Survey on Current Conditions and Intention of Outbound Investment by Chinese Enterprises

China Council for the Promotion of International Trade

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China Council for the promotion of International Trade

Established in May 1952, China Council for the Promotion of International Trade (CCPIT) comprises VIPS, enterprises and organizations representing the economic and trade sectors in China.
So far CCPIT have already established broad relationships with the industrial and commercial circles in more than 200 countries/ regions worldwide, signed cooperation agreements with more than 300 counterparts and set up joint chamber of commerce with a number of chambers of commerce in foreign counties. Meanwhile, CCPIT has overseas representative offices in 16 countries/ regions. While within the country, it has 50 local sub-councils, more than 600 branch-councils and county-level international chamber of commerce scattered all over China, as well as altogether 20 sub-councils in sectors including, machinery, electronics, light industry, textile, agriculture, auto, petrochemical, commerce, metallurgy, aviation, aerospace, chemical, construction material, general industry, supply and marketing cooperation, construction, grain, mining, coal and logistics. Besides, CCPIT provides China Association of Foreign Service Trades with instructions and has nearly 70,000 member enterprises all over the country.

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European Commission is the standing executive body of the European Union, with the functions of implementing the EU Treaty and the decisions of EU Council, proposing legislative motion to the Council, supervising the carrying out of EU regulations, representing EU in foreign affairs and trade negotiations and setting up delegations in foreign countries.

and

UNCTAD

United Nations Conference on Trade and Development (UNCTAD) is a subordinate organization of United Nations, with the mission of promoting trade, investment and development opportunities in developing countries, as well as promoting the development-friendly integration of developing countries into the world economy.

[1] Disclaimer: This study benefited from the financial support of the European Commission's DG Trade. The views and opinions presented in this document do not necessarily reflect those of DG Trade or the European Commission.

Catalogue

Foreword

Despite the challenging economic environment, Chinese overseas investment continued to grow in 2009. According to the data published by the Ministry of Commerce, outbound foreign direct investment (FDI) by Chinese enterprises amounted to 43.3 billion in 2009, a year-on-year increase of 6.5%. This growth occurred against the backdrop of a decline in global foreign direct investment by 30% ~ 40% compared to 2008. Chinese overseas investment has thus proven remarkably resilient in the challenging conditions created by the financial crisis.

In order to collect more precise information about the overseas investments made by Chinese enterprises in 2009 and their future investment plans, China Council for the Promotion of International Trade (CCPIT) has carried out the fourth “Survey on Current Conditions of and Intention for Outbound Investment by Chinese Enterprises” between December 2009 and March 2010. Compared to the previous surveys, the current study is based on an enlarged sample and a more comprehensive questionnaire. The objective of the survey is to collect in-depth information about the intentions and problems concerning the overseas investments of Chinese enterprises, and their response to the Chinese government's “Going Global” policy. The survey also aims to inform CCPIT and other agencies about sectors and areas where investors require enhanced government assistance in their overseas investment activities and to help formulate future policies, such as the "Going Global" initiative. In addition, the survey also explores the impact of the financial crisis on Chinese firms' overseas investment decisions.

The survey was conducted mainly by way of questionnaires, which included questions on firms' overall economic situation, existing overseas investments, intended future overseas investment and the effects of financial crisis. The questionnaires were filled in directly by the respondent enterprises or under the assistance of staff from CCPIT sub-councils. To ensure the continuity and comparability with the previous surveys, the selection of sampled enterprises followed the same standard as in previous years. In total 3,000 small & medium-sized Chinese firms (including CCPIT member firms) with experience in import and export activities were contacted for the survey. 1,377 firms returned the filled-in questionnaires (a 46% response rate).

The survey was carried out by CCPIT in collaboration with the European Commission's Directorate-General for Trade and UNCTAD, who jointly designed the questionnaire and contributed to the final report. The distribution and recovery of the questionnaires was carried out mainly by 31 sub-councils and 4 local branches of CCPIT, including sub-councils in Shenzhen, Henan, Jiangsu, Sichuan, Hunan, Guangdong, Hebei, Jinan, Pudong, Guangzhou, Xi’an, Shanghai, Zhejiang, Qinghai, Hangzhou, Chengdu, Jiangxi, Liaoning, Jilin, Yunnan, Shaanxi, Dalian, Ningxia, Chongqing, Hubei, Heilongjiang, Shandong, Changchun, Guizhou, Supply & Selling, Provision industry sub-councils and the branches in Anji, Wenzhou, Jiaxing of Zhejiang province as well as Langfang of Hebei. In addition, CEPII Research Centre, the Certificate Issuance & Confirmation Section of Legal Department of CCPIT, CIEC Overseas Exhibition Co., Ltd. and China Chamber for International Commerce also assisted or participated in this survey. We hereby extend our appreciation to them all.

I. Analysis of the Sample

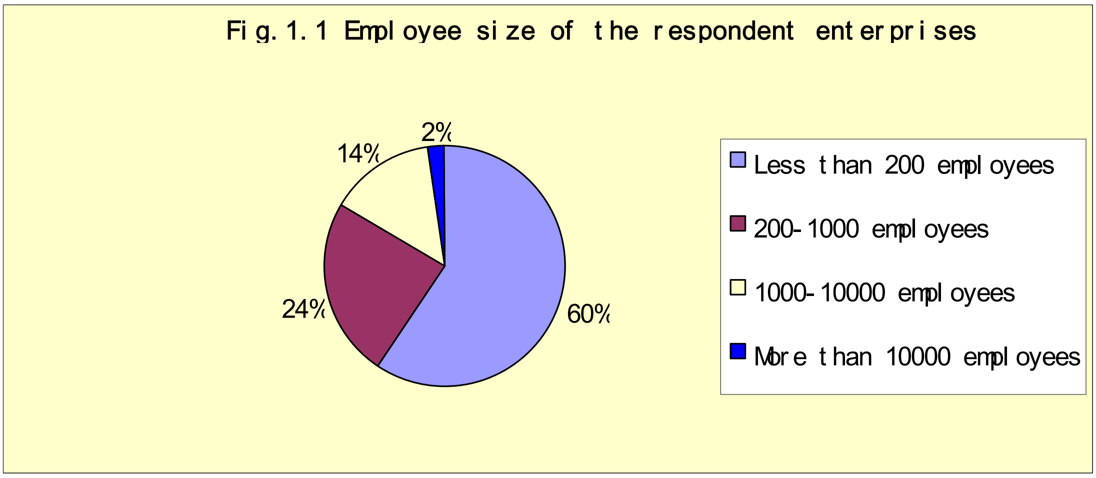
1. Sample size and characteristics

Altogether 3000 questionnaires were distributed in the survey and 1377 valid questionnaires were received, a response rate of 46%. The 1377 questionnaires recovered include enterprises in nearly 30 provinces, and cover various sectors such as agriculture, manufacturing, construction and financial intermediaries, thus providing good industrial and regional representativeness.

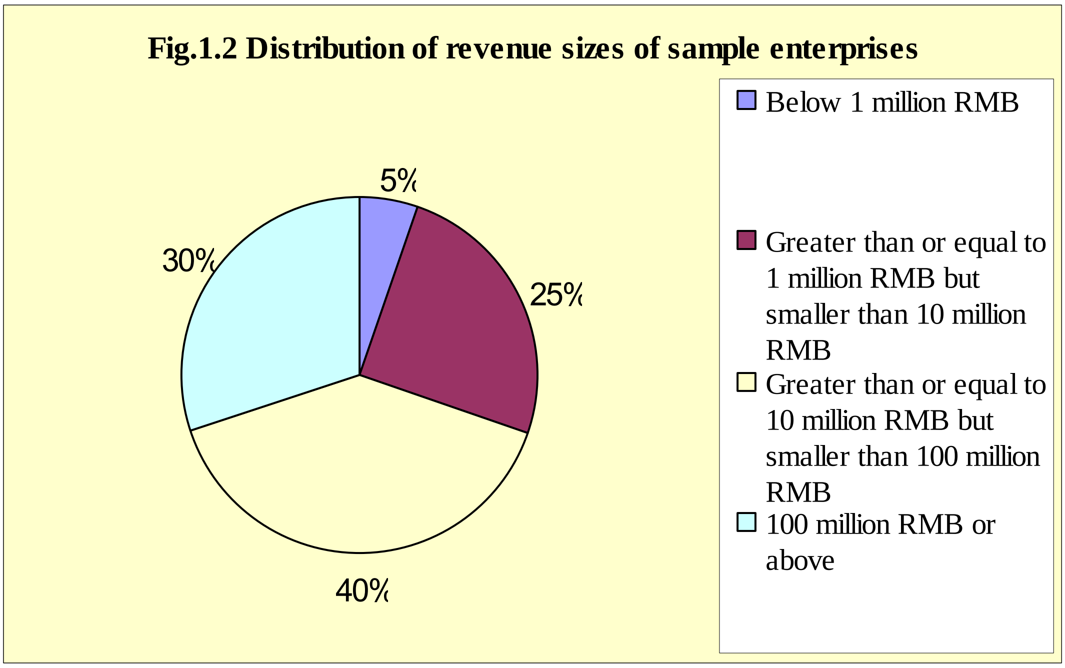
Of the respondent enterprises, 344 enterprises have carried out overseas investments, accounting for 25% of the total, a proportion slightly lower than in the survey conducted in 2008, which is mainly due to the expanded region and number of the respondent enterprises.

2. Scale of enterprises

In terms of employee numbers of the respondent enterprises, 60% of them have less than 200 employees; 24% of them have 200~1000 employees; 14% of them have 1000~10000 employees, and only 2% of them have more than 10000 employees.

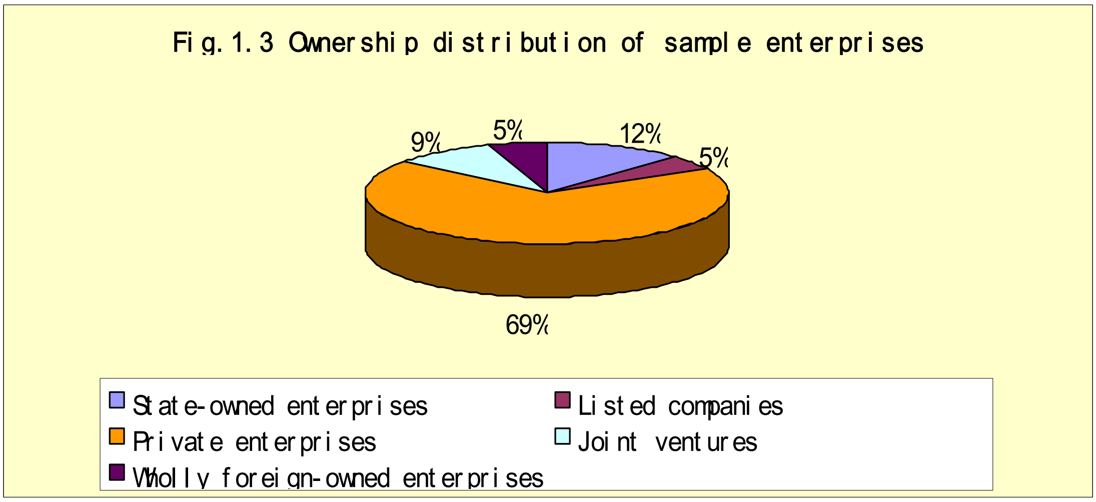


In terms of business revenue, of the respondent enterprises, 30% achieved annual revenue exceeding 100 million RMB (about 10 million Euro) in the previous year, and 40%, between 10 million ~ 100 million RMB (about 1 million ~10 million Euro).



3. Ownership distribution

Private enterprises make up 69% of the respondent enterprises; state-owned enterprises make up 12%, and companies with other forms of ownership (including joint ventures, solely foreign-owned enterprises and listed companies) account for less than 10%. With regards to ownership property, private enterprises make up a large proportion. This is mainly because this survey adopted random sampling and private enterprises especially small and medium-sized enterprises account for most of the total firm population.



4. Regional representation

The respondent enterprises cover 28 provinces in China, that is, 8 provinces more than that of the 2008 survey, thus having a greater national representativeness. According to the geological location and regional economic development, we divided

China into five regions, i.e. Yangtze River Delta, Pearl River Delta, Bohai Rim, central China and western China. The samples of these five economic circles are sufficient in number and have good regional representation.

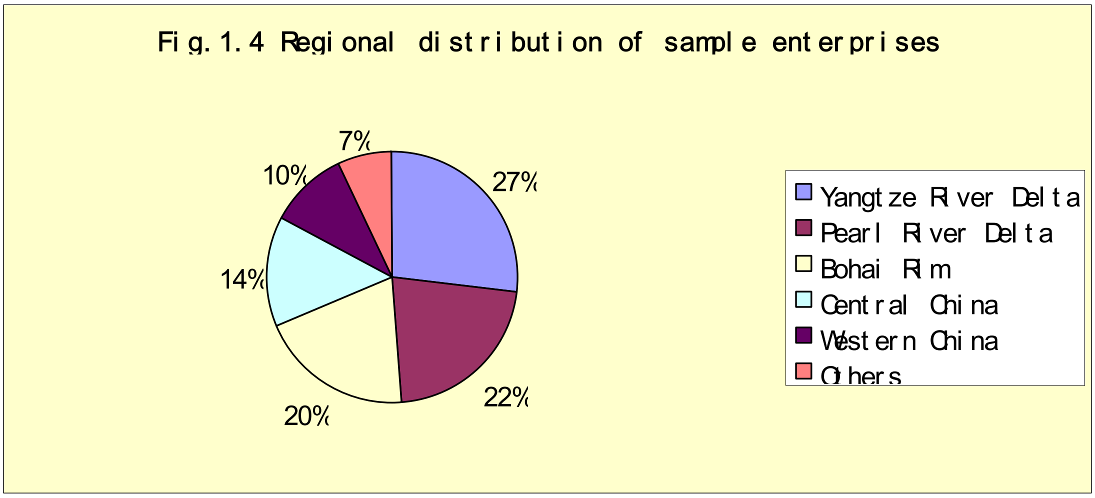


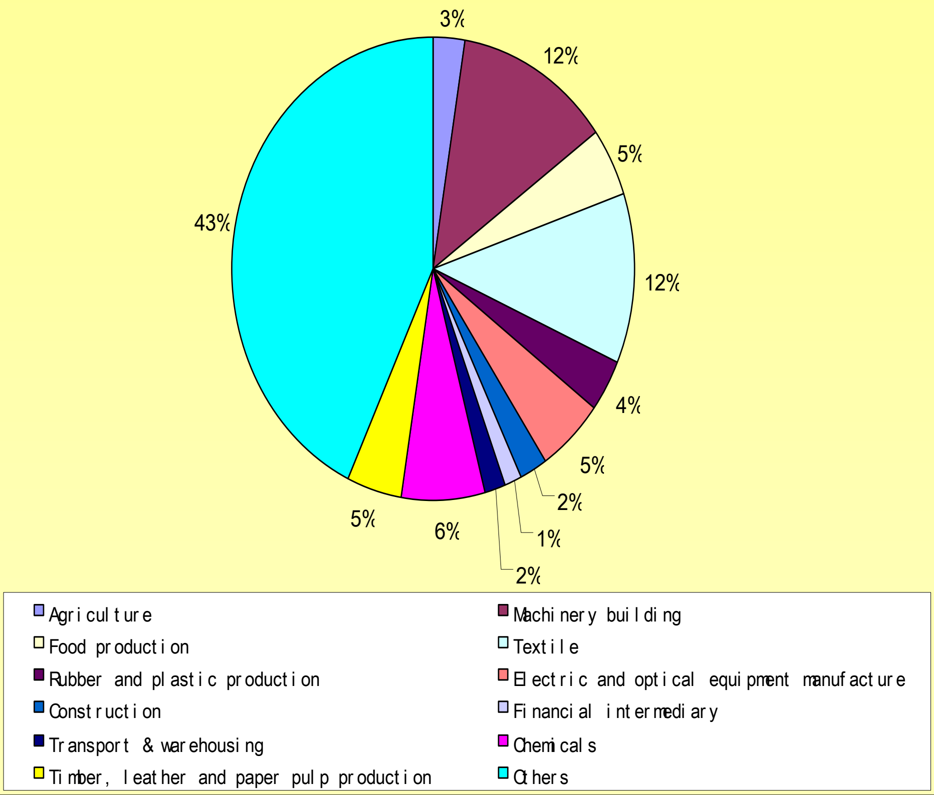
Table 1.1 Regional Distribution of Sampled Enterprises

Province	No. of enterprises	Proportion	Province	No. of enterprises	Proportion	Province	No. of enterprises	Proportion
Guangdong	262	21.6%	Shandong	136	11.2%	Jiangsu	121	10%
Zhejiang	132	10.9%	Henan	108	9%	Shanghai	75	6.1%
Hebei	73	6%	Beijing	48	4%	Hunan	39	3.2%
Liaoning	35	2.9%	Shaanxi	30	2.4%	Chongqing	26	2.1%
Qinghai	25	2%	Sichuan	20	1.6%	Jilin	15	1.2%
Jiangxi	14	1.1%	Yunnan	12	1%	Ningxia	9	0.7%
Fujian	7	0.5%	Hebei	7	0.6%	Tianjin	6	0.5%
Helongjiang	4	0.3%	Anhui	4	0.3%	Inner Mongolia	2	0.02%
Guizhou	1	0.01%	Hainan	1	0.01%	Guangxi	1	0.01%
Gansu	1	0.01%						

5. Representation of sectors

In terms of sector distribution, over half of the respondent enterprises come from the manufacturing, agricultural and construction sectors, and a certain number of the respondent enterprises are in the tertiary industry such as finance, and transportation & warehousing. The respondent enterprises cover most sectors of the primary, secondary and tertiary industries in China and therefore, have a good representation of sectors. Of the respondent enterprises from the manufacturing industry, many of them are in machinery manufacturing and textile sectors. This is because the sample enterprises were restricted to foreign business related enterprises with a certain scale. These two sectors in the manufacturing industry are highly related to foreign business.

Fig. 1.5 Indusrial sector distribution of respondent enterprises

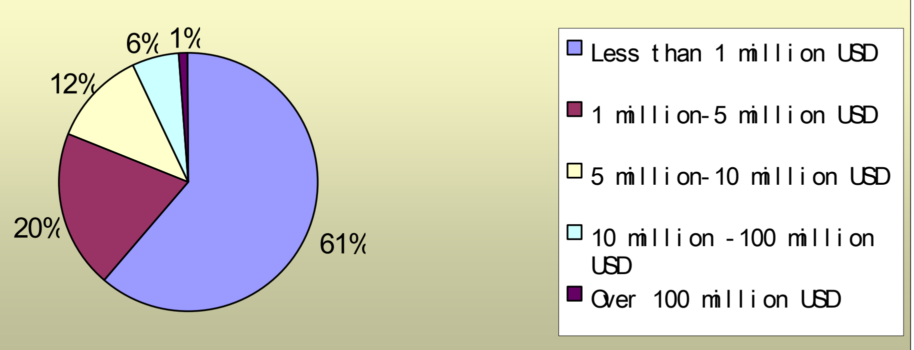


II. Situation of the Overseas Investments of Chinese Enterprises

1. Small scale of investments

Of the respondent enterprise having made overseas investments, those with an investment amount of less than one million USD account for 61%, and only ten of them made investments exceeding 100 million USD, accounting for only about 1%. It thus appears that the overall scale of current overseas investments of Chinese enterprises is small, and only a very few enterprises have made large scale overseas investments.

Fig. 2.1 Scale of overseas investments



2. Distribution of investment destinations

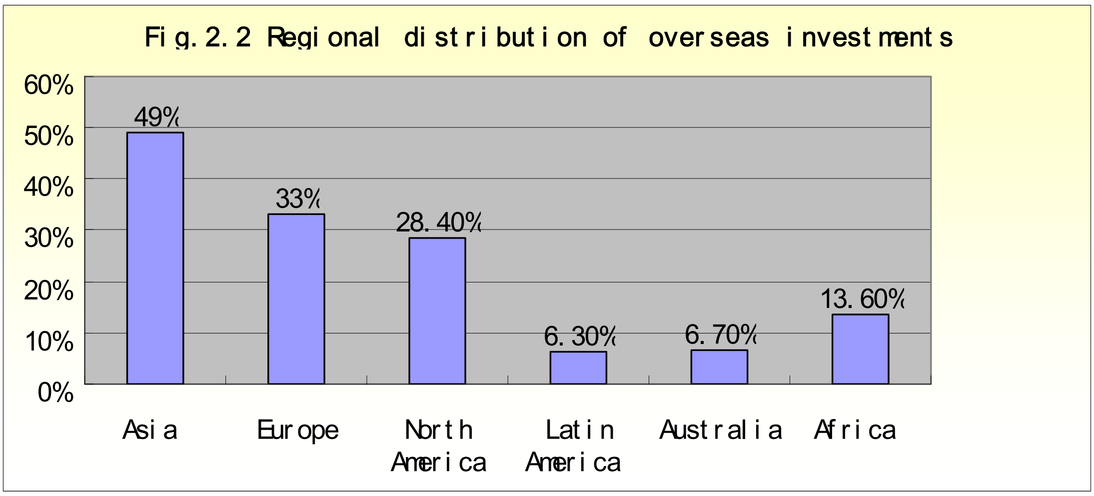
Viewed from the regional distribution of outbound enterprises set up by the respondent enterprises, Chinese overseas investments are made mostly in Asia, Europe and North America. Of the 344 respondent enterprises having made overseas investments, 49% have invested in Asia and 33% o have invested in Europe. The respondent enterprises having made investments in Asia take up 49%. Those that have invested in Africa take up 13.6%. Africa has gradually become a hot region for Chinese investments. Only a few firms have chosen to invest in Latin America and Australia.

