

# COMMENT

DANIEL WAGNER AND SUN XI

## How to be a savvy overseas investor

After having been the top destination of inward foreign direct investment for decades, China's investment orientation has become increasingly outward looking. In 2014, China's outbound FDI surpassed inbound FDI for the first time. Last year, the country became the world's second-largest source of outward FDI. And in the near term, its overseas investments are expected to grow 10 percent a year, and exceed \$2 trillion by 2020.

While Chinese companies are benefiting by taking advantage of emerging opportunities around the world, the rise in Chinese outbound FDI is occurring at a time of unprecedented risks, familiar and unfamiliar both. According to the China Global Investment Tracker, more than \$250 billion in Chinese investments abroad have failed since 2005, mainly because of a lack of overseas investment experience, especially in risk management.

Chinese companies tend to over-rely on externally generated country risk analyses, which more often than not are produced generically and thus not entirely appropriate for specific transactions. This is perhaps the most common mistake international businesses make. They believe that because they may have information about the general political and economic profile of a country, they have a true understanding of the real nature of the risks associated with doing business there. Too often, companies get caught in an "investment trap": They commit long-term resources to a country only to find the bill of goods sold to them are completely different from what they expect.

There are plenty of stories about Chinese companies' investments going awry because of a change in a country's regulations, or a legal issue or the wrong choice of joint venture partner. After making an investment, it is often too late for a company to pull out without incurring a large loss.

Another common problem is that the lines of communication between risk management personnel and decision-makers, or among decision-makers, are either bypassed, convoluted or just plain wrong. Here are a few examples:

Risk management gets a small role to play in the transaction approval process; sales teams bypass risk management entirely, or ignore the risk management department's recommendation for fear that unacceptably high levels of risk could lead to cancellation of a transaction; or perhaps a CEO gives a presentation to a board of directors that is false, but he or she believes it to be true, because the risk manager's staff said it was.

Or maybe the board of directors of the investing company has no idea what questions they should be putting to corporate decision-makers; or a risk manager may have the right information, but make decisions based on a short-term assessment of the risks when the long-term view may be completely different.

Establishing a clear reporting network is a simple way to reduce the possibility of unforeseen events occurring — one or more individuals in the company should be assigned to focus full time on managing these risks, and/or an external company hired to create a customized risk profile for each and every investment the company plans to make. The expense involved would pay for itself many times over when a problem is detected and avoided, yet many companies are happy to invest millions of dollars abroad without doing their homework.

Achieving risk agility in the 21st century is about respecting the speed with which things can fall apart as a result of unforeseen or unexpected events. A Chinese company that embraces risk agility will be able to quickly reinvent themselves, and establish a framework and corporate culture that can warn it against the perils of internal action as well as external forces. This is the very destructive/creative cycle that drives the global economy.

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ROBERT LAWRENCE KUHN

## Coordinated development for optimized growth

Coordinated Development is the second of the Five Major Development Concepts, President Xi Jinping's guiding strategy to transform China's economy. In order to optimize economic development, both the efficient allocation of resources and equitable access to resources are essential.

Historically, from the beginning of reform, China's single-minded focus on economic growth, necessary at the time, generated inevitable problems — especially imbalances across geographies, sectors and classes — the disparities between urban and rural and between the eastern/coastal and western/inland regions. Moreover, economic competition among provinces and cities encouraged inefficient allocation of resources and exacerbated industrial overcapacity.

While China now recognizes that the market must play a "decisive" role, there are still issues, such as how to integrate diverse regions and how to rebalance urban and rural areas.

That's why the Chinese government has designated "Coordinated Development" as a prime policy to optimize economic transformation. Coordinated development means addressing and reducing diverse kinds of duplications and imbalances: it means different regions, especially adjacent regions, spe-

cializing in complementary not competitive industries and centers of excellence; and it means integrating the developmental planning of richer and poorer areas, such as rural regions of poverty on the outskirts of modern cities.

Nationally, coordinated development means comprehensive regional initiatives integrating multiple provinces and cities, such as the Yangtze River Economic Belt and the Beijing-Tianjin-Hebei province urbanized region. Internationally, coordinated development means the Belt and Road Initiative, involving more than 60 countries in infrastructure development.

In examining the Five Major Development Concepts for *Closer to China with R.L. Kuhn*, my weekly show on CCTV News (Sundays 9:30 am and 9:30 pm), I learned that a national example of coordinated development is the city of Luzhou in southwestern China's Sichuan province. I wanted to find out why.

Located at the intersection between Guizhou, Yunnan and Sichuan provinces, Luzhou was traditionally a marginal area. I met Luzhou Mayor Liu Qiang, who explained how the city has been transformed from a center for producing Chinese liquor (*baijiu*) into a prime coordinating center in the Yangtze River Economic Belt.

