—many of which are closely tied to the PRC government—have acquired foreign assets and pledged billions of dollars to finance infrastructure abroad. Many in Congress and the Biden Administration are focusing on the critical implications of China's growing global economic reach for U.S. economic and geopolitical strategic interests.

International analysts are divided on the nature of Chinese activities. Some argue that these activities are primarily commercial. Others contend that the surge in global economic activity is largely directed and funded by the state as part of a concerted effort to bolster China's position as a global power and support PRC industrial and foreign policy objectives. A number of U.S. policymakers also have grown concerned about the terms of China's economic engagements and how PRC overseas lending may create unsustainable debt burdens for some countries. There is also concern that the bulk of China's lending supports commercial projects that benefit the PRC state firms that often implement them, sometimes to the disadvantage of host-country businesses and workers.

Data limitations, combined with the number of unknown variables that drive China's foreign economic policy decisionmaking processes, can affect how Members of Congress perceive and address the challenges that China's overseas economic activities pose to U.S. and global interests. These limitations and uncertainties also complicate efforts to understand trends and assess the ways in which China's global economic reach may differ from that of the United States.

Data Limitations

A major challenge when researching global investment is the accuracy, completeness, and timeliness of data and information. While this challenge is not unique to projects involving PRC actors, it is exacerbated by the nature of many Chinese projects and loans, whose terms are not always publicly available or transparent. No comprehensive, standardized, or authoritative data are available on all PRC overseas economic activities—from either the PRC government or international organizations. Numerous think tanks and private research firms have developed datasets to track overseas investment, loans, and grants by PRC-owned firms and institutions using commercial databases, news reports, and official government sources, when available. These datasets often record the value of projects, loans, and grants when commitments or pledges are publicly announced (e.g., at press conferences). However, many of these deals may never be formalized, and if they are, project and loan details may change, and projects may not always come to fruition for various reasons (e.g., changing economic and political conditions, or concerns about sovereignty, debt structure, or environmental impact).

China's Official FDI Data

China's official foreign direct investment (FDI) statistics are compiled by the Ministry of Commerce and the State Administration of Foreign Exchange, using different criteria. While both agencies are supposed to reconcile their figures in annual revisions, discrepancies in the total amounts reported are common and sometimes significant. In addition, much of China's official outbound FDI has traditionally been registered in Hong Kong, the former British colony that has been a Special Administrative Region of the PRC since 1997, or in tax havens, such as the Cayman Islands or British Virgin Islands.

Despite these limitations, figures derived from such "data trackers" often drive the policy debate in the absence of official data sources. U.S. policymakers may rely on them to assess the overall scope and magnitude of Chinese activities, making it important to recognize the limitations of existing databases. While they might be valuable and informative, they may also provide vastly different figures. Comparability challenges also may arise when trying to differentiate between overlapping loan, investment, and construction projects, since most datasets only capture a certain type of activity.

PRC firms often use holding companies and offshore vehicles to structure their investments. Certain practices can make it difficult to track and disaggregate investments accurately. These practices include

- "round-tripping" (the practice of firms routing funds to themselves through localities that offer beneficial tax policies or special incentives);
- "trans-shipping" (the practice of firms routing funds through countries that offer favorable tax policies to later reinvest these funds in third countries); and
- indirect holdings (e.g., holding shares in an intermediate company that is a direct or indirect shareholder of the operating company).

PRC restrictions on capital flows may further complicate data challenges. Some domestic investors reportedly rely on the schemes outlined above to take advantage of favorable conditions granted only to foreign investors.

Transparency Challenges

In addition to data reliability and comparability issues, it is not always possible to determine if an asset or project is wholly or partially owned, financed, built, or operated by a PRC entity. Thus, lack of consistent, disaggregated, and detailed information limits the proper assessment of the size, scope, and implications of these activities. Moreover, because major projects generally involve several phases and a sometimes-evolving cast of stakeholders, it is not always possible to distinguish between the phases of acquisition or construction and those of operations—as they are often blended in terms of time and firms involved.