With the quickening of the “Going Global” process of Chinese enterprises, more and more countries and territories have become destinations for overseas investments of Chinese enterprises. The questionnaires received show that Chinese overseas investments span over more than one hundred countries and territories. In terms of the number of Chinese enterprises investing there, the top countries are the United States, Japan, France, Germany, Hong Kong, the United Kingdom, Vietnam, Korea, and Australia. Of them, the United States has attracted the most Chinese investments, and 28% of the respondent enterprises have chosen the United States as their investment destination. Meanwhile, when Chinese companies invest in the European Union, their preferred locations are France, Germany and the United Kingdom. It can be seen from

Table 2.1 that the overseas investments of Chinese enterprises mainly concentrate in China Hong Kong, the United States and the largest EU Member States, indicating that developed countries have an increasing appeal for Chinese investments. Besides, when Chinese companies invest in Developing Countries, the main destinations of their overseas operation are Vietnam, India and Russia. It is noteworthy that Vietnam, as a developing country, has been among the top ten places attracting investment by Chinese enterprises for two consecutive years and is fast becoming an important destination for Chinese investments.

Table 2.1 Top ten countries and territories attracting overseas investments of most Chinese enterprises

Country	No. of enterprise	Proportion
USA	95	28%
Japan	45	13%
France	37	11%
Germany	36	10%
Hong Kong	35	10%
UK	25	7%
Italy	24	7%
Vietnam	22	6%
Korea	21	6%
Australia	20	6%



3. History of firms' overseas activities

Turning to the past experience of surveyed companies, most of the Chinese firms which are active abroad tend to be quite recent. Nearly 15% of companies have invested abroad between 2000 and today, 5% from 1995 and only 2% of companies have had overseas operation since 1985.

Table 2.2 Experience abroad

Year of first overseas investment	%
~ 1985	0.64
1986 ~ 1990	0.80
1991 ~ 1995	0.88
1996 ~ 2000	5.10
2001 ~ 2005	9.65
2006 ~	8.45
No Investment	74.48
Total	100

4. Type of overseas activity

Turning to the categories of current business overseas, in general, companies which have several overseas operations declared to have up to three different categories of business. In developed countries the main categories of overseas business activity are sales offices and representative offices whose share is respectively for 30% and 22%. The picture is similar in developing countries.

Table 2.3 Activity of foreign affiliate

	Developed Countries					Developing Countries				
Overseas business category	First activity *	Second activity	Third activity	Total	Total in %	First activity	Second activity	Third activity	Total	Total in %

Representative office	88	1	1	90	22.06	46	2	1	49	17.31
Agent	30	28	0	58	14.22	26	5	0	31	10.95
Sales Office	78	21	25	124	30.39	55	9	5	69	24.38
Manufacturing facility	10	3	4	17	4.17	27	5	4	36	12.72
Sourcing centre	11	9	3	23	5.64	6	13	2	21	7.42
Distribution centre	16	8	16	40	9.80	5	4	4	13	4.59
Don't know	16	20	20	56	13.73	22	21	21	64	22.61
Total	249	90	69	408	100	187	59	37	283	100

（ *: the respondent companies were asked to choose at most 3 activities, * representing the first choice.）

5. Industrial sectors and fields

The overseas investments of Chinese enterprises involve many industrial sectors, with most investments going to the manufacturing industry. The industry structure of Chinese companies in developing countries is very similar to the one in developed countries. Those enterprises that have made overseas investments in the manufacturing industry in developed countries account for 78% and those in the manufacturing industry in developing countries account for 71% of the total Within the manufacturing industry, the machinery sector has attracted the most Chinese investments, followed by textile sector. This indicates that when Chinese firms invest abroad, they tend to be active in the same industry as in the domestic economy. The number of enterprises investing in agriculture, finance, and transportation & warehousing is small.

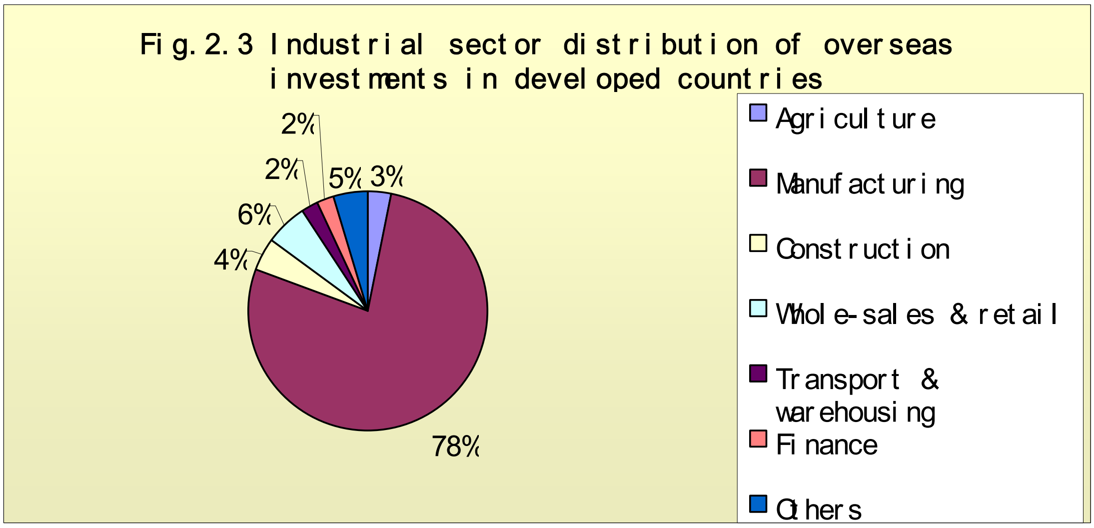


Table 2.4 Industrial sector distribution of overseas investments in developed countries (detailed classification)

Manufacturing sub-sector	Sample	%
Manufacturing (general information)	57	29.53
Manufacturing (detailed information)	136	70.47
from which: Manufacture of foods products, beverages and tobacco	16	8.29
Manufacture of textiles and textile products	27	13.99
Manufacture of leather and leather products	2	1.04
Manufacture of wood and wood products	5	2.59
Manufacture of pulp, paper and paper products; publishing and printing	1	0.52
Manufacture of coke, refined petroleum products and nuclear fuel	0	0.00
Manufacture of chemicals, chemical products and man-made fibres	12	6.22
Manufacture of rubber and plastic products	1	0.52
Manufacture of other non-metallic mineral products	8	4.15
Manufacture of basic metals and fabricated metal products	15	7.77
Manufacture of machinery and equipment n.e.c.	32	16.58
Manufacture of electrical and optical equipment	8	4.15
Manufacture of transport equipment	5	2.59
Manufacture n.e.c.	4	2.07
Total	193	100

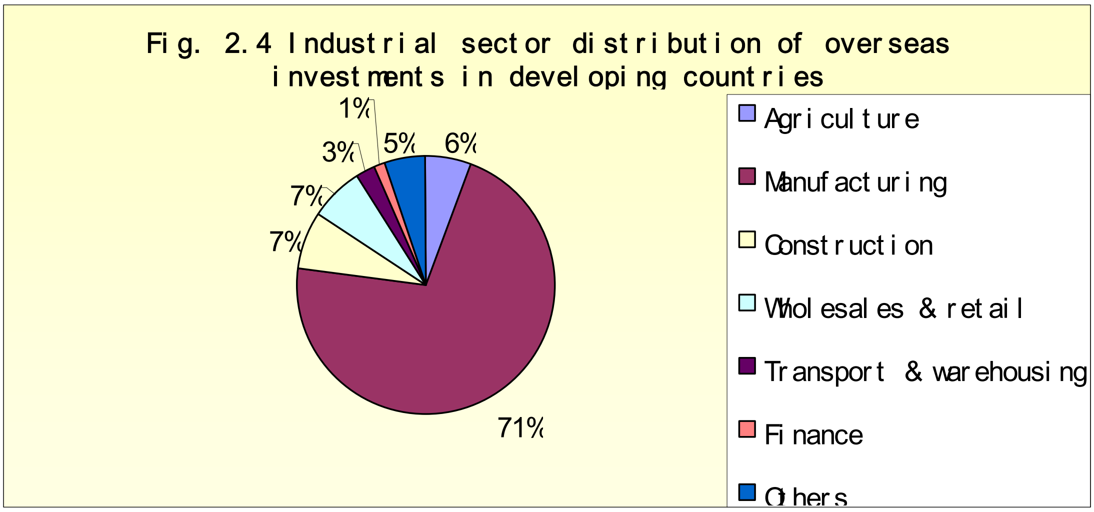


Table 2.5 Industrial sector distribution of overseas investments in developing countries (detailed classification)

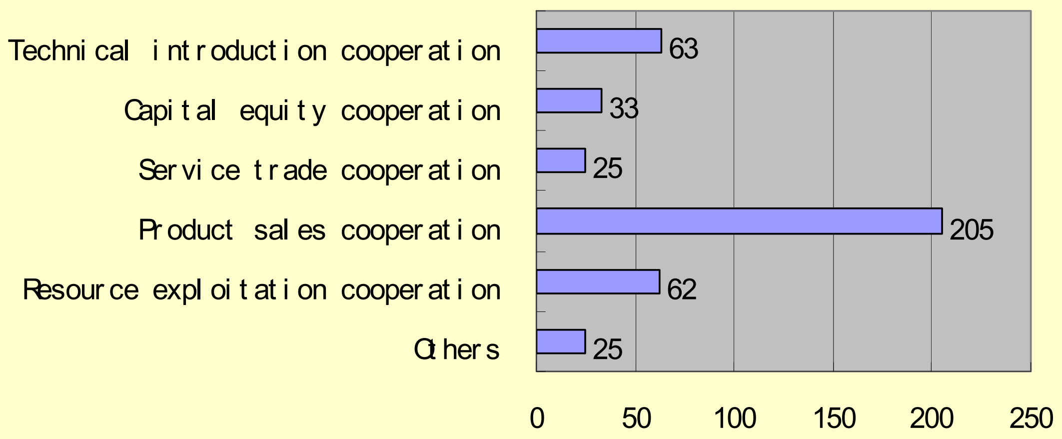
Manufacturing sub-sector		Sample	%
Manufacturing (general information)		22	18.03
Manufacturing (detailed information)		100	81.97
from which:	Manufacture of foods products, beverages and tobacco	5	4.10
	Manufacture of textiles and textile products	17	13.93
	Manufacture of leather and leather products	2	1.64
	Manufacture of wood and wood products	2	1.64
	Manufacture of pulp, paper and paper products; publishing and printing	1	0.82
	Manufacture of coke, refined petroleum products and nuclear fuel	1	0.82
	Manufacture of chemicals, chemical products and man-made fibres	9	7.38
	Manufacture of rubber and plastic products	3	2.46
	Manufacture of other non-metallic mineral products	7	5.74
	Manufacture of basic metals and fabricated metal products	11	9.02
	Manufacture of machinery and equipment n.e.c.	26	21.31
	Manufacture of electrical and optical equipment	7	5.74
	Manufacture of transport equipment	6	4.92

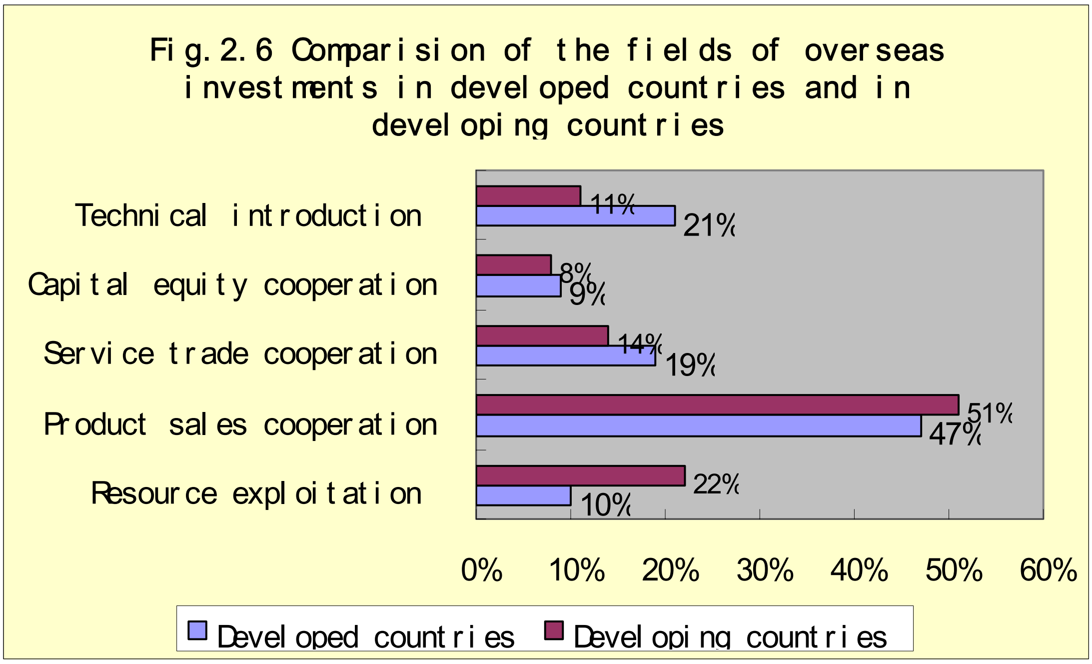
Manufacture n.e.c.	3	2.46
Total	122	100

In terms of types of overseas investment projects, we divide the overseas investments into five categories, i.e. resource exploitation cooperation, product sales cooperation, service trade cooperation, capital equity cooperation and technology introduction cooperation. Of the respondent enterprises that have made overseas investments, 205 enterprises are involved in the cooperation in product sales, 62 enterprises are involved in the cooperation in resource cooperation, and 63 enterprises are involved in the cooperation of technical introduction. The exploitation of overseas product market, utilization of overseas resources and utilization of overseas technology are the three categories currently attracting most overseas investments of Chinese enterprise.

In terms of resource exploitation cooperation, the enterprises having made overseas investments in developing countries account for 22%, and the proportion for developed countries is only 10%; in terms of technical introduction cooperation, the enterprises having made overseas investments in developing countries account for 11%, and the proportion for developed countries is 22%, indicating Chinese enterprises have prioritized the exploitation of local resources in their investments in developing countries while focusing more on introducing advanced technologies in their investments in developed countries. In their overseas investments in both developed and developing countries, about half of Chinese enterprises have carried out the cooperation in product sales with local enterprises, illustrating that the overseas investments of Chinese enterprises aim mainly to exploit overseas markets.

Fig. 2.5 Field distribution of overseas investments

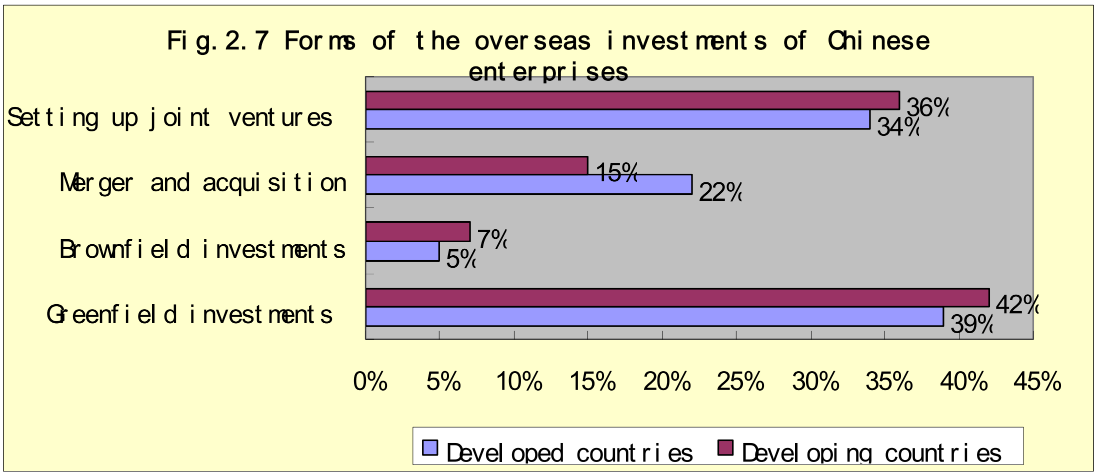




6. Forms of overseas investments

Greenfield investment is the main type of project implemented by Chinese enterprises in their overseas investments, accounting for 40% of the total. Joint venture is the second investment mode by Chinese enterprises, used by more than 30% of respondents in their overseas investments. The pattern is similar regarding overseas operations in developed countries and in developing countries.

Investments in developed countries by way of merger or acquisition accounted for 22% of the total. In developing countries, the same figure was 15%, compared to only 8% in the survey of 2008, indicating a significant increase of Chinese enterprises that have carried out overseas mergers and acquisition in 2009.



7. Factors influencing overseas investments

Regarding investment in the EU, the government's "Go Global" policy and related incentives appear to be decisive for most surveyed companies. The stagnation of the domestic market is also important according to the surveyed companies while other factors such as availability of investment capital, rising domestic labor costs, and saving of transports costs seem to be less important or not so relevant.

Table 2.6 Push factors in China (EU 27)

EU 27	Decisive	Very Important	Important	Less Important	Otherwise	Total
	% (Among the companies who have answered the question)					
Govt. “go global” policy & related incentives	25	22	18	3	31	100
Stagnant domestic market	7	19	22	13	39	100
Availability of investment capital	14	23	21	5	37	100
Rising domestic labor cost	11	15	19	9	46	100
Saving transport costs	9	20	21	7	43	100

The push factors in China for investing in other developed countries are very similar. Chinese companies’ investment abroad mainly encouraged by government’s incentives and accessing demand in foreign markets.

Table 2.7 Push factors in China (other Developed Countries)

Other Developed Countries	Decisive	Very Important	Important	Weakly Important	Otherwise	Total
	% (Among the companies who have answered the question)					
Govt. “go global” policy & related incentives	18	34	18	5	25	100
Stagnant domestic market	7	18	29	12	33	100
Availability of investment capital	14	27	25	4	30	100
Rising domestic labor cost	4	19	24	14	39	100
Saving transport costs	7	20	22	11	40	100

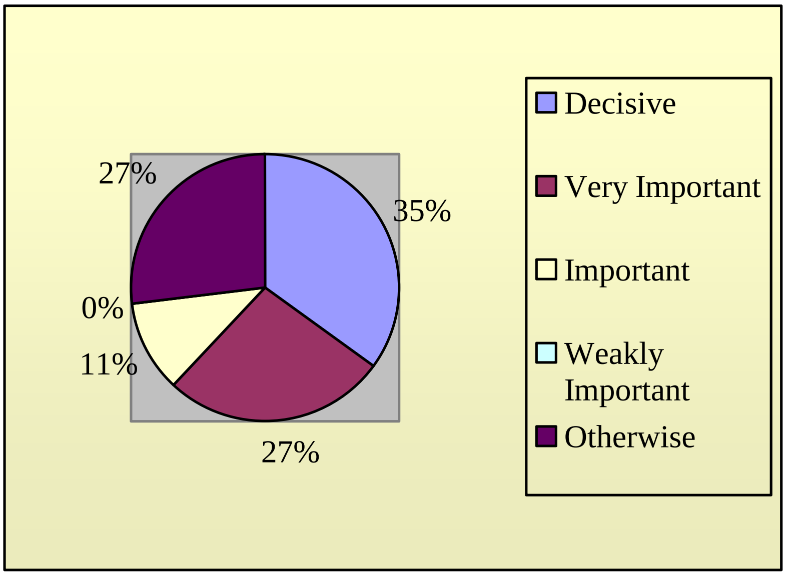
However, the push factors in China which influence investments in developing countries are quite different. While government's incentives are still important, Chinese companies' investment in developing countries is also influenced by rising labor costs in the domestic market.

