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Highlights

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## FDI: lots of money, less know-how

Patti Waldmeir [Author alerts](#) Nov 29 2011 11:51 [Comment](#)



China's leaders insist they roll out the red carpet for "foreign friends" who want to invest in China (although Europeans may complain to the contrary). And figures show there is still plenty of foreign amity going on: overseas direct investment in China remains strong, despite the global financial crisis. In the first 10 months of this year, FDI rose to \$95bn, up nearly 16 per cent year on year.

But is it worth it? According to a new study from the University of Nottingham's Globalisation and Economic Policy Centre, China is wasting a lot of that investment.

"By almost all accounts, foreign direct investment (FDI) in China has been one of the major success stories of the past three decades," says the report.

However, China didn't just want money from its foreign buddies: it wanted fringe benefits like productivity gains, technology transfers, managerial skills, employee training and access to markets, say the report's authors.

Those fringe benefits have often failed to materialise, says Natasha Agarwal, one of the authors – because the companies involved were starved for capital by the structural rigidity of China's financial system. (Ask any small or medium-sized company in China if you want to know what that means: they cannot get loans from state-owned banks, which is why they sometimes turn to loan sharks).

Firms that lack credit can't afford to invest in all those new technologies that the foreigners are supposed to transfer to them; they can't afford to invest to raise productivity; and they can't afford to upgrade employee skills.

But that is not all: even state-owned companies, which certainly do not lack for cash, were found to be wasting a lot of the benefits of FDI. "Pervasive inefficiencies" in management and asset allocation prevented them from reaping the benefits, the study found.

A grim report all round: and hardly one that will encourage those in Europe who doubt the benefits of allowing the Chinese to turn the tables and start bringing their brand of "foreign friendship" to European shores.

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