

China Investment and External Debt of Asian Developing Countries

Yogeeswari Subramaniam*

Faculty of Management, Universiti Teknologi Malaysia, Malaysia

Muzafar Habibullah Shah

Putra Business School, Malaysia

Abstract: In contrast to history, where sources of pro-development foreign direct investment (FDI) were primarily developed countries, China has recently emerged as a major capital exporter. One unique feature of countries hosting China FDI is that they have tended to become highly indebted. Hence, this has motivated this study to investigate the possible implication of Chinese FDI on Asian host countries' debt. Using the Generalized Method of Moments (GMM) approach, this study confirms that inflows of China FDI increase host countries' external debt in Asian regions. One plausible explanation to this has been tested that a dire need for capital to be utilized for domestic economic development has forced host countries to opt for debt from China, alongside the FDI from China.

Keywords: Foreign Direct Investment, External Debts, China, GMM

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* Corresponding author. Email: yogeeswari.s@utm.my

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