

Rising FDI reflects inflow of hot money

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Foreign direct investment (FDI) in China rose 45.5 percent in the first half of the year, deepening worries that the inflow of "hot money" could lead to higher inflation.

The Ministry of Commerce said on Friday that foreign investors spent 52 billion U.S. dollars in China between January and June. In the same period last year, FDI increased only 12 percent.

The ministry did not provide figures for June, but based on data published for the first five months, the June figure is estimated at 9.6 billion dollars, up from 6.6 billion dollars a year ago.

Gene Ma, macroeconomic analyst at Beijing-based economic research firm China Economic Business Monitor, said: "The inflow increase is fast, but we don't know where the money has gone."

Despite rising FDI, foreign investment in fixed assets and the real estate sector both fell over the first five months of the year, and no major merger and acquisition deals were signed. Therefore, the destination of a large part of the money inflow cannot be explained, he said.

Analysts have said the rising yuan against the U.S. dollar and high interest rates in China have attracted the hot money.

The central bank said in its first-quarter monetary policy report that given the interest rate gap between China and the U.S., and the uncertain global economic situation, the influx of speculative capital may continue to increase in the short term, compromising the country's tightening monetary policy.

Shi Lei, an analyst at Bank of China, said FDI has been one of the major channels for hot money influx since last year.

"Speculators can always find a way to circumvent government rules," Shi was quoted by Bloomberg as saying.

The government has been working to stop the inflow of hot money.

The State Administration of Foreign Exchange issued a new rule last week, which asks traders to report advance payments for exports and deferred payments for imports, because both of these channels can be used to bring in "hot money."

(China Daily)

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