"Luzhou has incongruities," he said, "uneven urban-rural development, espe-

cially in education and health. Also, neighboring Yunnan province has poverty-stricken counties in its mountainous areas. We must invest, especially in technology and the training of personnel, and we are implementing the national mandate for 'precision poverty reduction.' The burden is heavy."

Luzhou is a major port on the Yangtze River and the largest in Sichuan. The Yangtze links half of China, and the Yangtze River Economic Belt connects nine provinces and two of China's major cities, Chongqing, the great western center, and Shanghai, China's economic engine on the sea.

Liu explained how Luzhou works with the megalopolises. "With Chongqing, we cooperate in tourism, agriculture, complementary industries and transportation interoperability. With Shanghai, we have agreements in science and technology and innovation-driven development, and we invite Shanghai companies to Luzhou."

Due to its geographic location, Luzhou decided to become a transportation hub — and at its center is the Luzhou port, which connects the city with the entire Yangtze River Economic Belt. Cargo goods from Luzhou can now reach the Republic of Korea via Nanjing in Jiangsu province, and Taiwan via Wuhan, Hubei province. Additionally, in 2011, the gov-

ernment spent 500 million yuan (\$74.97 million) to build the first railway-river combined transportation system.

More than raw economic growth is required though. To improve standards of living in one of China's least developed regions, Luzhou's strategy is also to become a regional educational and health center.

Liu does not fear competition. "Competition is the driving force of development," he said. "I find competition good, even necessary. Besides, there is now more cooperation. For instance, Luzhou and its neighboring cities are coordinating infrastructure, industry, environmental protection, and various exchanges. Sichuan is signing agreements with Chongqing, Yunnan and Guizhou. We tell each other what we want, and where we need support. Since the Five Major Development Concepts were raised, the cooperation between provinces has been more and deeper."

Coordinated development is especially important in China where provincial rivalries have contributed to industrial duplications and overcapacities. Similar risks remain. The challenge is to get provinces and cities to cooperate as well as to compete in order to optimize development.

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LIAO ZHENGRONG

## A vital step toward yuan's internationalization

The yuan was included in the International Monetary Fund's Special Drawing Rights currency basket on Oct 1. According to the IMF, the US dollar will now comprise 41.73 percent (down from 41.9 percent) of the SDR currency basket, the euro 30.93 percent (down from 37.4 percent), the yen 8.33 percent (down from 9.4 percent), the pound sterling 8.09 percent (down from 11.3 percent), and the yuan 10.92 percent.

Data from the Society for Worldwide Interbank Financial Telecommunications show the yuan is the second-largest trade financing currency, and the fourth- or fifth-largest trade payment currency. And according to SWIFT, the yuan's proportion in global trade is 8 percent, and in global trade payment nearly 2 percent.

Statistics from the Bank for International Settlements show the yuan's share in global foreign exchange trade has doubled in three years, from 2 percent to 4 percent. And its share as a global reserve currency is slightly more than 1 percent.

In other words, the yuan, as an international currency, still has a low market share. Yet the IMF has given the yuan quite a high proportion in its SDR basket. Why?

The SDR is determined by an economy's trade volume. China became the world's largest exporter in 2009 and the largest trader in 2013, replacing the United States. And its exports accounted for about 14 percent of the world's total last year. So it's natural for the yuan to get a high share in the SDR basket.

It also means the yuan is internation-

alizing fast. But the currency faces structural and institutional obstacles in its internationalization process. The yuan cannot win full trust in the international market and thus cannot be fully internationalized unless it can be exchanged freely.

Before meeting the market requirements for its capital account, the yuan took advantage of China's large share in world trade to be included in the SDR basket. This

is a breakthrough and a beginning of the different path for the yuan's internationalization.

The SDR currency basket was established to offer international reserve currencies as an alternative to the US dollar. But the global market has not fully accepted the basket.

In 2009, Zhou Xiaochuan, governor of China's central bank, said at the G20 Summit in London that Beijing was studying the SDR's market application because the US dollar's

dominating status as an international currency has been creating serious problems in the market. Zhou's remarks didn't go unnoticed.