Table 2.8 Push factors in China (Developing Countries)

Developing Countries	Decisive	Very Important	Important	Weakly Important	Otherwise	Total
	% (Among the companies who have answered the question)					
Govt. "go global" policy & related incentives	15	25	24	6	30	100
Stagnant domestic market	7	20	22	13	39	100
Availability of investment capital	13	20	25	6	37	100
Rising domestic labor cost	6	17	21	13	42	100
Saving transport costs	7	17	23	10	42	100

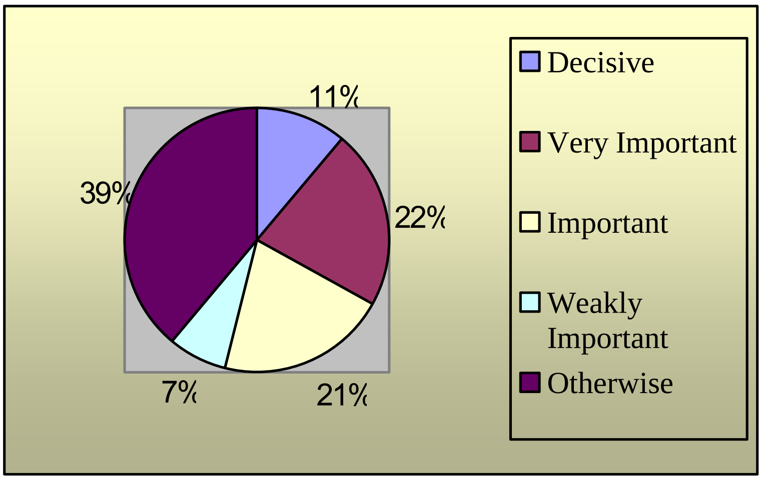
Turning to the full factors from the host countries that have influenced past overseas investment decisions, they vary also according to destination regions. Regarding investments in the EU 27, market potential, access to natural resources, access to skilled labor resources and to advanced technology and R&D, acquisition of established brands and the presence of Chinese companies appear to be decisive or very important factors for most companies active abroad. Access to low cost labor and to better public procurement market seem important but mostly weakly important. Meanwhile, other factors such as access to international management practices, avoiding transports costs and host preferential investment policies do not seem relevant.

Fig 2.8 Market potential as pull factors from EU 27



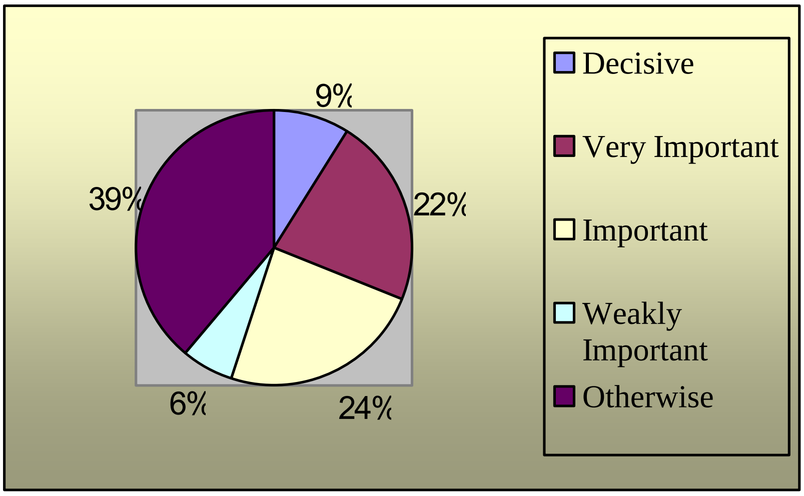
Regarding investments in other developed countries, the main factors pulling investments are very similar: market potential, access to natural resources, access to skilled labor resources and to advanced technology and R&D, acquisition of established brands and presence of Chinese firms appear to be decisive or very important determinants. Accesses to low cost labor, to better public procurement market seem quite important. However, here again, other factors such as access to international management practices, presence of Chinese firms, avoiding transports costs and host preferential investment are not very relevant for Chinese investments.

Fig 2.9 Access to natural resources as pull factors from other developed countries



Regarding investments in the developing countries, the picture is quite different. Access to natural resources and to low costs labor appear quite important. One should note that market potential is also a very important factor suggesting that Chinese firms face also a large demand in these markets. However factors such as access to skilled labor resources, access to advanced technology and R&D and acquisition of established brands do not appear important regarding investments in developing countries.

Fig 2.10 Access to low cost labor as pull factors from developing countries



Regarding the other factors that have influenced past investment location choices, they are in this case quite similar regarding investment in EU 27, in other Developed Countries and in Developing Countries. Institutional factors such as transparent and fair regulatory environment as well as tax systems appear to be decisive and very important. Membership in a free trade agreement seems also very important. Public subsidies or government assistance in destination countries and local labor union appear to be important or weakly important factors. Besides, Chinese companies invest in a country much for targeting this destination market than to use it as a base of export to third countries.

8. Challenges faced

The greatest challenge in making overseas investments by Chinese enterprises is the difficulty in financing. Other challenges include lack of understanding about Chinese brands by local consumers, concerns among foreign consumers about the quality and safety of Chinese products and lack of international business and management personnel. According to the statistics, most enterprises consider that cultural barrier and negative responses by governments to investments do not constitute significant challenges to their overseas investments.

Table 2.9 Scores of various challenges in overseas investment process

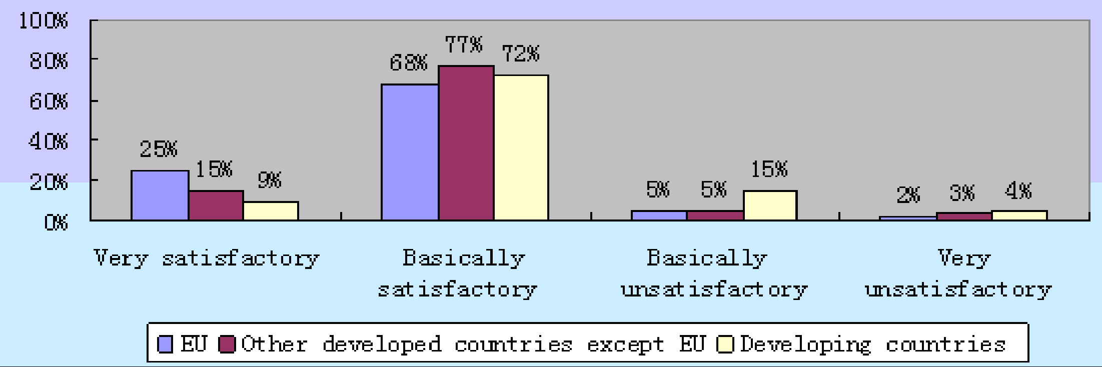
Challenge	Score
Difficulty in financing	2.89
Not understanding of local consumers about the Chinese brand	2.91
Care of foreign consumers on Chinese products' quality and safety	2.98
Lack of international business and management talents	3.23

Lack of innovation on the products/ processing technology for international market	3.27
Lack of the understanding on new market regulations and risks	3.32
Difficulty in commercial activities due to cultural barrier	3.60
Negative response of the host country to the investment	3.75
Negative response of Chinese government or people to the investment	3.83
Note: A smaller score indicates a greater influence of the factor on the overseas investment of enterprises.	

9. Satisfaction with existing overseas investments

Most of the respondent enterprises are satisfied with their current overseas investments. More than 90% of them are satisfactory with their investments in EU and other developed countries, and 81% of them are satisfied with their investments in developing countries. Of the enterprises having investments in development countries, 9% of them are extremely satisfied and 15% of them are basically unsatisfied. In the case of the enterprises having investments in EU, the figures are 25% and 5%, respectively. On the whole, Chinese enterprises express a lower degree of satisfaction with their investments in developing countries than in developed countries.

Fig.2.11 Assessment of the satsifaction degrees of current overseas investments

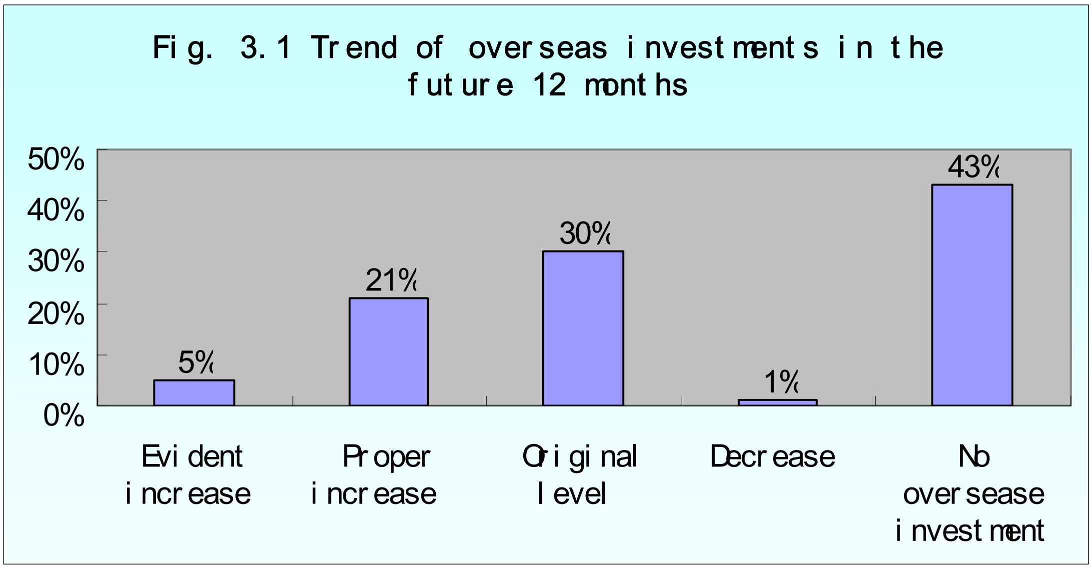


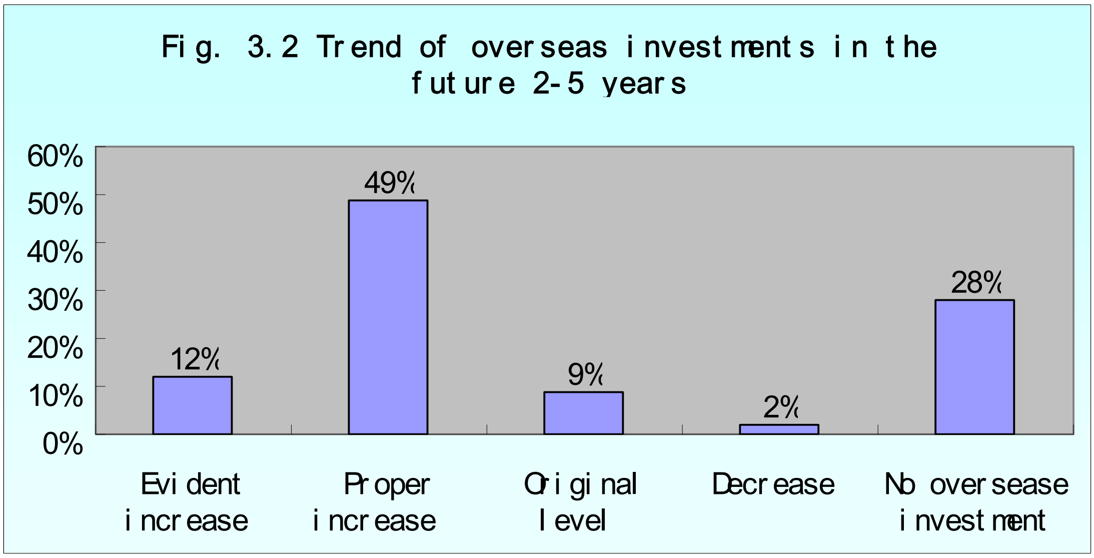
III. Future Intentions for Overseas Investments

1. Future overseas investment trend

In reply to the question about the intended investments in the coming 12 months, 26% of the respondent enterprises expressed their intention to increase overseas investments. 30% of them will keep the current investment level and 43% will not make any overseas investments. Faced with the risks of the current financial crisis, Chinese enterprises are cautious about overseas investments.

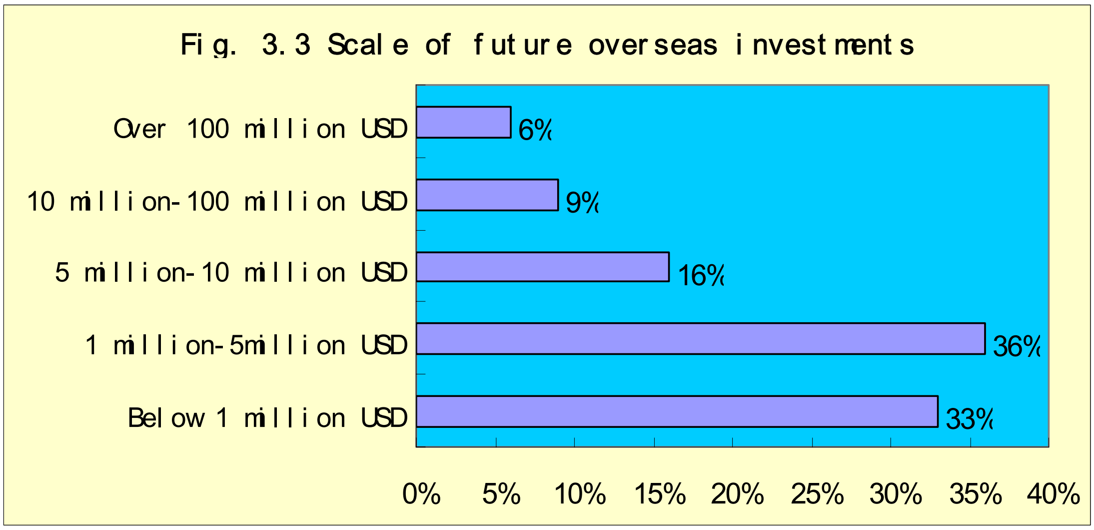
Concerning their investment plans in the next 2~5 years, 61% of the enterprises will considerably increase or probably increase their overseas investments, indicating Chinese enterprises hope to make overseas investments in a certain period in the future.





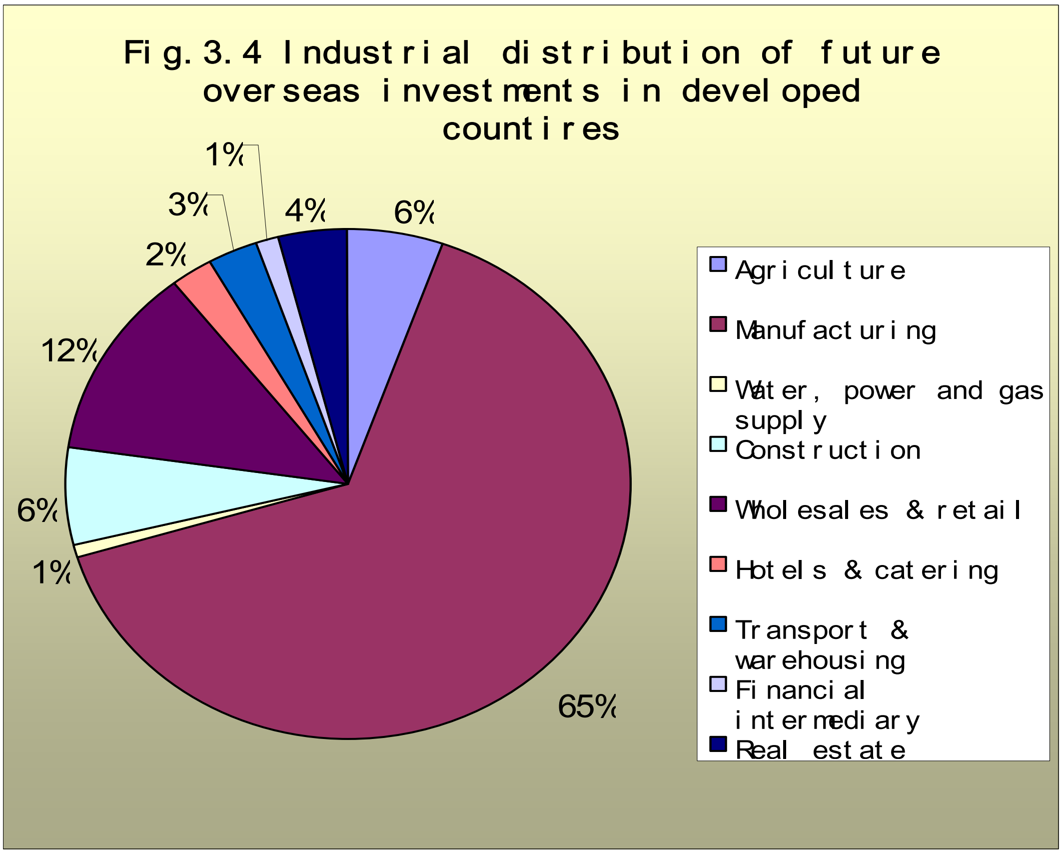
2. Scale of future overseas investments

In a long and medium period (2~5 years), the respondent enterprises will still have a small scale of planned investments. 33% of them are expected to make their overseas investments below one million USD in the future 2~5 years, and 36% of them will get their overseas investments at 1~5 million USD. 31% of them are expected to make overseas investments of more than 5 million USD in the future 2~5 years, 11 percentage points higher than the figure in the survey of 2008, indicating Chinese enterprises are gradually getting rid of the impact of financial crisis and their intention of overseas investments has somewhat enhanced.



3. Sectors for future overseas investments

The respondent enterprises will make their investments in almost the same industrial sectors as the current investments, and the manufacturing industry will still be the main sector attracting their overseas investments. A certain number of enterprises also plan to invest in construction, whole-sale & retail and agricultural sectors.



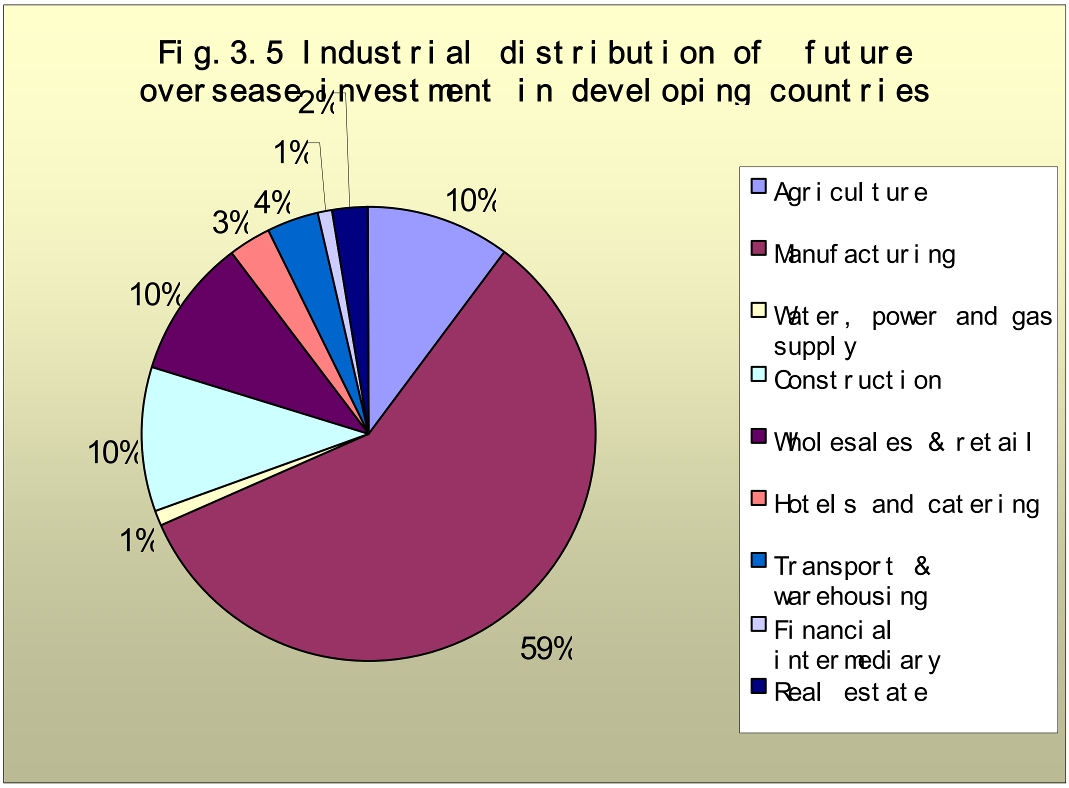


Fig. 3.5 Industrial distribution of future overseas investment in developing countries

4. Forms of future overseas investments

Setting up sales offices or representative offices will be a form of overseas investment mostly adopted by Chinese enterprises in the future, which is followed by distribution centers. The investment mode of setting up sales office or representative offices involves a small investment amount and is flexible in operation, and therefore, is commonly used by enterprises that make their first overseas investments. The high proportion of the application of this mode indicates that most Chinese enterprises are at their initial stage of making overseas investments. Allocating production equipment and setting up purchasing centers overseas are high-level forms of overseas investments, imposing high requirements on the fund power and international management capability of the investors. The enterprises adopting these two forms of investments account for less than 10% of those having overseas investments respectively; illustrating Chinese enterprises are cautious about large scale overseas investments. Regarding the expected method of FDI in the future, mergers and acquisitions become more important.

