

# Round-up: China in a global context

2 August 2021

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This month Fathom has been considering key issues facing China. What drives Beijing's foreign investments, which are starting to outstrip the US in Africa, Asia-Pacific and even parts of Europe? What is the demographic timebomb that the Chinese authorities have been trying and failing to address through their family policies?

The charts in this new strand of In Brief research notes are not intended to be our final, considered view, but are punchy contributions to the ongoing in-house discussion that culminates in our quarterly Global Economic and Markets Outlook. We hope you will find them as stimulating as we do.

## Is Chinese foreign investment winning friends and influencing people?

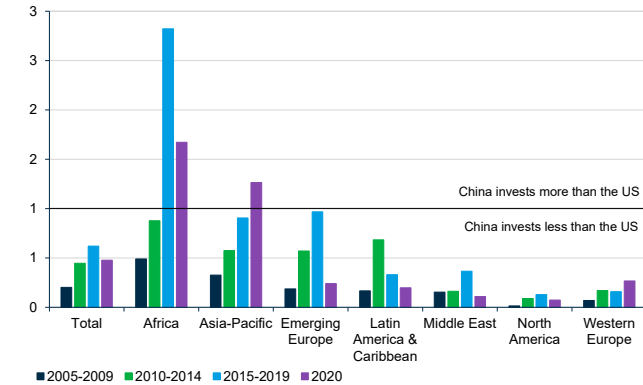
- Rising Sino-US tensions are playing out in third countries, often where economic influence is in the balance
- China is the number one trading partner for most countries; the US is the lead influence on finance — but that picture is changing
- Fathom's proprietary FDI tracker shows China's greenfield investment<sup>1</sup> has been catching up with and even outpacing US investment in countries where economic influence was already in the balance, particularly in the Africa, Asia-Pacific and emerging Europe regions
- Outward FDI flows are an important lever of China's economic statecraft. Sometimes Beijing is seeking increased influence with FDI; sometimes it is seeking access to resources





## China and US cross-border greenfield investment\*

Chinese investment as a per cent of US\*\*



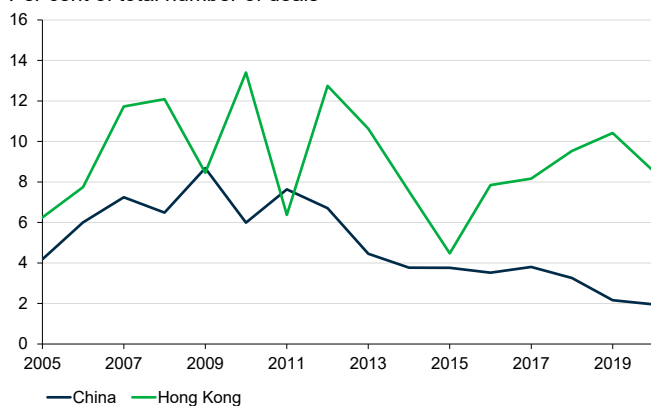
\*Excluding investment into China, Hong Kong and the US  
 \*\* Chinese investment includes that from Hong Kong

Source: fDi Markets / Fathom Consulting

- Greenfield investment is a type of FDI in which a parent company creates a subsidiary in a different country, building its operations from the ground up.
  - But you can't buy trust. Sino-Australian economic links are extremely close, for example, yet Australians are coming to see China as more of a security threat than an economic partner, while economic ties with the US are valued far more highly than those with China — a gap that has grown in recent years
  - What goes for Australia might go elsewhere too, making it harder for China to access key markets; yet Beijing still needs access to resources
  - In the case of Australia, China's response has been to channel more FDI through Hong Kong. How long will it be before advanced economies see through the Fragrant Harbour to who is pulling the strings?

## FDI into Australia

Per cent of total number of deals\*



\*Excluding terminated deals

Source: Fathom Consulting

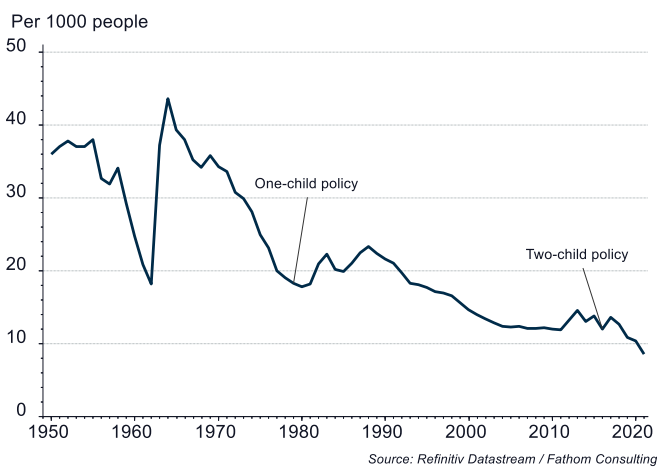




## Can China get rich before it gets old?

- Chinese policies aimed at shifting demographic trends are pushing on a string
- The new 'three-child' policy is unlikely to succeed in reversing or even slowing the ageing of the population
- The infamous 'one-child' policy did not work — if anything, it prompted a revival in fertility that had already been falling for a decade; while the 'two-child' policy produced only a blip in the ongoing downward trend in births

### China birth rate



- One way to boost the working-age population would be to require people to work for longer, raising China's unusually low retirement ages of 60 for men and 50 for women — set when life expectancy was lower
- The Chinese government has twice announced reform, in 2008 and 2015, but failed to follow through amid strong opposition, particularly among young people who rely on retired family members for childcare
- It is not clear that reform would have made much difference to economic activity: despite the low retirement age, more than half of Chinese men (58.3%) continue to work to the age of 65
- China's chances of using policy to influence demographic trends look slim: unlike Japan, it is likely that China will get old before it gets rich





## China life expectancy and retirement age

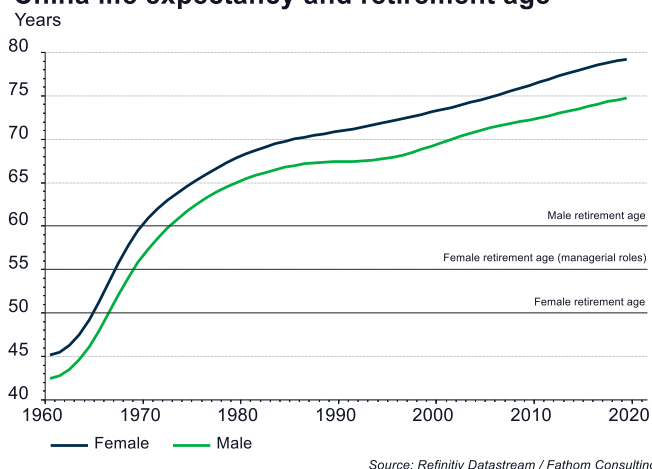


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