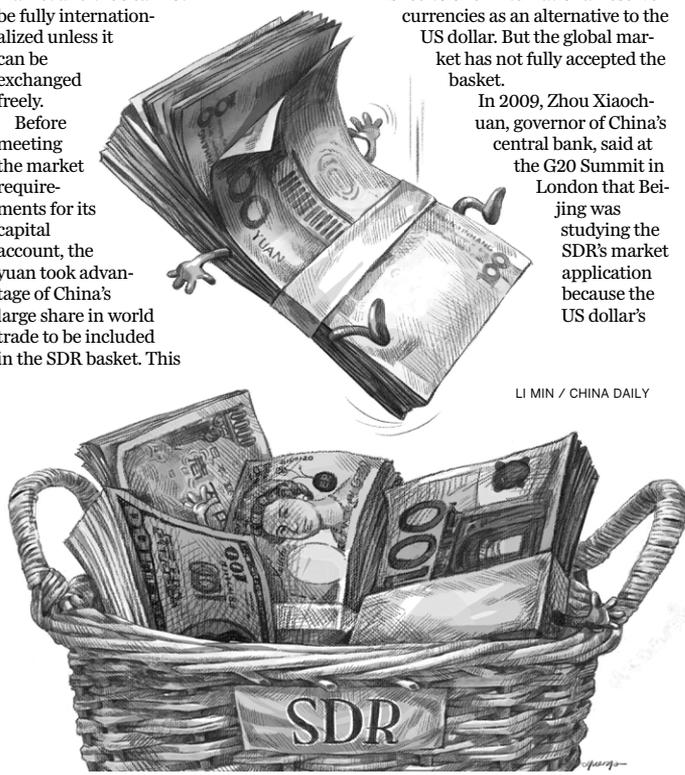
China took concrete measures to help expand the use of SDR currencies in the international market. In April, China's central bank started issuing foreign exchange reserves data using both the US dollar and SDR currencies. It is also studying the feasibility of issuing SDR-rated bonds in the country. And given the size and influence of China's economy, this could help SDR currencies play more important roles in the global economy.

The SDR basket is inclusive by nature, and promoting the SDR currencies to help reform the global currency system is a move accepted by many countries. That is why the yuan's inclusion met comparatively little resistance.

Europe's support was crucial. The European Union and the United Kingdom agreed to reduce the share of the euro and pound in the SDR basket. That they are willing to let the yuan play a bigger role in international trade shows the European players want to expedite the reform of the global currency system.

Therefore, this is the right time for China to deepen cooperation with Europe to build a fairer and more reasonable global currency system. By doing so, Beijing can also meet expectations for its role in global financial governance.

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LI MIN / CHINA DAILY

ZHANG ZHOXIANG

## What tourists mean for the 'eye of heaven'

"The eye of heaven is open for tourists now!" The news quickly spread across the internet. The "eye of heaven" refers to the Five-hundred-meter Aperture Spherical Telescope (or FAST), the largest in the world, used to gaze into the depths of the universe.

Parts of the FAST zone, in Pingtang county of Southwest China's Guizhou province, were opened to tourists in late September. By paying 368 yuan (\$55.18) for a ticket, tourists can visit certain parts of the observatory. And as expected, 140,000 people visited the FAST zone during the just-concluded weeklong National Day holiday.

Opening parts of the FAST zone to tourists has its advantages. For one, it can generate some income.

FAST is rather expensive: Its telescope arrays alone cost 700 million yuan (\$105 million). Its control center was built with carefully selected materials and decorated with nothing but wood panels to minimize the influence of external

electromagnetic waves. And a huge amount of money will be needed every year for maintenance of the observatory. Moreover, FAST will not make any immediate returns and its team must apply for State funding which involves complicated procedures. So the ticket revenue will be a welcome source of income (even if small).

As the largest radio telescope in the world, FAST is already well known among Chinese astronomers and astronomy fans, the partial opening of the zone to visitors will give other people an opportunity to experience it firsthand.

According to reports, the parts of the FAST open to tourists include an astronomy experience museum, in which people can feel as if they are among the stars thanks to three-dimensional simulation technology, and a telescope area where people can peer into the sky through optical telescopes. On the sightseeing platform, they can have a glimpse of FAST, albeit from a distance. Most pic-

tures of FAST we see online were taken from this platform.

The partial opening of the FAST zone to tourists seems to be a win-win move at present: It will not only help generate some revenue to support scientific research, but also help infuse the love for science among youngsters and ordinary people.

But there are some problems, too. FAST has strict environmental requirements — reports say that every light bulb in the control center of FAST is specially manufactured and has to pass dozens of tests before being installed. That is why those entering the tourist area are not allowed to carry, let alone use, electronic devices such as cellphones.

Besides, one of the reasons a mountainous area was chosen as the location for FAST is the low population density — both the device and the scientists need silent surroundings. With the FAST zone being partly opened to tourists, and many people visiting the site, some locals are building new hotels in the

area. As a result, the peaceful, serene place could soon become a tourist hub.

The FAST observatory employees and tourists must be careful not to break the noise limits and other rules, but still it cannot be guaranteed that the surroundings will not be disturbed. For example, their original rule is to limit the number of tourists to within 2,000 a day, but the actual number of tourists entering the FAST zone on Oct 1 exceeded 10,000. A local policeman in Pingdu is even reported as saying they had to persuade tourists to change their minds.

If the upper limit of tourist number is broken, there is reason to worry that other rules, which are aimed at protecting FAST from external disturbance, might be broken, too. How to minimize the disturbance will be a major challenge for the FAST zone administrative staff and related governmental authorities.

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