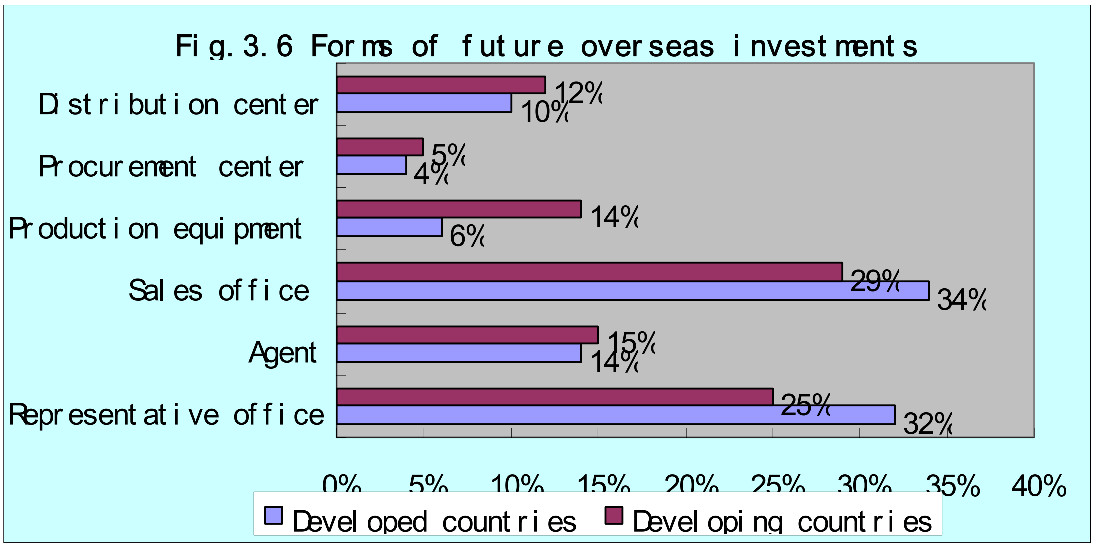


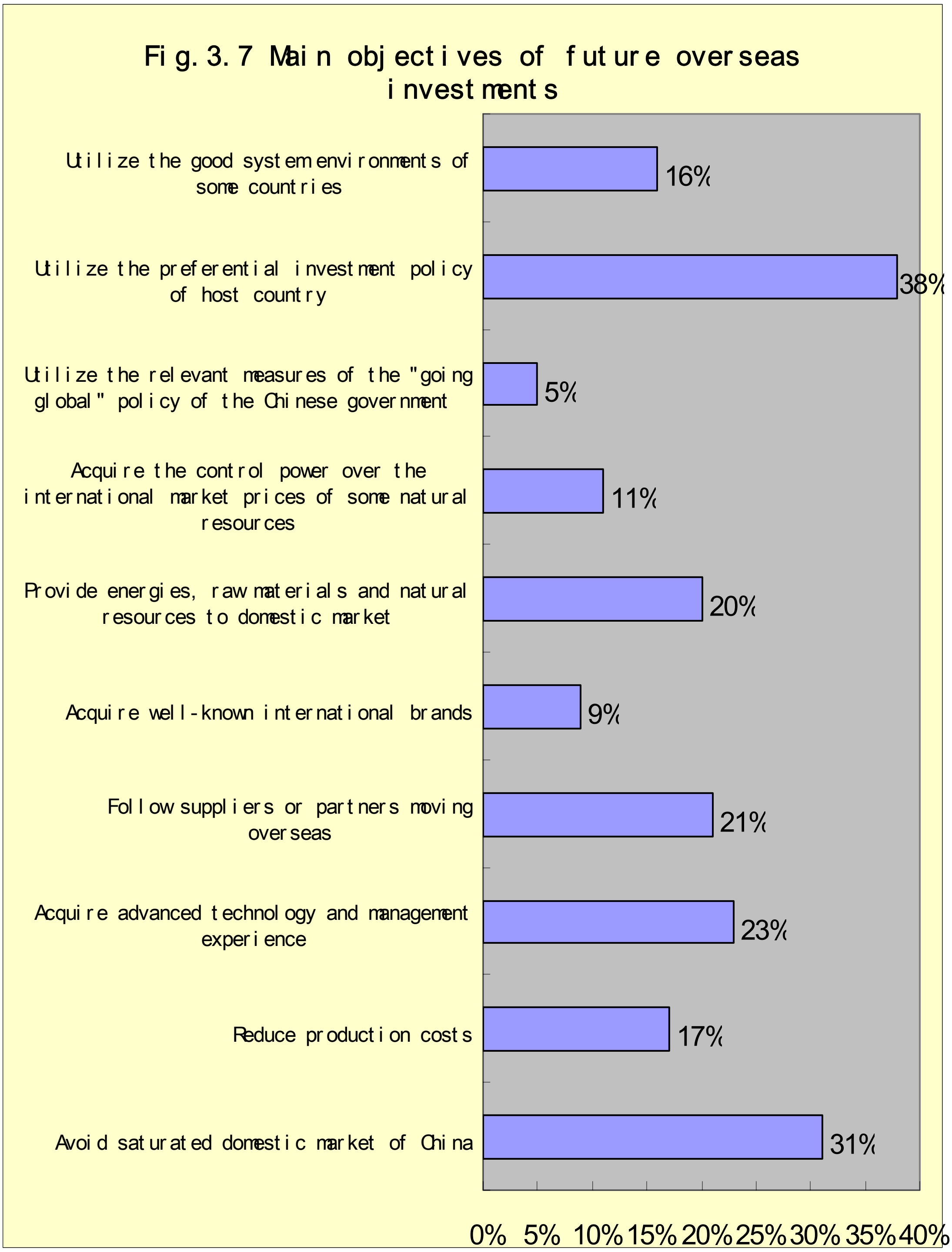
Fig. 3.6 Forms of future overseas investments

Table 3.1 Expected method of FDI in the future

Method	Sample	% w/o missing value	% w/ missing value
New direct investment/Greenfield investment	123	10.03%	8.93%
Expansion or upgrading of existing company-owned facilities	269	21.94%	19.53%
Merger or acquisition of existing companies or assets	251	20.47%	18.23%
Joint venture	4	0.33%	0.29%
Don't know	579	47.23%	42.05%
No answer	151		10.97%
Total	1377		100.00%

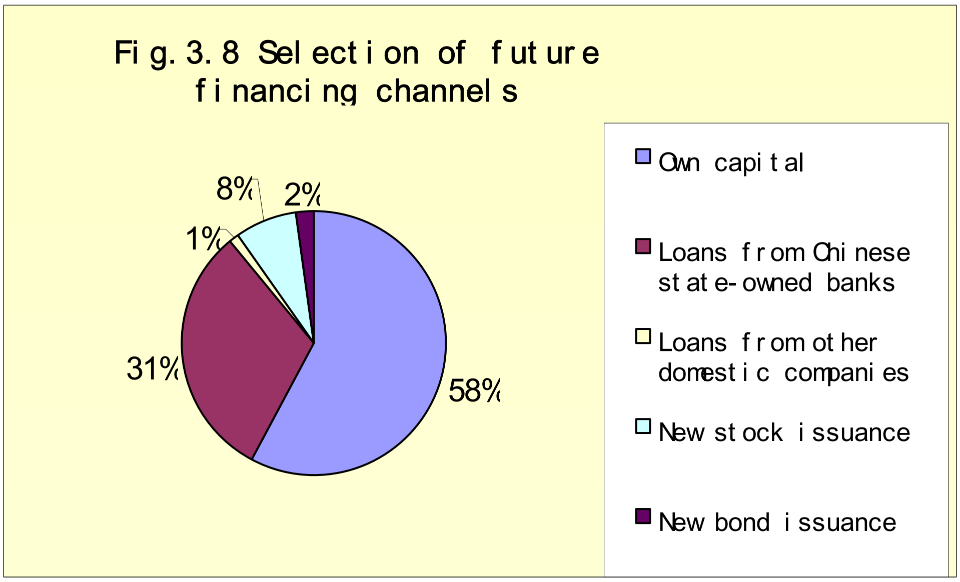
5. Objectives of future overseas investments

The main aim of the future overseas investments of Chinese enterprises is to utilize the preferential investment policies of host countries and to avoid the saturated domestic market in China. Over 30% of the enterprises consider these two are the objectives of their overseas investments. Other objectives include acquiring advanced technology and management experience, following the partners moving overseas and providing raw materials and natural resources for their domestic market, which are chosen by 20% of the responding enterprises. In addition, factors such as taking advantage of a favorable investment environment (such as convenient financing and low taxation), reducing production costs and acquiring the control power of international market pricing of natural resources are also considered by Chinese enterprises making overseas investments, indicating a diversification trend in the overseas investment objectives. Only less than 10% of the enterprises consider their aim of making overseas investments is to acquire well-known international brands.



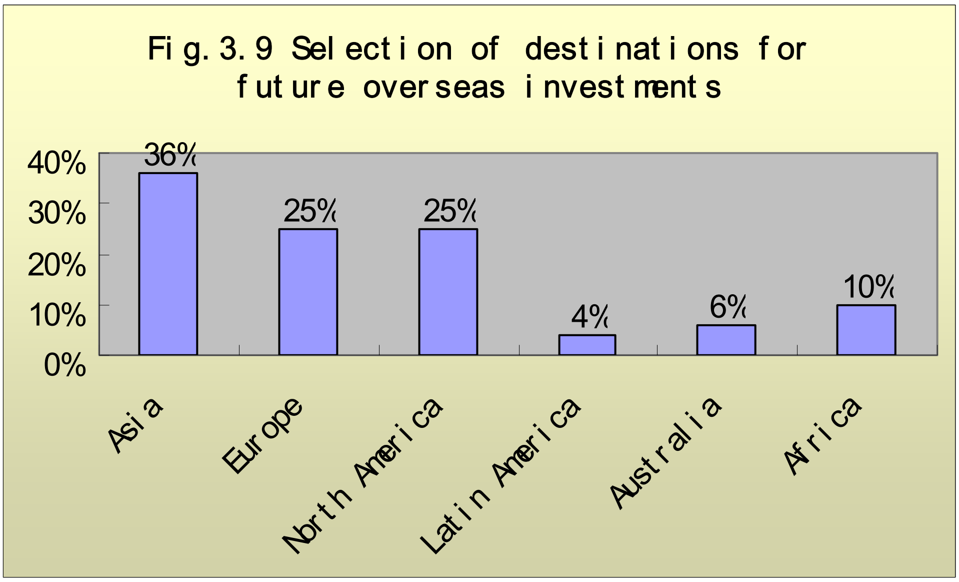
6. Financing of future overseas investments

59% of the respondent enterprises will make their overseas investments by utilizing their own funds and 31% by bank loans. The two are the main channels for Chinese enterprises to get funds for overseas investments. In addition, 10% of the enterprises having overseas investments have financed for overseas investments through issuing stocks and bonds at capital markets. On the whole, the result indicates that the financing channels of Chinese enterprises for overseas investments are few, and difficult financing still restricts the "Going Global" pace of Chinese enterprises to a certain extent.



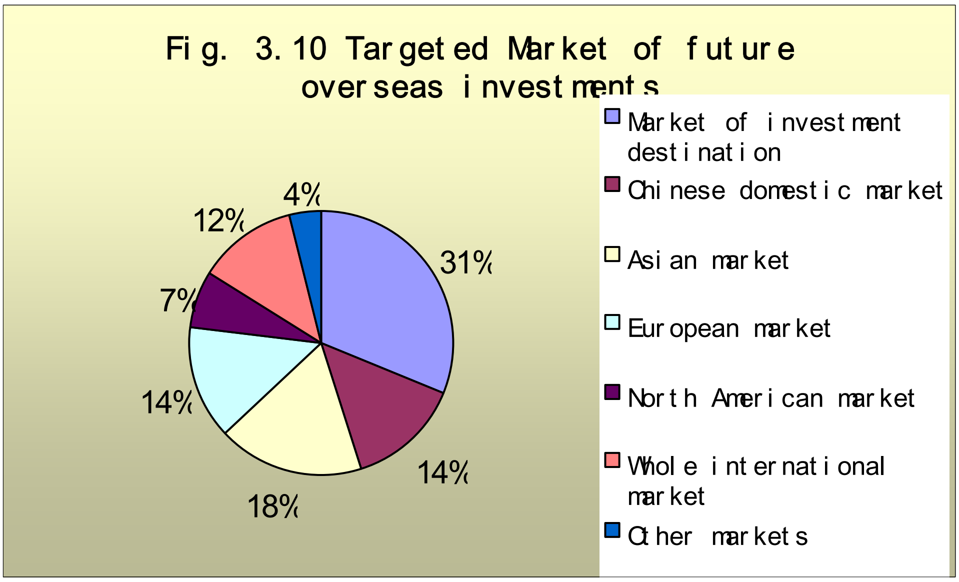
7. Destination of future overseas investments

Asia is still the investment destination most favored by Chinese enterprises. 36% of the respondent enterprises have an intention to make investments in Asia, 22 percentage points lower than the figure in the survey of 2008. 25% of the enterprises intend to make their investments in Europe and 25% of the enterprises intend to make their investments in North America, a slight rise for both compared to the figures in the survey of 2008. This indicates a trend of gradual dispersion and diversification in the destinations of the overseas investments of Chinese enterprises.



8. Targeted markets of future overseas investments

The main targeted markets of the overseas investments of Chinese enterprises will be the markets where their current investments are located, which are followed by the Chinese domestic market, Asian market and European market. Very few Chinese enterprises see their target market in North America and other markets.

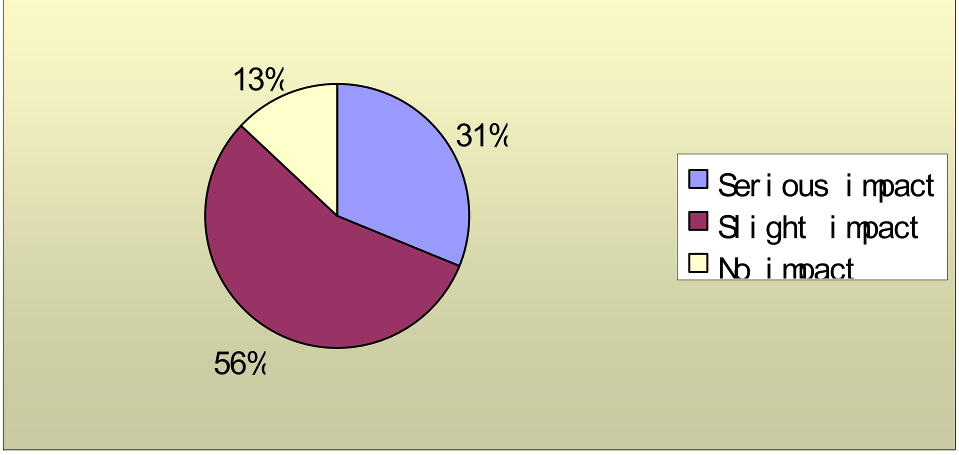


IV. Impact of the Financial Crisis on Overseas Investments of Chinese Enterprises

1. Degree of influence

The financial crisis has had a wide and far-reaching impact on direct international investments. Only 13% of the respondent enterprises have not been affected by the crisis and the other enterprises have suffered the impact of the financial crisis on their overseas investments to different extents. 31% of them have been seriously affected by the crisis in their overseas investments, a slight decline compared to the 40% share in the survey of 2008, indicating that the enterprises having overseas investments have left behind the most difficult period and are gradually recovering from the impact of the financial crisis.

Fig. 4.1 Impacts of financial crisis on the overseas investment of enterprises



2. Impact on investment activity

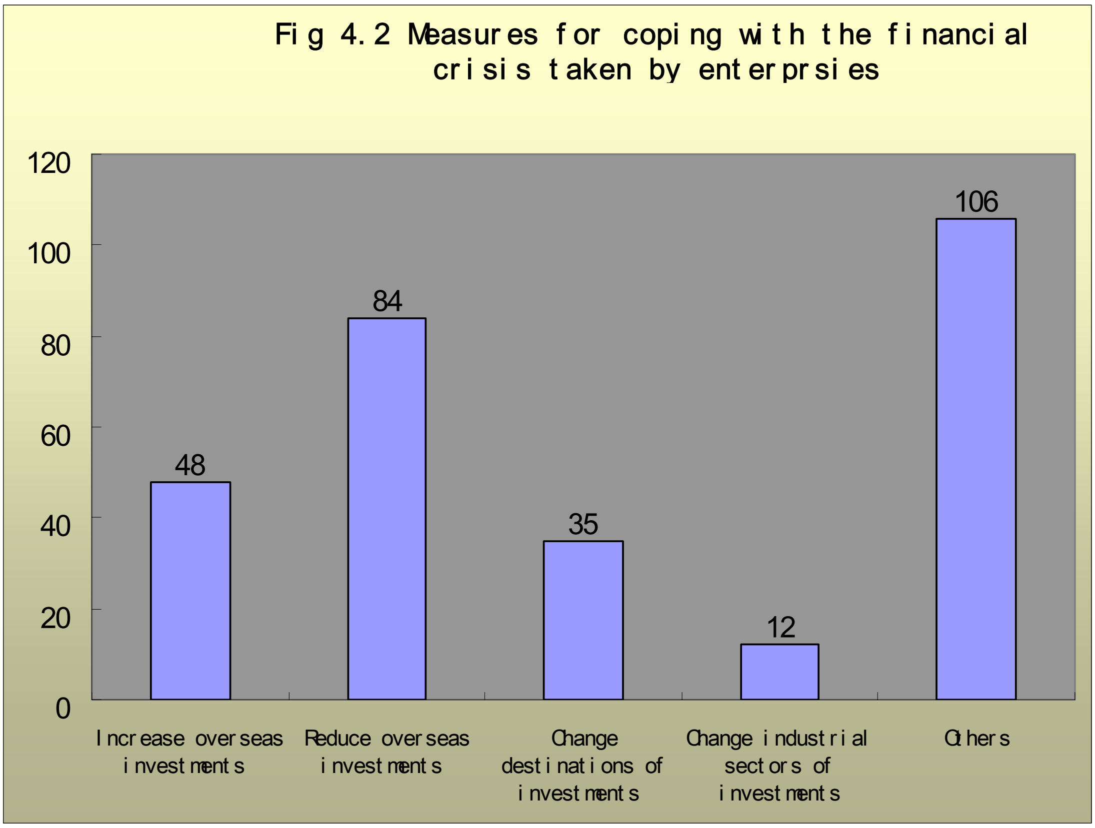
Of the respondent enterprises, 257 enterprises have encountered more difficulties in their overseas investments due to the financial crisis, 101enterprises have found their overseas investments easier due to this crisis, and more enterprises are currently not sure about the impacts of the crisis on their overseas investments.

The financial crisis has led to the decline of overseas market demand, thus depressing the enthusiasm of enterprises for overseas investments. 62% of the respondent enterprises expect that their future overseas investments will be affected by the shrinkage of overseas market. 33% enterprises consider the economic recession of various economies due to the financial crisis and re-rising foreign trade protectionism will affect their overseas investments.

The positive effects of the financial crisis on the overseas investments of Chinese enterprises include the weakening of foreign competitors' power, and the market value shrink of the assets of foreign enterprises, providing the conditions for purchasing overseas assets and companies at lower costs by Chinese enterprises. More than 20% enterprises consider the two impacts are great.

3. Responses by affected enterprises

Enterprises will adopt different measures to cope with the financial crisis. Of the respondent enterprises having overseas investments, 48 enterprises will increase their overseas investments after the crisis, 84 of them will reduce their overseas investments, 35 of them will change the destinations of investments and 12 of them will change the targeted sectors of their investments.



4. Influence of Government macro policies on enterprises in coping with the crisis

After the outburst of the financial crisis, the Chinese government has published a series of macro policies aiming to stabilize export and raise competitiveness, achieving good effects. 71% of the respondent enterprises have benefited from these policies, and only 29% of the respondent enterprises have not benefited, indicating the macro policies have achieved good effects and benefited most of foreign-oriented enterprises. Of these policies, the adjustment of export rebate rate has the most evident influence on the overseas investments of enterprises, and 43% of the respondent enterprises have been influenced, which is followed by the subsidies for encouraging industrial development, the revitalization outline promoting industrial development, and the mobility increase and moderately easy monetary policy. The tax ratio adjustment and tax exemption have only small influence on the overseas investments of enterprises.