Many of the overseas infrastructure projects in which PRC entities are involved—particularly ports—present distinct challenges not always encountered in the analysis of traditional FDI (e.g., multinational corporations building a new factory or acquiring an existing domestic firm). In the case of infrastructure, to attract foreign investment and transfer risks to the private sector, host countries commonly offer long-term concessions or leases—for both construction and operation. These concessions typically allow the grantee firm the right to use land and facilities (e.g., ports and highways) for a defined period in exchange for providing services. Because the host government tends to own these lands and facilities, the investments can come in the form of use-rights structured through leases or joint ventures. These challenges, together with the opacity of China's terms and conditions, can limit the ability to assess accurately the extent of Chinese involvement.

Data availability limitations also may arise since China often finances infrastructure development through its export credit agencies and development banks. China is not a member of the Organization for Economic Co-operation and Development (OECD) or part of its Arrangement on Officially Supported Export Credits, which includes rules on transparency procedures for government-backed export credit financing. Efforts launched in 2012 to develop a new set of international disciplines among the main global providers of government export credit support—including the United States and China—were halted in 2020, due to diverging positions on core issues, especially transparency.

Because the PRC government rarely releases data on any of its lending activities abroad or those of its state firms and entities, some of China's global economic activities are sometimes portrayed inaccurately as "foreign aid" or "development assistance." While certain aspects may resemble assistance in the conventional sense, they generally do not meet the OECD standards of "official development assistance" (ODA). The terms of China's "ODA-like" loans are typically less concessional than those offered by other major actors, such as the United States and Japan; have large commercial elements with economic benefits accruing to PRC actors (i.e., "tied aid"); and are rarely government to government. China is not part of the OECD's Development Assistance Committee, which "monitors development finance flows, reviews and provides guidance on development cooperation policies, promotes sharing of good practices," and helps set ODA standards.

Considerations for Congress

Little consensus exists within the United States and the international community on what China's ultimate foreign economic policy goals are—either in general or with regard to specific regions or countries—or the magnitude of these activities. Debate is ongoing over whether China's global economic engagements have a pragmatic, overarching strategy or are a series of marginally related tactical moves to achieve specific economic and political goals. Similarly, many analysts argue that Beijing, through these economic activities, is trying to supplant the United States as a global power, while other analysts maintain that China is focused mainly on fostering its own economic development.

In the absence of sufficient transparency in China's international economic activities, Members of Congress may seek to support current and new U.S. and international efforts to better track, analyze, and publicize actual PRC economic activities. These efforts could help U.S. policymakers assess and answer key questions about China's international economic engagements, while enabling them to advance U.S. foreign economic interests more effectively. Potential options could include

- directing agencies within the executive branch to develop a whole-of-government approach and guidance to better assess the global economic activities of U.S., PRC, and other major actors. As part of this effort, the U.S. government could harmonize U.S. programs for gathering information, streamline data centralization, or partner with academia and the private sector, where much of the data tracking takes place currently, to leverage existing efforts. In addition, Congress could request a study on the adequacy of data and information recording, collection, disclosure, reporting, and analysis at the U.S. and international levels and recommend improvements.
- conducting oversight and examining more closely data collection and transparency commitments in various institutions, including the OECD, International Monetary Fund, World Bank, and United Nations Conference on Trade and Development on investment, loans, and government procurement to determine if these mechanisms are sufficient and/or are being adhered to.
- determining whether the World Trade Organization (WTO) should play a greater role to enhance transparency and set standards for dissemination of investment data through future reforms to key agreements or new agreements on investment. Additionally, Congress could examine if some of China's financing practices violate WTO subsidy rules.
- supporting U.S. and international efforts to provide training and technical assistance programs for countries to implement international statistical guidelines and improve comparable data compilation and dissemination practices.

The United States could consider a combination of pressure and collaboration to strengthen its economic engagement efforts and encourage China to adopt international best practices, particularly on data transparency. While the success of past efforts has arguably been limited, the United States could continue to work with other countries and international economic institutions to improve the collection and accuracy of data, address data deficiencies, and harmonize data reporting requirements by China and other economies.

For more detail, see CRS Report R46302, *Tracking China's Global Economic Activities: Data Challenges and Issues for Congress*, by Andres B. Schwarzenberg.

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