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**South China Morning Post**

Economy / China Economy

US investors still piling FDI money into China despite rising political tensions

Foreign direct investment (FDI) from the US to China rose 6 per cent from a year earlier in yuan terms

In US dollar terms, total FDI in China rose 3.7 per cent in June from a year earlier but fell 4 per cent in first half of the year

Topic | China economy**Orange Wang**

Published: 9:15pm, 17 Jul, 2020 ▾

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The United States was a “major source” of foreign direct investment into China in the first half of the year despite tensions between the world’s two largest economies, China’s Ministry of Commerce said.

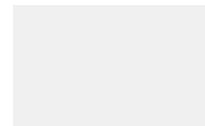
In the first six months of 2020, foreign direct investment (FDI) from the US to China rose 6 per cent from a year earlier in yuan terms, the ministry said, without providing the actual amount or any detailed breakdown.

China’s overall FDI inflows, measured in yuan, fell 1.3 per cent in the January–June period, the ministry said. In comparison, FDI from Hong Kong rose 4.2 per cent, while investments from Singapore increased 7.8 per cent.

The continuous long-term investment inflows into China from the US, if confirmed, could be a result of Beijing’s efforts to woo American businesses despite its quarrels with Washington over Hong Kong, Taiwan, the South China Sea, and Xinjiang.

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16 Jul 2020



In a letter to a group of multinational business executives this week, [President Xi Jinping](#) promised that China will make a better environment for investors, while also praising those who already invest and operate in China.

Some US businesses have chosen to expand investment in China, lured by the country's vast market potential, despite rising geopolitical tensions.

In April, ExxonMobil began construction of a chemical complex project in Huizhou in the southeast Guangdong province, with total investments of US\$10 billion.

However, the risks are growing that long-term investment funds will gradually dry up. An annual survey conducted by the American Chamber of Commerce in China before the coronavirus outbreak found that over one third of businesses, the largest proportion since 2013, reported that they were delaying or even cutting investments in 2020, while another 16 per cent were adjusting supply chains by moving out of China.

China's implementation of a national security law in Hong Kong, the bridgehead for many US businesses for investing into China, is also creating new uncertainties, with a survey by the American Chamber of Commerce in Hong Kong in early July showing that 76 per cent of its members expressed "concerns" over the law.

For China, it is eyeing foreign investment funds, along with technologies, to help it maintain a central role in global value chains while other countries from India to Vietnam are also competing for investments.

China announced in late June that it had cut the number of industries that are off limits to foreign investment – the so-called negative list — to 33 from 40.

Yuan – US dollar exchange rate

Price trends over time for how the Chinese currency trades against the US dollar



*An upward slope indicates a depreciation in the value of the yuan, while a downward slope indicates yuan appreciation

Source: European Central Bank

LAST UPDATED: 12.49PM, 18 JUL

In the first six months of the year, overall FDI in US dollar terms into China fell by 4 per cent to US\$67.9 billion. In June alone, FDI in US dollar terms inflows rose 3.7 per cent.

The FDI data came amid growing worries that more foreign businesses are likely to move their factories out of China, as the coronavirus pandemic has exposed the reliance of other countries on China for vital products, including personal protection equipment.

In addition, escalating US-China tensions could pose more risks for foreign firms doing business in China's 1.4 billion-person consumer market.

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