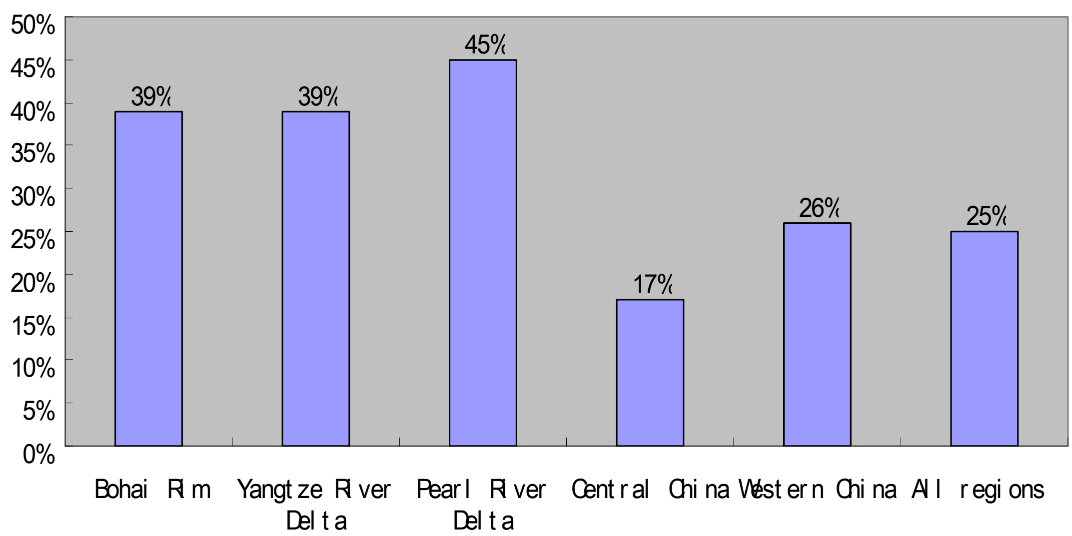
V. Comparison of Regions and Industries

I) Comparison of Regions

1. Comparison of the proportions and scales of enterprises participating in overseas investments

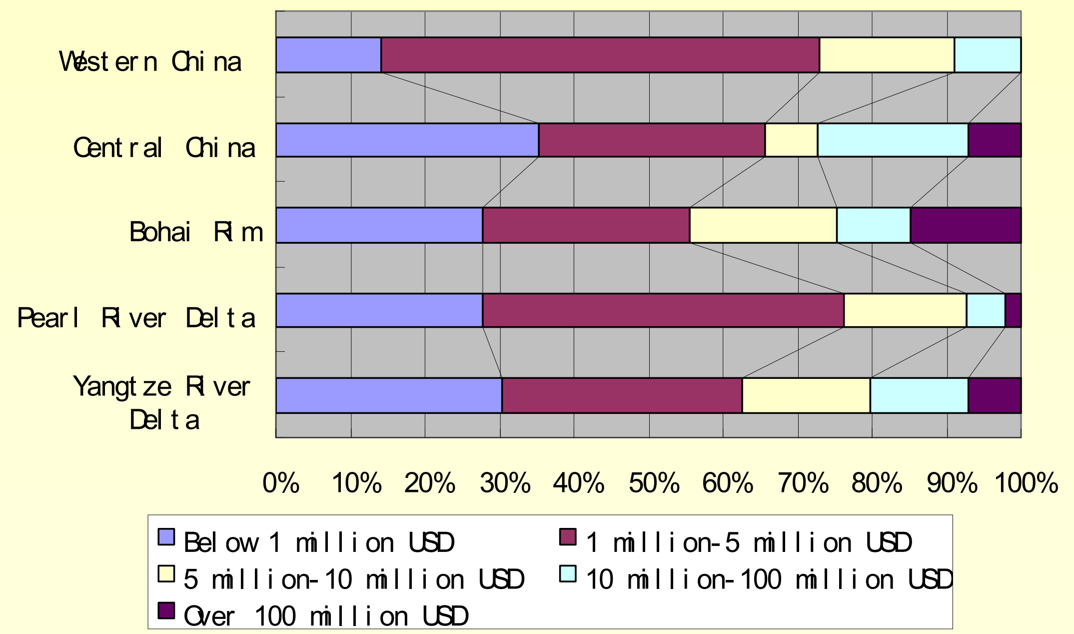
The enterprises in the Pear River Delta have the highest proportion of overseas investment, with nearly half of them participating in overseas investments, the proportion of the enterprises participating in overseas investments in the Yangtze River Delta and Bohai Rim regions rank second, and only 20% of the enterprises in Central China and Western China have participated in overseas investments. It is because the coastal areas in East China exceed that of Central China and Western China in terms of economic development level and opening degree.

Fig. 5.1 Proportions of enterprises making overseas investments of various regions



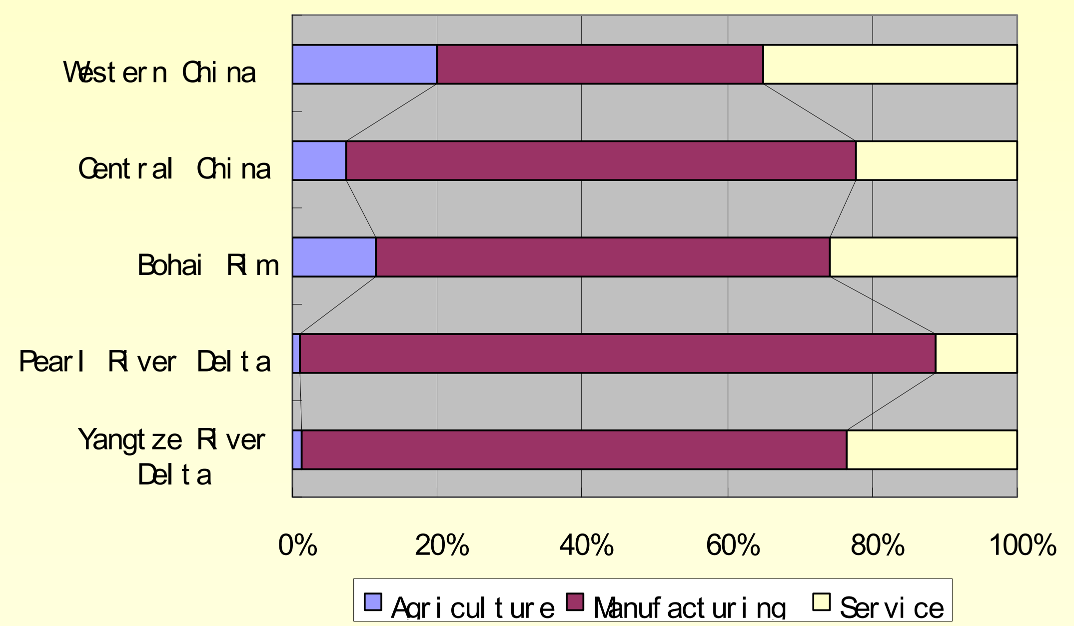
The comparison of the scales of current overseas investments shows that, of the enterprises having overseas investments, the scale of overseas investments of over 40% of the enterprises in Bohai Rim exceeds 5 million USD, and the scale of overseas investments of more than10% of them is over 100 million USD. Their scale of overseas investments is high on the whole. Similarly, the scale of overseas investments of nearly 40% of the enterprises in Delta River Delta exceeds 5 million USD. The scale of overseas investments of 70% of the enterprises in western China is less than 5 million USD and there are no enterprises that have overseas investments exceeding 100 million USD. Similar to western China, in Pear River Delta region, the scale of overseas investments of more than 70% of the enterprises is smaller than 5 million USD. Interestingly, the proportion of the enterprises having overseas investments exceeding 10 million USD is higher than that in Bohai Rim, Yangtze River Delta and Pearl River Delta, which are coastal regions in eastern China.

Fig.5.2 Comparison of the scales of overseas investments made by enterprises of various regions



2. Comparison of overseas investments-involved fields

Fig.5.3 Comparison of sectors of current overseas investments made by enterprises in various regions

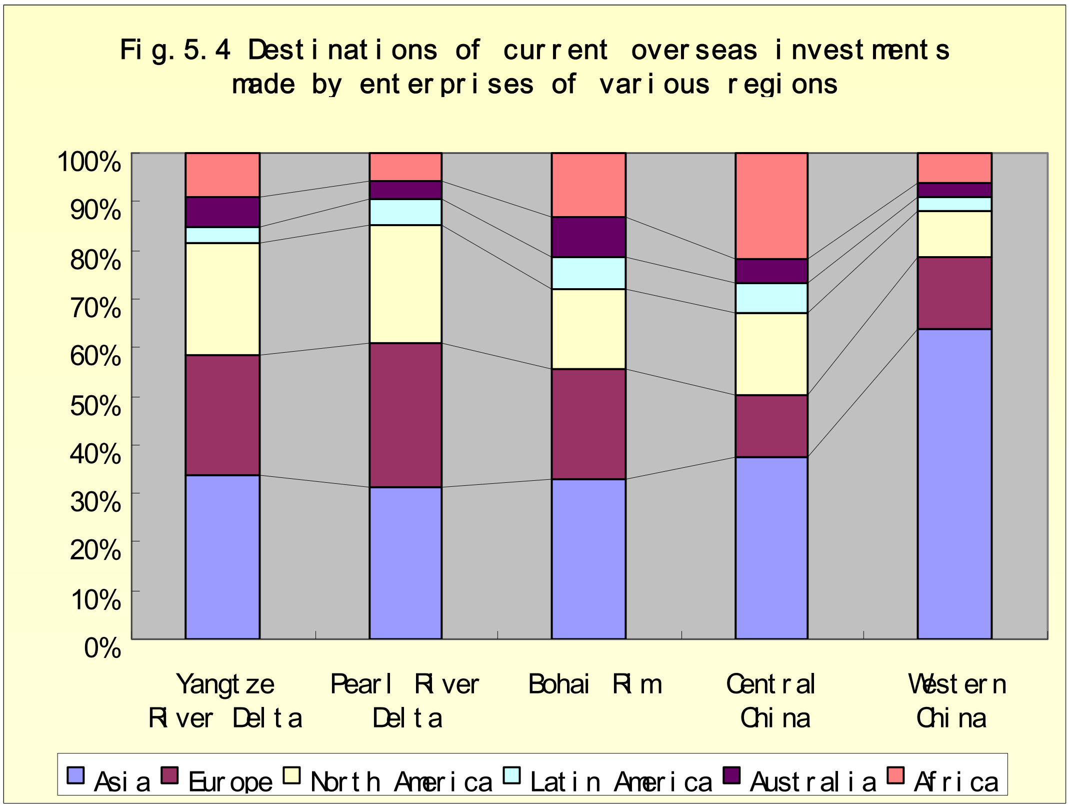


In all the above regions, of the enterprises having overseas investments, the proportion of the enterprises making overseas investments in manufacturing industry exceeds 40%, illustrating manufacturing industry is most favored in by Chinese enterprises in overseas investments. The proportion of the enterprises making overseas investments in manufacturing industry of Yangtze River Delta and Pearl River Delta is about 80% respectively, making manufacturing a rather concentrated industry of overseas investments. In addition to manufacturing industry, service industry has also attracted a high proportion of the enterprises making overseas investments in Bohai Rim and central China. The industrial distribution of overseas investments made by the enterprises in Western China is relatively balanced, with the proportion of the enterprises making overseas investments in agriculture being 20% and that of the enterprises making overseas investments in service industry exceeding 30%.

The number of overseas projects in developed countries invested by the enterprises in Yangtze River Delta, Pearl River Delta and Bohai Rim is more than that in developing countries, and in the case of the enterprises of central China and western China, it is on the contrary, suggesting that the enterprises in the coastal areas in eastern China are inclined to make their overseas investments in developed countries and territories while the enterprises in central and western areas in China make their overseas investments more in developing countries.

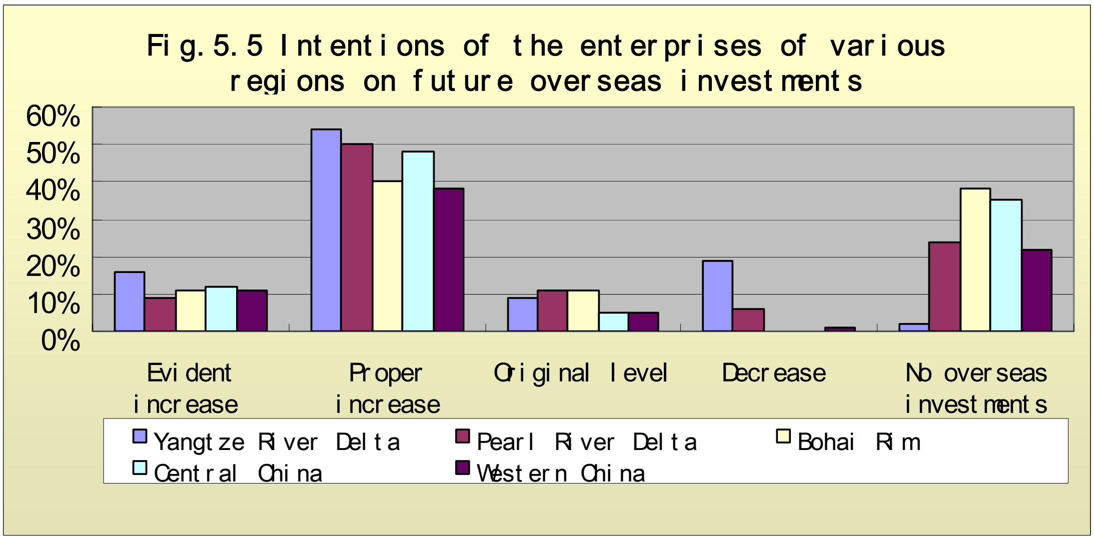
3. Comparison of destinations of overseas investments

Asia is a destination of overseas investments most favored by the respondent enterprises. Over 30% of the projects of overseas investments made by the enterprises of all regions are located in Asia. The overseas investments of the enterprises in Yangtze River Delta and Pearl River Delta are mainly put in Asia, Europe and North America, and only a few of them are put in other regions. The overseas investments of the enterprises of Bohai Rim are scattered, and in addition to the three continents mentioned above, over 10% of them are put in Africa, indicating more diversified destinations of overseas investments. The overseas investments of the enterprises in central China are mainly put in Asia and Africa, with over 30% and 20% of them distributed in these two continents respectively. The overseas investments of the enterprises of western China are mainly put in Asia, with over 60% of the projects of overseas investments in Asia.



4. Comparison of future intention of overseas investments

In the next 2-5 years, over half of the enterprises in all regions expect to increase their overseas investments. Comparatively, the enterprises of Yangtze River Delta have the most expansive overseas investment plans: 16% of the enterprises of this region expressed their intention to considerably increase the overseas investments. Over 30% of the enterprises in Bohai Rim and central China will not make overseas investments.



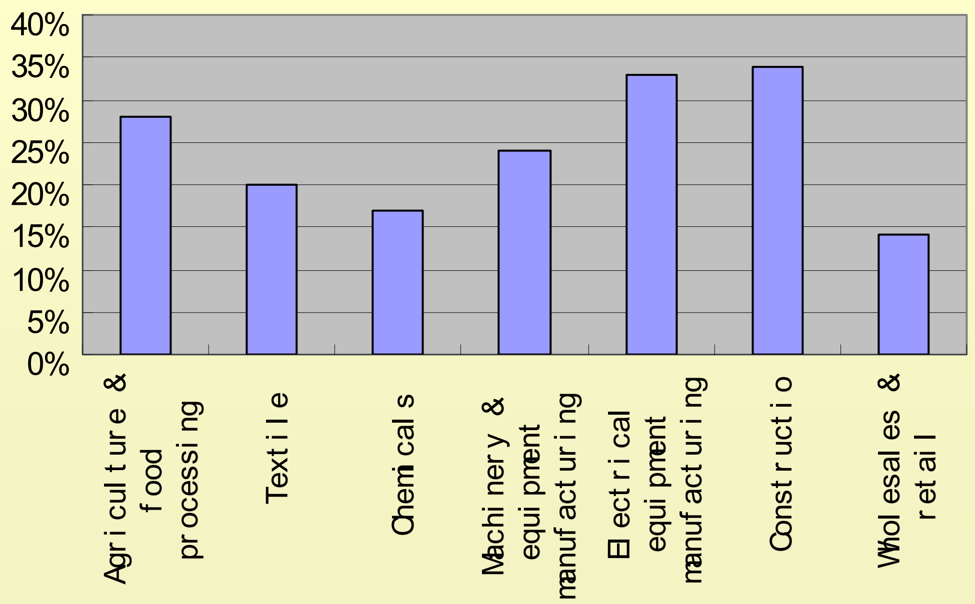
II) Comparison of Sectors

The respondent enterprises are from very different sectors, with 132 of them engaged in agriculture & food processing, 161 of them from textile sector, 86 of them from chemical engineering, 164 of them from machinery and equipment manufacturing, 69 of them from electrical equipment manufacturing, 29 of them from construction sector, 125 of them from wholesales and retail sales sector, and a few of them from other sectors. Therefore, we will compare the present situation and intention of overseas investments mainly from the above seven sectors.

1. Sectoral composition of enterprises making overseas investments of sectors

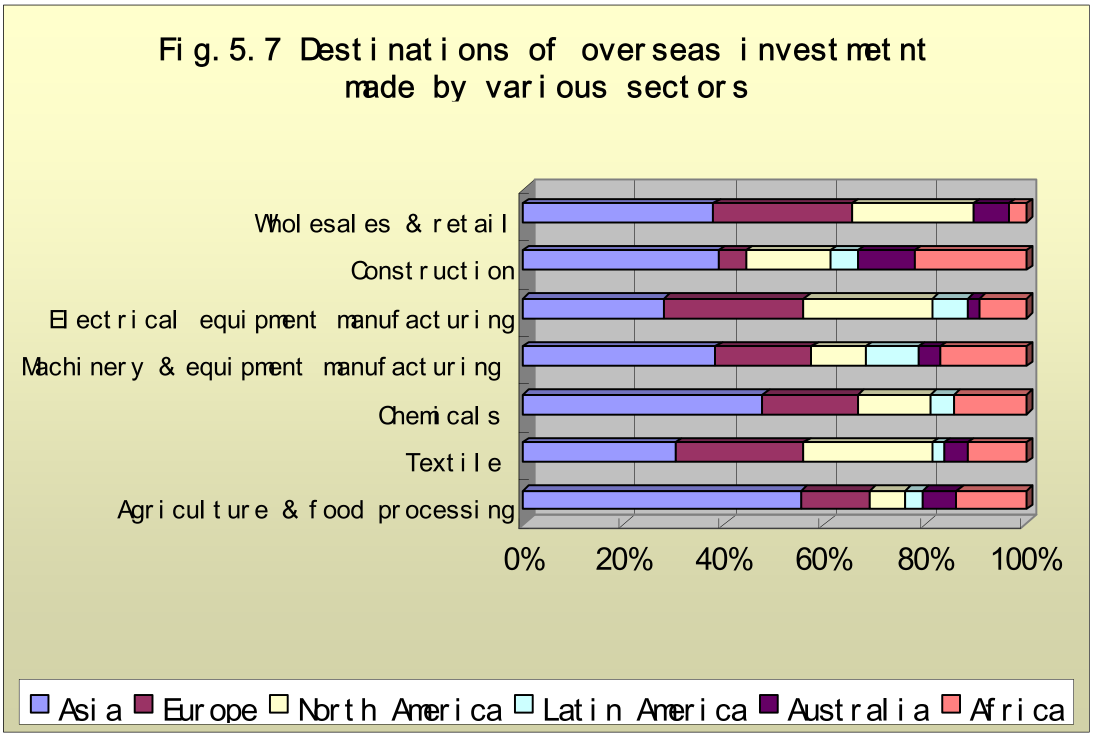
Of the above sectors, the construction sector has the highest proportion of enterprises making overseas investments, with nearly 35% of them making overseas investments. Electrical equipment manufacturing and agriculture & food processing sectors rank second, with the enterprises making overseas investments in their respective sectors accounting for over 30% of the total enterprises respectively. Chemical engineering and wholesales & retail sales have a small proportion of the enterprises making overseas investments, which account for about 15% of their respective total number of enterprises.

Fig. 5.6 Proportions of the enterprises making overseas investments of various sectors



2. Geographic distribution of overseas investments

Asia is where most overseas investments are made by the above sectors, with all sectors having over 20% investment projects in Asia. The agriculture & food processing sector has located over 50% of the projects of its overseas investments in Asia, being the sector having most overseas investments in Asia. Outside Asia, textile and wholesales & retail sales have over 20% of their overseas investments in Europe and North America, making the destinations of overseas investments relatively scattered. Firms from the chemical engineering sector have made many of their overseas investments in Europe and Africa; machinery equipment and electrical equipment manufacturing sectors have put many of their overseas investments in Europe, North America and Africa; and construction sector has put many of their overseas investments in Africa, Australia and North America.



3. Comparison of forms of overseas investments of sectors

Joint venture is a form of overseas investments mostly adopted by various sectors and over 20% of the enterprises of all sectors have adopted this form of overseas investments, especially the machinery & equipment manufacturing sector, whose over 62% enterprises making overseas investments have set up joint ventures. In addition to setting up joint ventures, the form of green-field investments has been widely adopted by agriculture & food processing, chemical engineering, construction and wholesales & retail sales sectors in making overseas investments. Textile and machinery & equipment manufacturing sectors have more adopted merger & acquisition.

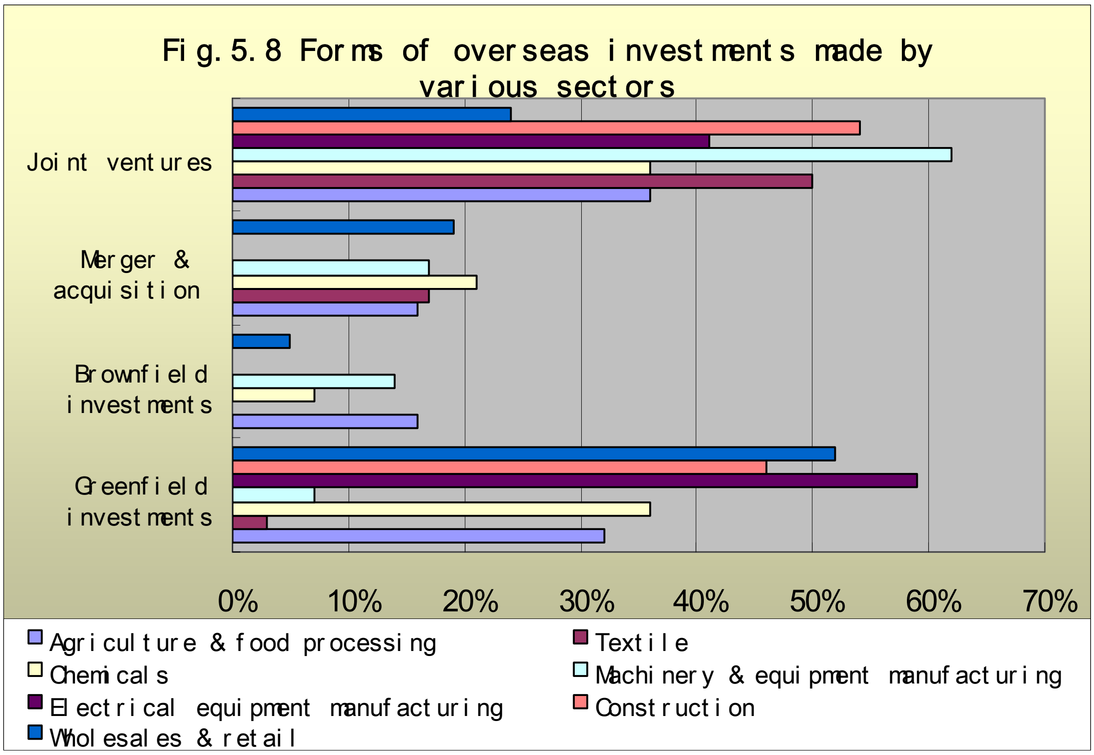
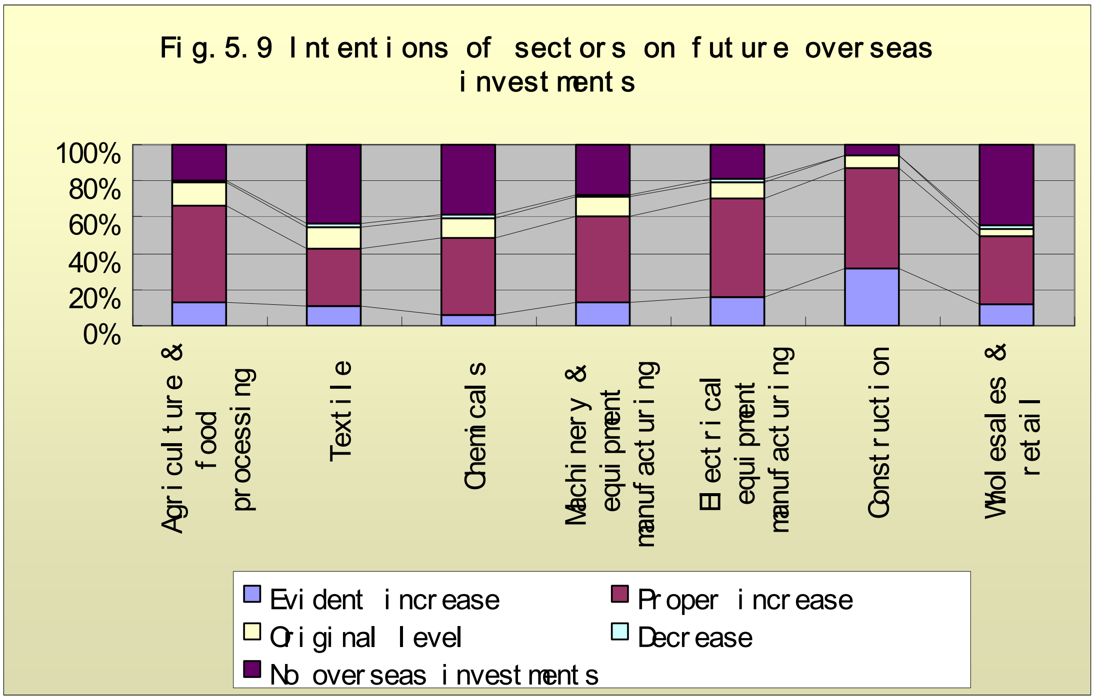


Fig. 5.8 Forms of overseas investments made by various sectors

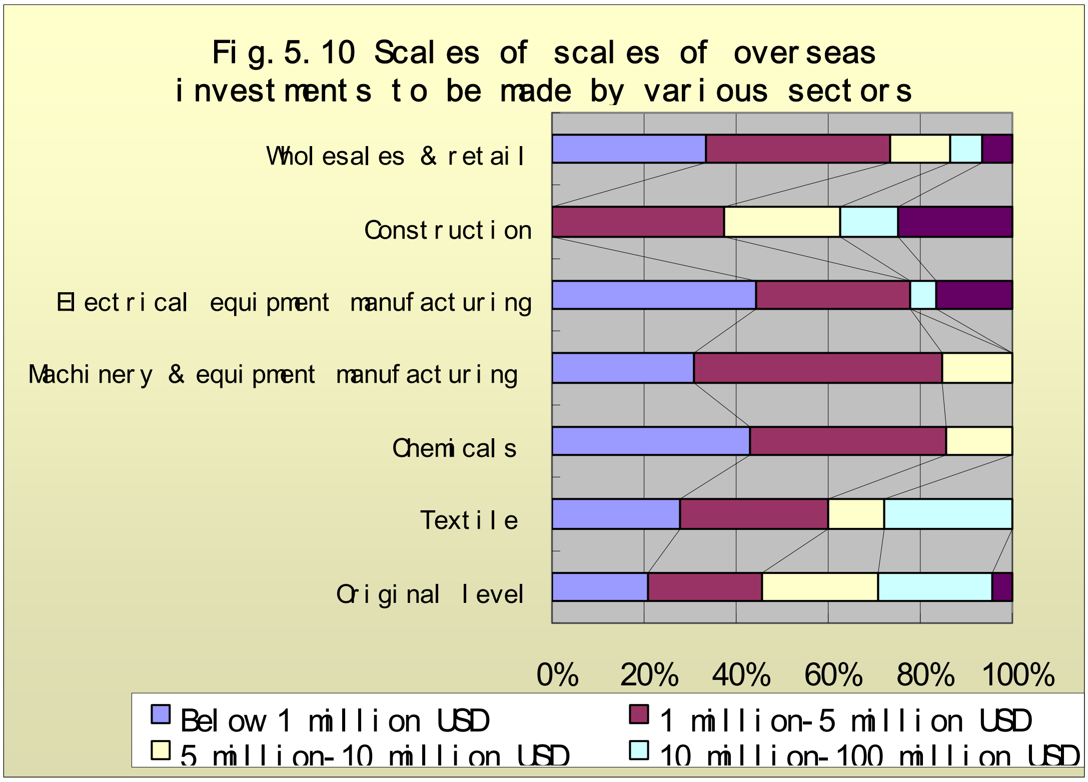
4. Future intention of overseas investments of various sectors

Various sectors have very different intentions of overseas investments in the coming 2~5 years. The construction sector is most enthusiastic about overseas investment: Over 80% of its enterprises expressed their intention to increase overseas investments. Over 60% of the respondent enterprises of agriculture & food processing, machinery & equipment manufacturing and electrical equipment manufacturing sectors plan to increase the scale of their overseas investments. Over 40% of the enterprises of textile, chemical engineering and wholesales & retail sales expressed their definite intention to reduce overseas investments or make no overseas investments, indicating the enterprises of these sectors are more cautious about future overseas investment.



5. Comparison of scales of future overseas investments of sectors

The survey shows that various sectors will keep their overseas investments at a small scale in the future 2~5 years. It is highly possible that construction sector will make large scale overseas investments, and over 60% of its enterprises will make overseas investments exceeding 5 million USD.

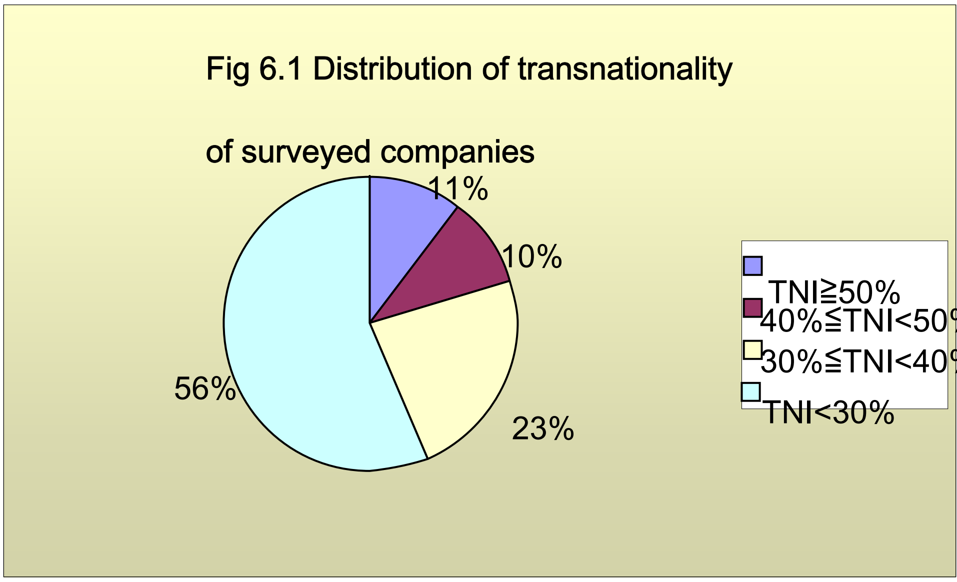


VI. TNI of Chinese Companies

As the pace of "Going Global" is accelerated, more and more Chinese companies begin to invest overseas, and the number of China-based multinationals is also on the rise. To measure the level of transnational operation of Chinese companies, some sections of the questionnaire are designed to collect information about the overseas assets, sales and number of overseas employees with reference to the calculation method adopted by the United Nations Conference on Trade and Development (UNCTAD) so as to compute the transnational operation index of Chinese companies. We have chosen altogether 142 companies that completely filled in the questionnaire as the object of our calculation.

1. Transnationality of Chinese companies

The TNI (Transnationality Index) of 142 Chinese companies is calculated in line with the method adopted by UNCTAD. According to the data released by UNCTAD, the TNI of major multinationals is over 50%. In our calculation, among the 142 Chinese companies, only 15 of them, taking up 11% of the total, have a TNI over 50%, and the TNI of 59% of the companies is less than 30%. This shows that the level of transnational operation of Chinese companies which have "gone global" is still rather low, and has a large gap with that of world-famous multinationals. Except for a few large enterprises, most Chinese companies have just begun to make overseas investment. They rely more on domestic market and resources, and their overseas sales and offices make low contribution to the overall company performance.



The TNI of the 142 Chinese companies is 25% on average. Over the past 10 years, the TNI of top 100 multinationals in the world has grown from 47% in 1993 to around 60% in 2006. Compared with international players, Chinese companies have a much lower TNI and a long way to go before becoming world-wide multinationals.

2. Width of transnational operation

TNI reflects the impact of overseas assets, sales and number of overseas employees on a company. In addition, the width of transnational operation is also an indicator to measure the level of transnational operation. Currently, all the top 15 multinationals ranked by the number of countries they invest in have made investment in over 60 countries and regions. Large multinationals of developing countries (top 15 ranked by the number of countries their investment covers) invest in over 11 countries. Most of the enterprises which have invested overseas make investment in no more than 5 countries. This shows that the there is a large gap between the width of transnational operation of Chinese companies and first-class multinational companies in the world. Most of the Chinese companies which have "gone global" choose 2-3 countries as their investment destinations and fail to establish a global operation network.

3. Comparison of transnationality of different regions

The TNI of the companies from Bohai Rim, Yangtze River Delta, Pearl River Delta,

Central China and Western China are respectively 17, 19, 33, 22 and 24. Generally, all the companies from all the regions in China don't enjoy high TNI. The reason is, on one hand, that most of the samples that we choose are small & medium companies; on the other hand, it indicates that the transnationality degree of Chinese companies have a quite long distance from the one of the companies in developed countries/regions. The regional comparison shows that the companies from Pearl River Delta enjoy the highest degree of transnationality, while the companies from Bohai Rim have the lowest.

Table 6.1 The regional comparison of TNI

Region	Average TNI	Number of companies
Bohai Rim	17	17
Yangtze River Delta	19	39
Pearl River Delta	33	59
Central China	22	15

Western China	24	11

4. Comparison of transnationality of various industries

Table 6.2 Comparison of TNI in various industries

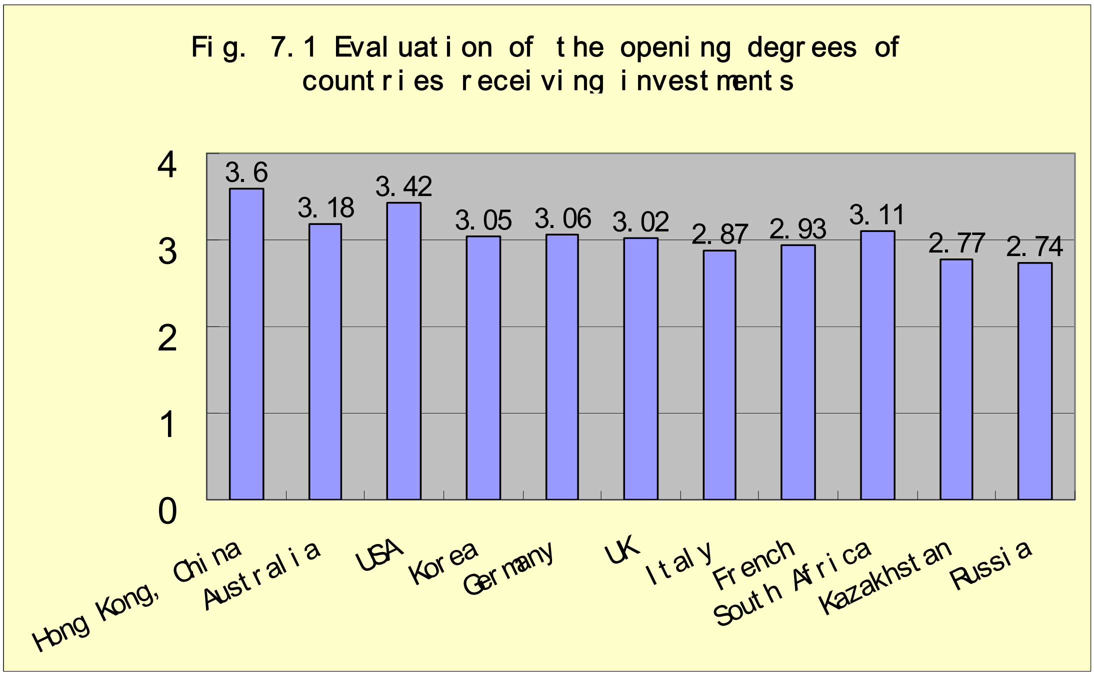
Industry	Average TNI	Number of companies
Agriculture	24	4
General manufacturing	32	40
Food processing	26	4
Textile	27	8
Chemical industry	25	4
Nonmetal Minerals	25	5
Metal products	16	15
Machinery	23	15
Electrical equipment manufacturing	19	13
Transport equipment manufacturing	25	6
Construction	14	5
Wholesale & Retail	30	5
real asset renting & agency	18	3

By analyzing TNI of different industries, the overall level of transnational operation in manufacturing industry is higher than that in agriculture and tertiary industry, which indicates the pace of “Going Global” in this industry is bigger than others. This is comparatively in accordance with the comparative advantage of our country. After years of development, some fields of the manufacturing industry have possessed international competitiveness and have the ability to conduct transnational operation. Industries with higher TNI in manufacturing industry include food processing, textile and chemical industry, which shows the internationalization level is higher in these industries and they are the first ones to “go global”. The transnationality of construction, real asset renting & agency and metal products is comparatively low.

VII. Evaluation of Investment Environments and Policies

1. Evaluation of the openness of host countries

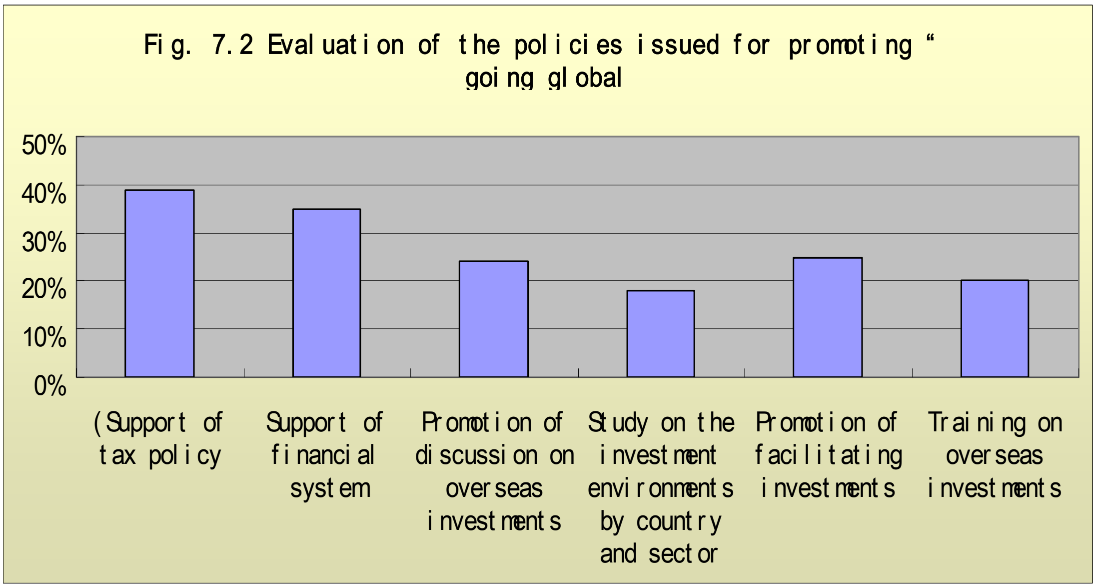
The evaluation is made on the investment environments and opening degrees of the countries/ territories receiving more Chinese overseas investments according to the flow directions of Chinese overseas investments. The respondent enterprises are generally satisfied with the degrees of openness of these countries/territories to Chinese direct investments and gave a three-point score (in a five-point score system) to most of them, equivalent to a degree between Opening and Relative Opening. Chinese enterprises consider Hong Kong, China is the most open to the outside, which is followed by the United States, Australia and South Africa, and Kazakhstan and Russia have a low opening degree, whose scores are between Not Open and Open.



Note: 1- closed 2.-non-opening; 3-opening; 4-relatively open 5-very open

2. Evaluation of the policies issued by Chinese governments for promoting “Going Global”

In recent years, in order to support the implementation of the “Going Global” strategy, the related state departments have issued a series of policies and measures for the approval, finance & tax, insurance, foreign exchange, foreign affairs and information service for setting up enterprises overseas. It is shown by the analysis of the questionnaire replies that the respondent enterprises are most interested the support of tax and financial policies for their overseas investments. 39% of them consider it necessary to enhance the support of tax policy to overseas investments, and 35% of them consider it necessary to enhance the support of finance policy to overseas investments.



VIII. Investing in EU and North America

1. Investing in EU countries

Regarding Investments in the EU countries, only 10% of Chinese firms declare having current overseas operations in the EU, representing 149 companies in absolute terms.

Table 8.1 Chinese presence in the EU

Does your company currently have investment in the EU？

	Sample	%
Yes	149	10.82
No	1222	88.74
Unidentified	6	0.44
Total	1377	100

Obviously, Chinese companies can have several overseas operations in different countries. When Chinese firms invest in the EU, they mainly locate in Germany, France, Italy and the United Kingdom.

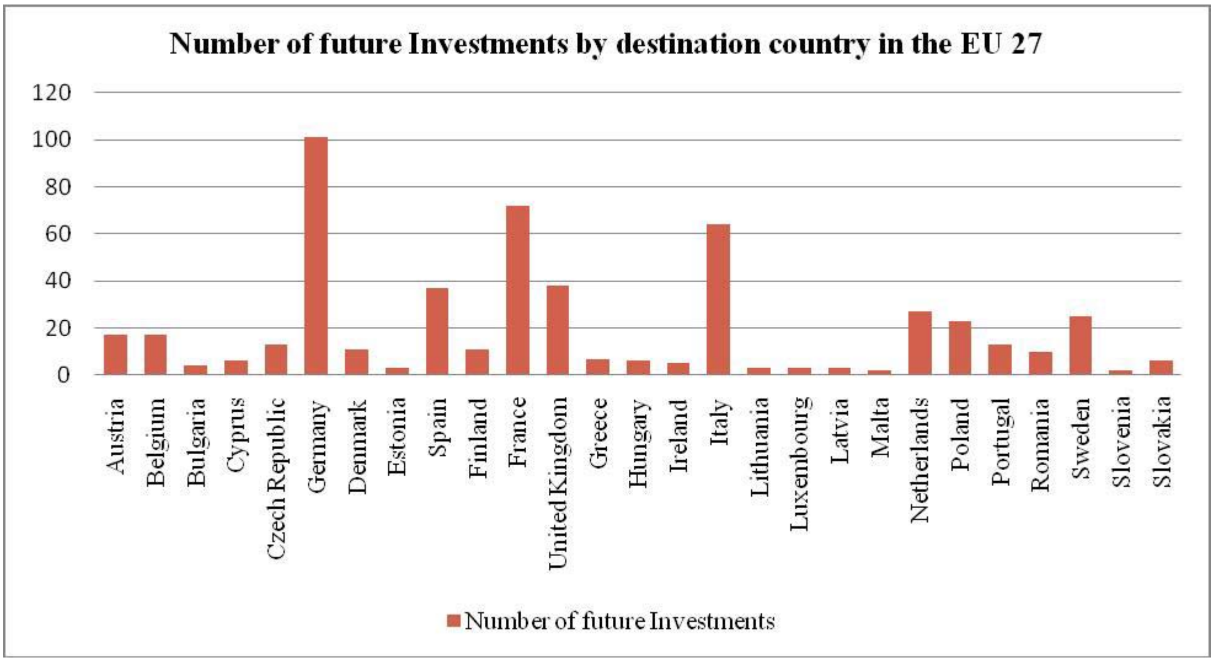
While only 149 companies have overseas operation in the EU, nearly 15% declare having the intention to invest in the EU 27. As shown on the table below, they would invest mainly in Germany, France, Italy, Spain and the United Kingdom.

Table 8.2 Prospects for investing in the EU

Is your company considering an investment in the EU 27?

	Sample	%
Yes	199	14.45
No	1170	84.97
Unidentified	8	0.58
Total	1377	100

Fig 8.1 Prospects for investment by member state



Importantly, 18% of Chinese companies declare that they previously considered investing in the EU 27 but finally decided not to go ahead.

Table 8.3 Realization of FDI projects

Has your company previously considered investing in EU27, but decided not to go ahead?

Yes		No		Unidentified		Total	
Sample	%	Sample	%	Sample	%	Sample	%
248	18	680	49	449	33	1377	100

Regarding the main advantages of investing the EU 27, being an integrated market and having a single currency and a good regulatory environment are very important. The quality of infrastructure, the quality of R&D environment and the existence of attractive investment incentives seem also important for Chinese firms when they consider to invest in the EU. The perception of Chinese firms regarding business costs, and tax systems in the EU as compared to other developed regions is more mixed.

Regarding the most promising sectors for investing in EU, Chinese companies mainly choose manufacturing and wholesale and retail trade.

Table 8.4 The most promising sectors for investing in EU

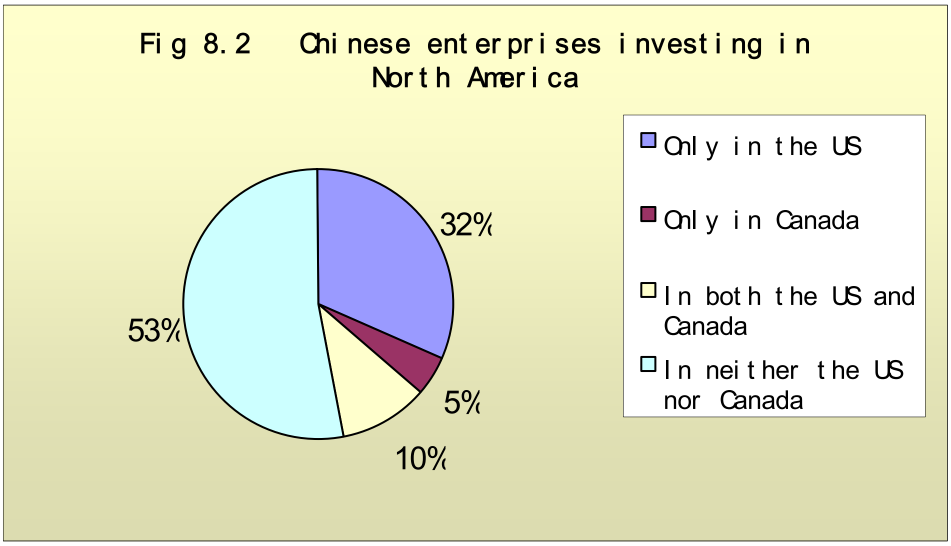
Sector	Sample	%

Agriculture, hunting and forestry	36	2.61
Fishing	5	0.36
Manufacturing	300	21.79
Electricity, gas and water supply	22	1.60
Construction	27	1.96
Wholesale and retail trade	109	7.92
Hotels and restaurants	33	2.40
Transport, storage and communication	37	2.69
Financial intermediation	23	1.67
Real estate, renting and business activities	29	2.11
Unidentified	756	54.90
Total	1377	100

2. Investing in North America

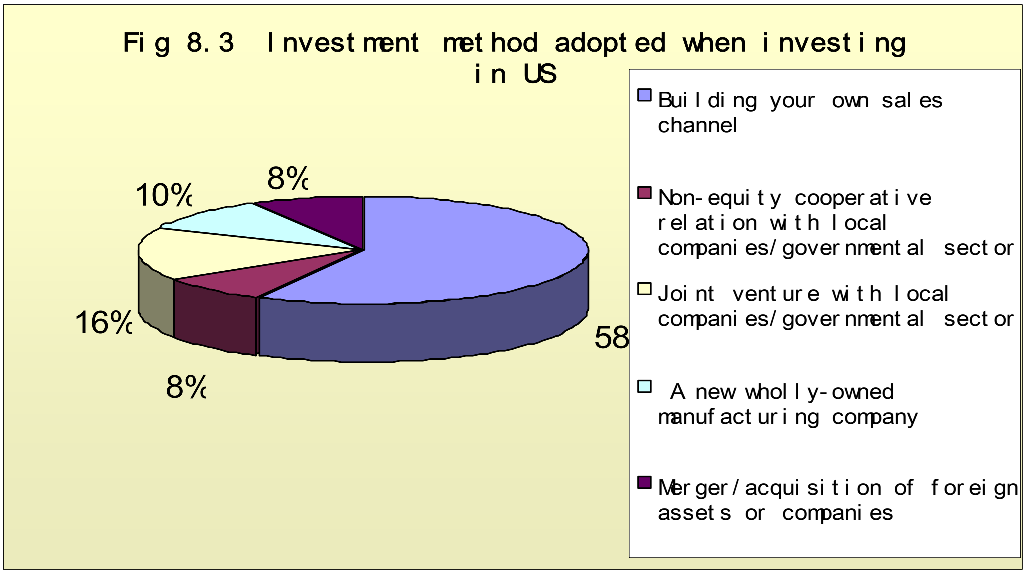
1) The percentage of the investment

According to the result, among the companies who have already made overseas investments: 32% have invested in US; 5% have invested in Canada; 10% have invested in both US and Canada, while 53% have no investment in either US or Canada. The data shows that US is a very important destination that attracts Chinese FDI.



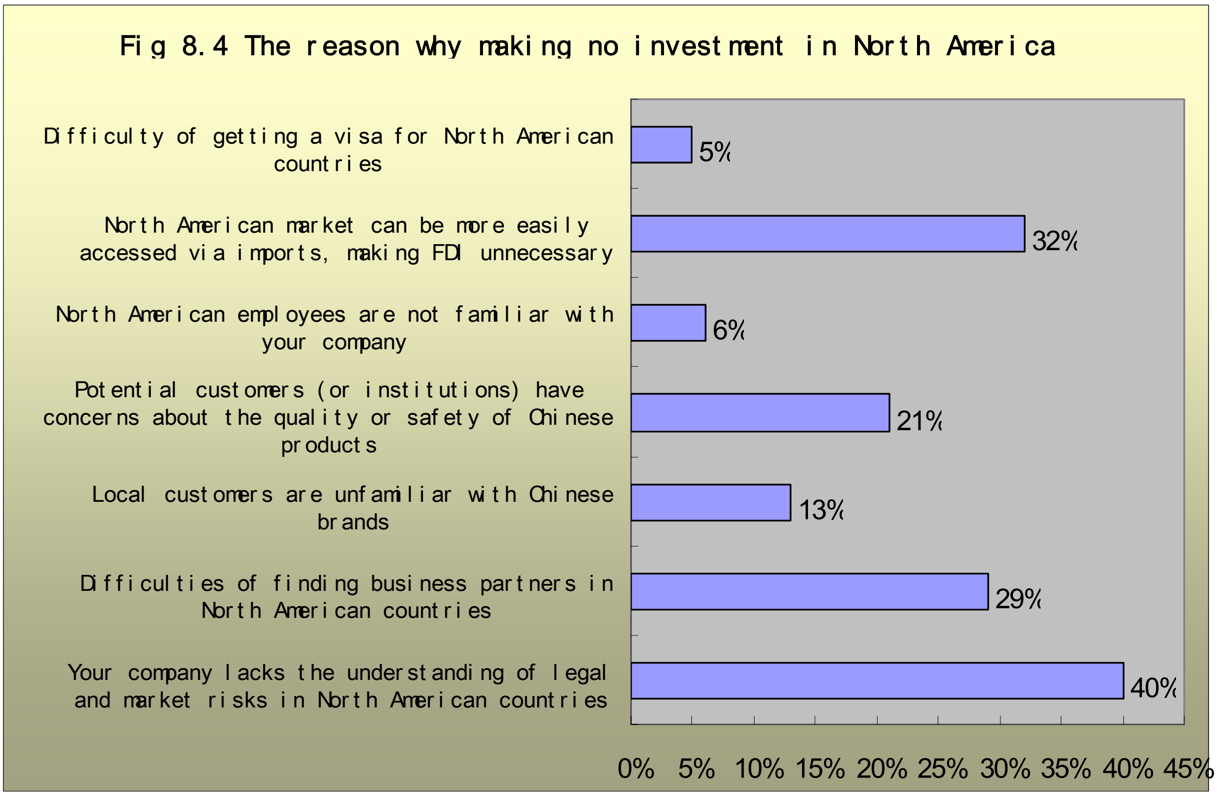
2) Investment method adopted when investing in US

Setting up distribution centre is considered to be the most important method, which is adopted by 58% of the companies who have invested in US. Besides, setting up joint-ventures and brand new manufacturing companies are also adopted frequently by Chinese companies, while the number of the companies who invest through M&A is small.



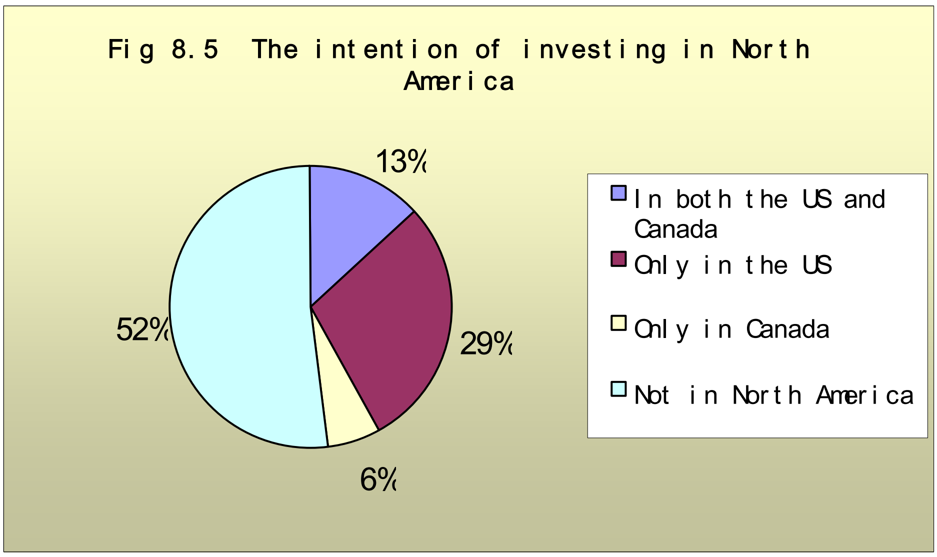
3) Reasons for not investing in North America

The survey result on companies who haven't made any investment in North America shows that "company lacks the understanding of legal and market risks in North American market" is the most important reason. 40% of the companies believe this factor has restricted their decisions on making investment in North America. The secondary reason is that it is easier for the companies to enter North American market through importing. Therefore, there seems to be no need for them to make investment. Besides, factors including "difficulties of finding business partners in North America" and "local potential customers (or institutions) have concerns about the quality or safety of Chinese products" also have influence on Chinese companies' decisions on investing in North America.



4) The intention of investing in North America

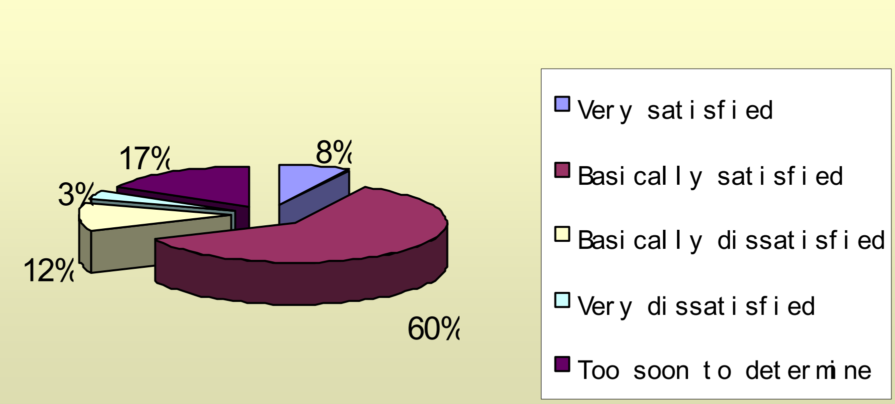
Regarding the intention of investing in North America, 52% of the surveyed companies don't have the intention of investing in North America; 29% have the intention of investing in US; 13% have the intention of investing in US and Canada, while only 6% of them are considering investing in Canada. The result indicates that as an investment destination, US is more attractive to Chinese companies than Canada.



5) Satisfaction on investments in North America

Of the companies who have invested in North America, 8% are very satisfied with their achievements; 60% are somewhat satisfied, while 15% are dissatisfied. This generally indicates that North America has a good environment for investments, and most of the Chinese companies who invest there have got quite good achievements.

Fig 8.6 Satisfaction on investments in North America



6) The evaluation of investment environment in North America

Of all the aspects of the investment environment in North America, “the company may enter the market of North America” wins agreements from most of the companies. 83% of the companies approve this statement. Besides, 75% of the companies approve the statement that “business in North America is easier to further develop than in other developed countries”. 69% of the companies approve the statement that North America has rich and diversified labors needed by the companies. These aspects of investment environment win the most approval from Chinese companies.

Table 8.5 The evaluation of investment environment in North America

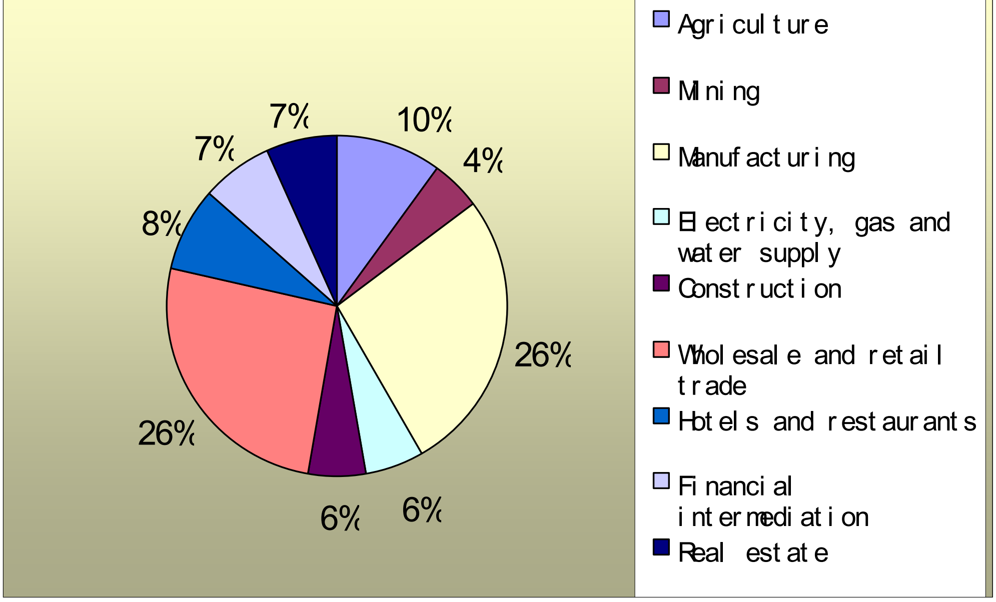
The evaluation of investment environment in North America	Percentage of approval
North America has rich and diversified labors needed by your	69%
Business costs in North America are lower than in other developed countries such as in Europe	51%
Business in North America is easier to further develop than in other developed countries.	75%
North America has rich energy and natural resources that can satisfy your	51%
North America can provide technologies proper for your company’s investment activity.	60%
Your company may enter the market of North America.	83%

North America governments welcome Chinese company's investments in various fields.	52%
North America is one of the regions with globally highest living quality.	66%

7) Most promising sectors in North America

The result shows that companies believe manufacturing and wholesale and retail trade are the most promising sectors in North America. Both of them are chosen by 26% of the companies. Besides, many companies believe that agriculture, hotels and restaurant, financial intermediation and real estate are all quite promising, with business opportunities for investment. One thing need to be noted is that the judgments on the prospect of the sectors in North America are quite scattered. They are not concentrated on manufacturing, which is difference from the sector distribution of companies' future investment in Chapter III. This indicates that all the sectors in North America are attractive to Chinese companies. There are more opportunities within various sectors.

Fig 8.7 Investment prospect of the sectors in North America



IX. Econometric Analysis of Overseas Investment by Chinese Enterprises *

The analysis contained in this chapter focuses in particular on those Chinese companies that already have overseas operations. The purpose of the chapter is threefold: i) to identify the main characteristics of the Chinese companies active in foreign markets, ii) to investigate the privileged locations abroad and iii) to understand the main driving forces leading Chinese companies to invest abroad.

1. Characteristics of Chinese companies investing abroad

The chapter one of this report highlights that the size of Chinese companies in terms of turnover and employment varies significantly. It is hence important to identify the characteristics of the Chinese companies that engage in multinational activities as compared to those of other firms active only in the domestic market. Besides, these characteristics also must be compared to those of companies active on the export markets but not having invested abroad directly. Indeed, firms having overseas operations are also likely to be the most productive and the largest ones in terms of employment and turnover, due to the existence of high fixed costs of entry to foreign markets.

In order to perform this analysis, the Chinese firms have been classified into three categories:

- firms active on the domestic market only
- firms active on the export markets only
- firms engaged in multinational activities

One might, however, be concerned about methodological issues when exploiting the questionnaire with regards to identifying the actual number of firms having overseas operations. Depending on different questions, the answers regarding the number of companies with foreign operations differ. The possible explanation of this could be the variation in response rates among questions. As the purpose of this chapter is to study the destinations and the determinants of Chinese overseas investment, only companies engaged in multinational activities, i.e., those which could provide information about at least one of the destinations of the foreign investment at the country level, are taken into account .

For the identification of exporting firms, all the *firms providing strictly positive information about the share of their business revenue coming from exports* are considered as exporters.

These screening criteria lead to the following sample: **28% of firms are active only**

* This chapter was provided by the expert of the European Commission, on the basis of the survey data.

on the domestic market, 49% of firms are active on the export markets, and 22% of firms are engaged in multinational activities (among which 60% are also engaged in the domestic and exports market).

Table 9.1 presents the distribution of the *gross revenue* among respondent firms, for firms active on the domestic market, for exporting firm, and for firms with overseas operations, respectively. Nearly 55% of domestic firms have a gross revenue inferior to 100 million yuan and only 5% of domestic firms have a gross revenue in excess of 1 000 million yuan. Hence, the majority of domestic firms are small in terms of turnover. In addition, the distribution of respondent firms regarding the gross revenue is quite similar to exporting firms. However**, the characteristics of the firms engaged in multinational activities are very different from those of firms on domestic market and exporting firms**. Only 26% of firms involving overseas operations have a revenue inferior to 100 million yuan and 54% of the Chinese firms engaged in multinational activities have a gross revenue superior or equal to 1 000 million yuan. Therefore, the Chinese companies active abroad seem to be the largest ones in terms of turnover among all respondents.

Table 9.1 Turnover distribution of domestic firms, exporting firms and multinational firms

Revenue	Domestic Firms		Exporting firms		Multinationals	
	sample	%	sample	%	sample	%
Under 10 000 000 yuan	91	23,76	160	23,29	25	8,14
More or equal 10 000 000 & under 100 000 000 yuan	122	31,85	256	37,26	57	18,57
More or equal 100 000 000 & under 1 000 000 000 yuan	70	18,28	118	17,18	57	18,57
More or equal to 1 000 000 000 yuan	19	4,96	37	5,39	167	54,40
Missing	81	21,15	116	16,89	1	0,33
Total	383	100	687	100	307	100
Average revenue	665 000 000		599 000 000 000		2 480 000 000	

Table 9.2 presents the distribution of the number of employees among respondent, for firms active on the domestic market, for exporting firm, and for firms with overseas operations, respectively. The picture is very similar to the turnover distribution observed in the table 47. **Most domestic firms are characterised by a relatively low number of employees**. Indeed, nearly 66% of domestic firms have less than 500 employees, while only 22% of domestic firms have more than 500 employees. **Exporting firms are quite similar**. In contrast, 48 % of multinational companies have a number of employees superior or equal to 500 employees (with 34% having more than 1 000 employees). So **among Chinese respondent firms, those engaged in multinational activities seem also to be the largest firms in terms of**

employment among all respondents.

Table 9.2 Number of employees for domestic firms, exporting firms and multinational firms

Number of Employees	Domestic Firms		Exporting firms		Multinationals	
	sample	%	sample	%	sample	%
Under 100	137	35,77	263	38,28	55	17,92
More or equal 100 & under 500	121	31,59	256	37,26	86	28,01
More or equal 500 & under 1 000	28	7,31	65	9,46	44	14,33
More than 1 000	59	15,40	85	12,37	105	34,20
Missing	38	9,92	38	5,53	17	5,54
Total	383	100	687	100,00	307	100,00
Average number of employees	1079		558		3358	

This analysis suggests that **although the number of Chinese respondent firms having overseas operations is quite small, those firms are larger than domestic firms and exporting firms, both in terms of gross revenue and employment. These observations are consistent with recent empirical evidence based on firm-level data**.

In order to verify whether there is a significant difference in size among multinational firms, exporting firms, and domestic firms, Table 9.3 presents the results of ordinary least square regressions of Chinese firms characteristics on multinationals and exporters dummies.

Table 9.3 Is there a multinational premium in firm size?

dependant variable	log turnover	log employment
multinationals	1.870***	1.113***
	(0.220)	(0.136)
exporters	0.0304	-0.102
	(0.173)	(0.114)
Constant	18.84***	3.676***
	(0.834)	(0.635)
Observations	1038	1265
Pseudo R^2	0.119	0.193

All results are from ordinary least square regressions of Chinese firms characteristics on multinationals and exporters dummies. All regressions include industry fixed effects. Standard errors are in parentheses. *, **,*** indicate that coefficients are significant at 10%, 5% and 1%, respectively.

The results show that multinationals firms have significantly higher gross revenue and are significantly bigger in terms of number of employees than domestic firms. However, **there is not a significant difference in size between exporting firms and domestic firms**, confirming that there is a multinational premium in terms of size. In other words, firms engaging in overseas operation are the largest both in terms of turnover and number of employees. This suggests that **firms' characteristics are an important driver of the firm's probability to enter a foreign market**.

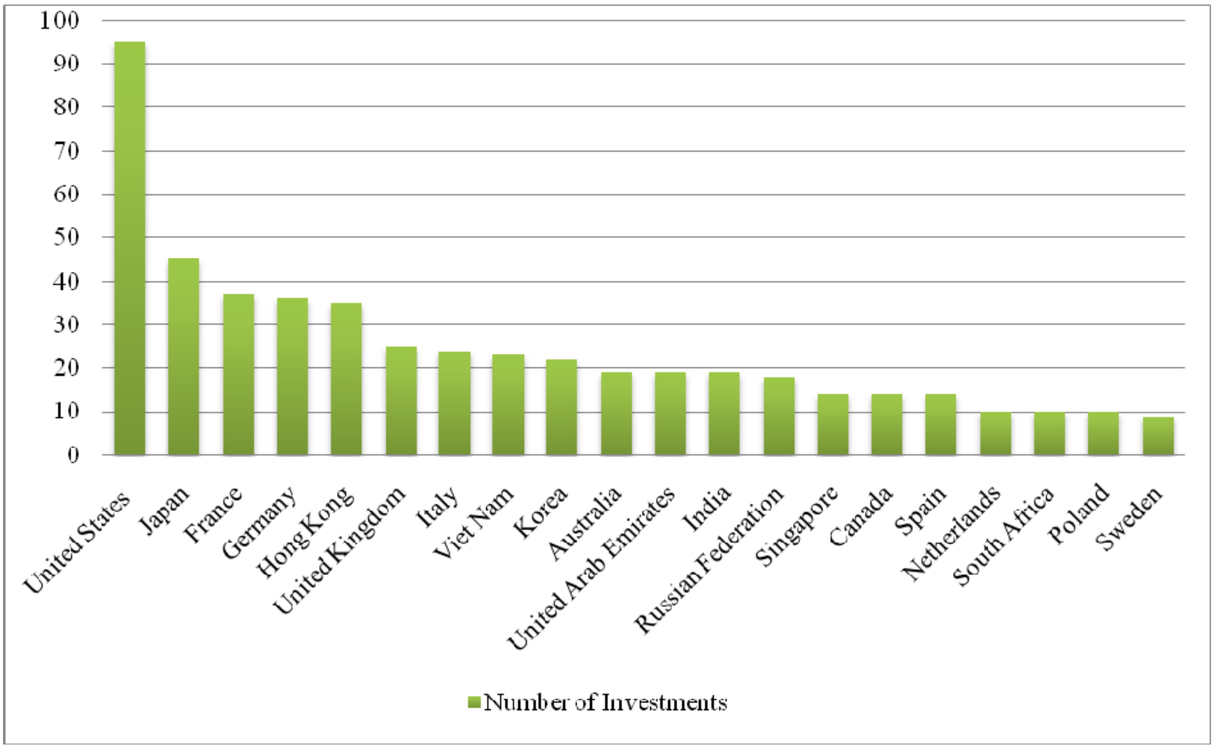
Not only identifying the characteristics of Chinese firms that engage in overseas operation is important to better understand the internationalisation patterns of Chinese firms, but also it is crucial to identify the privileged locations of Chinese companies abroad. This is the aim of the second subsection of this chapter.

2. Where do Chinese firms locate abroad

The survey contained questions about the locations of overseas investments at the country level. Respondents were asked to quote up to five countries in which they had operations abroad. 307 companies have given information about at least one foreign country of operation, while 58 companies gave information about five countries in which they were engaged in multinational activities. In total, respondent firms active abroad have made 720 investments between 1972 and 2010, which corresponds to an average of two destination countries of investment per firm.

Chinese companies declare to have overseas investments in 93 different countries. However it is important to investigate in detail what are the most attractive foreign countries for Chinese companies. Figure 9.1 presents the twenty top destination countries of Chinese overseas investment by decreasing order of importance. The five most attractive countries for Chinese companies are the United States, followed by Japan, France, Germany and Hong Kong. **Chinese companies seem thus to prefer big markets by investing in the Triad but also geographically close markets by locating an important part of their overseas operations investments in Asia** (Hong Kong, Vietnam, Korea).

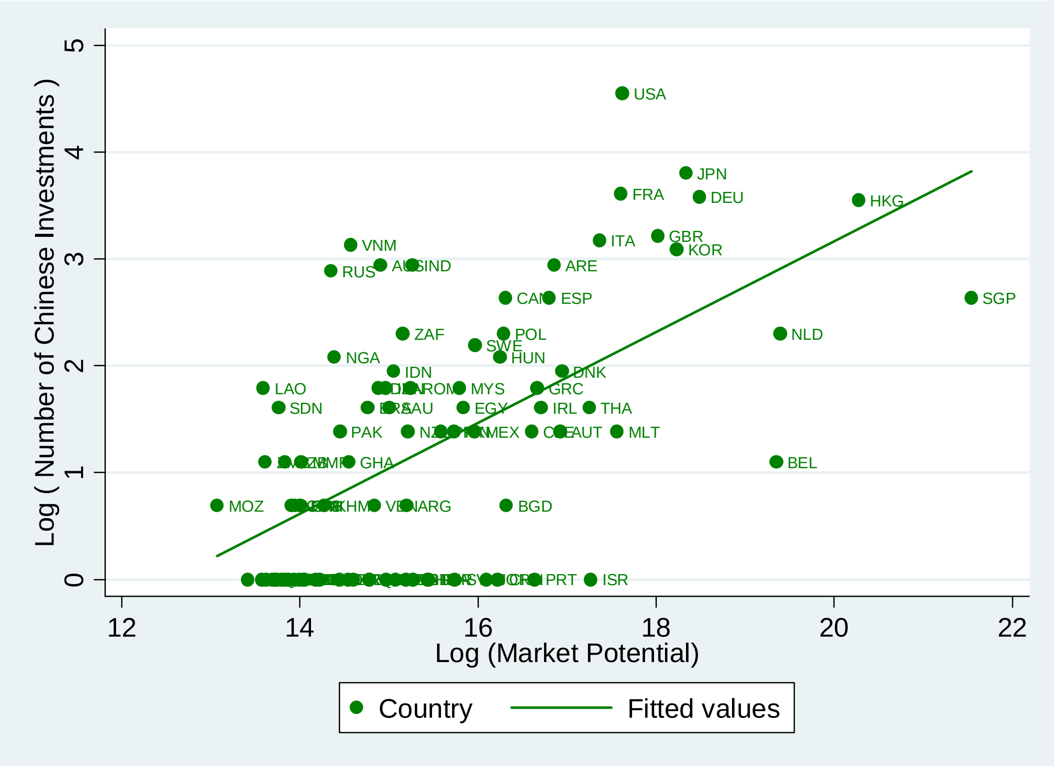
Figure 9.1 The twenty top destination countries of Chinese multinational firms



In order to investigate further how market size influences the location of Chinese overseas investments, Figure 9.2 below presents the number of received Chinese investments by a given country as a function of the market potential of the country. The market potential[2] of a country is a measure of market size which takes into account the proximity of a country to world markets. Clearly, the graph shows that **there is a positive relationship between the market potential of a country and the number of Chinese Investments this country receives**. So market size seems to be an important pull factor of Chinese overseas investments. This suggests that **Chinese companies invest abroad mainly for demand-driven considerations.**

[2] The data used in this study come from the cepii, see in particular: Mayer (2008), "Market Potential and Development", *CEPII working paper n°2009-24.*

Figure 9.2 Number of Received Chinese Investments and Market Potential

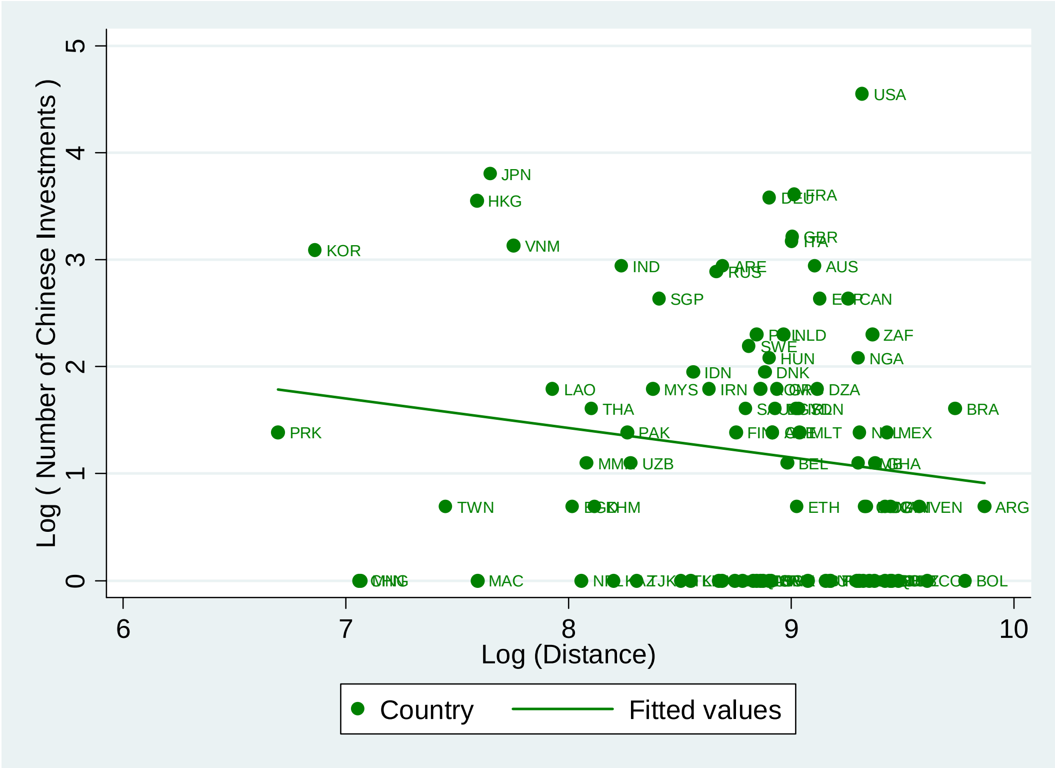


However, the size of a destination market cannot be the only factor influencing Chinese companies' location decisions. As noted below, many Chinese companies invest in the Asian region. The distance of a destination market to China, however, could also affect the decisions of locations to the Chinese multinational firms since the costs of entering foreign markets are likely to rise with geographic distance, other things being equal.

In order to evaluate more precisely how geography affects Chinese overseas investments, the Figure 9.3 below presents the number of Chinese investments received by a given country as a function of the distance of this country to China. The distance[3] is measured here as the geodesic distance between capitals or most important cities in terms of population of the two countries. The graph shows that there is a decreasing relationship between the number of Chinese investments received by a country and the distance of this country to China. This suggests that **geography is also an important determinant of Chinese overseas investment**, other things being equal. However, the adjustment is highly imperfect, pointing to many other correlates for which are not controlled in this bivariate analysis.

Figure 9.3 Number of Received Chinese Investments and Distance to China

[3] This dataset come from the cepii, see in particular *dist_cepii.*



While this analysis suggests that Chinese overseas operations are influenced by market potential and geography, these two graphs only present correlations. An econometric analysis can shed further light on the main location determinants of Chinese overseas operations. This is the aim of the next subsection.

3. What are the location determinants of Chinese overseas operations

Obtaining information on the location decisions of Chinese companies abroad at the country level is particularly valuable for understanding the determinants of Chinese overseas investments. Indeed a large body of academic literature identifies the location determinants of multinational firms based on the observed location decision of these firms. The intuition is the following: Firms are assumed to choose the location that maximizes their profit. The econometrician is not able to observe directly the profitability of different destination countries. However the econometrician knows the location decisions made by firms in countries which have observable characteristics. It is therefore possible to assess the influence of country characteristics on location decisions. Our econometric analysis follows this literature.

Dependent Variable

The dependent variable is defined as the number of Chinese Investments received by a Country *j* over the period of study. In a second step, the dependant variable is rather defined as the number of Chinese investments received by a Country *j* in Industry *i* over the period of study to account for the potential heterogeneity of industries in location decisions.

Independent variables

The existing literatures have identified mainly four categories of determinants: the size of the market, the distance, the cost and quality of factors and the institutional environment. The explanatory variables introduced in the analysis are thus the following ones.

Market size: Market size is approximated in this study by the market potential of the country. As noted above, this measure of market size presents the advantage of taking into account not only the economic size of a country but also this country's proximity to world markets. The data comes from the Cepii (rmp_cepii), where market potential measures are available over the period 1996-2003. However the data used in this study correspond to the year 2000, as most Chinese companies' first investment abroad started in year 2000. One should expect that market size affects positively the location decisions of Chinese overseas investments.

Distance: Distances are calculated by using the latitudes and longitudes of the capital cities or the most important cities (in terms of population) of respective countries. The data comes from the Cepii (dist_cepii).

Cost and quality of production factors: The costs and quality of production factors are approximated in this analysis by countries' GDP per capita. Indeed, controlling for market size, the GDP per capita is often a good approximation of labour costs. However, a high cost of labour can also reflect a higher productivity and qualification of workers. Should one expect that a higher cost of labour affects negatively on location decision, higher qualification of labour can affect positively location decision on the other hand. The expected coefficient of this factor is thus undetermined.

Institutional Environment: Several variables have been introduced in the analysis in order to account for the institutional environment. The first variable is a synthetic indicator of the easiness of doing business. The data come from the World Band Indicators (Doing Business). They are available for the period 2004-2010, but the computed average by country over period availability rather than using all time series data have been included in the present analysis. We then introduce four different sub-indicators of the easiness of doing business. The first one is *starting a business*. It accounts for the procedures, time, cost and paid-in minimum capital to open a new business. The second is the *protection of investors* which is a measure of the strength of investors' protection. The third one is *paying taxes*. It accounts for the number of tax payments, time to prepare and file tax returns and to pay taxes, total taxes as a share of profit before all taxes borne. The last one is *trading across* border and corresponds to the documents, time and costs associated with exports and import. Finally, we introduce a synthetic index of Employment Protection developed by the OECD to account for the degree of labour market regulation.

All explanatory variables are expressed in logarithm. All results are from ordinary Poisson regressions.

Econometric analysis

Table 9.4 presents the results of ordinary Poisson regressions in which the dependent variable is the number of Chinese investments received by a given country.

The first column confirms that the **market potential has a strong impact on the location of Chinese investments** while the effect of distance is no longer significant when only the market potential is controlled, though additional country characteristics should be controlled.

In column 2, we control for GDP per capita in order to take into account the quality and cost of labour. A high GDP per capita has a positive effect on Chinese investment location decisions. **Chinese firms not only invest in large markets but also in rich markets**. Furthermore, as expected, the **effect of distance becomes negative and significant**.

In column 3 we control for the easiness of doing business. The effect is, however, not significant, partly because the ease of doing business is linked to countries' level of development.

In column 4 we introduced four different sub-indicators of institutional business environment. Interestingly, the easiness of doing business has a strong positive impact on Chinese overseas investments. **Chinese firms invest in priority in countries having low entry costs**.

In the last column, we control for the degree of labour market regulation, however the number of observations is too low to be interpreted with caution.

All these results show that Chinese companies invest abroad in order to be near the largest and richest markets. However, such estimations do not necessarily account for potential heterogeneity in location decisions.

Table 9.4 The determinants of Chinese Overseas Investments

Dependant Variable: Number of Investments in Destination Country j					
	(1)	(2)	(3)	(4)	(5)
Ln Market Potential	0.357***	0.110***	0.229**	0.454***	-0.288
	(0.0177)	(0.0304)	(0.112)	(0.134)	(0.331)
ln Distance	-0.0310	-0.304***	-0.506**	-1.540***	-7.281***
	(0.0609)	(0.0670)	(0.244)	(0.362)	(1.797)
Ln GDP per capita		0.415***	0.263**	0.558***	-1.209**
		(0.0397)	(0.108)	(0.173)	(0.513)
Ln (Ease of Doing Business)			0.131		
			(0.105)		
Ln (Starting A Business)				-0.0997	-2.214***
				(0.111)	(0.408)
Ln (Protection of investors)				-0.333**	1.757***

	(1)	(2)	(3)	(4)	(5)
				(0.148)	(0.472)
Ln (Paying Taxes)				1.027***	-5.389***
				(0.226)	(1.499)
Ln (Trading Across Borders)				0.375**	0.741*
				(0.147)	(0.402)
Ln (Employment Protection)					3.025*
					(1.670)
Observations	91	88	22	22	10
Pseudo R^2	0.279	0.359	0.433	0.547	0.676

All results are from ordinary poison regressions. Standard errors are in parenthesis. *,**,*** indicate respectively that coefficients are significant at 10%, 5% and 1%.

Table 9.5 presents the results of ordinary Poisson regression in which the dependent variable is the number of Chinese investments received by a given country *j* in industry *i*. In the first column, we only have introduced gravity variables. In column 2 is added a control for GDP per capita. In column 3 we control for the ease of doing business. The results are quite similar to the previous ones. The market potential and the easiness of doing business have strong and positive impacts on location decisions. These results hold when we control for different characteristics of business environment (column 4). Adding a variable of labour market regulations and industries fixed effects seem to modify the results, but as noted before, the number of observations drops sharply, which is likely to affect the estimated coefficients.

Table 9.5 The determinants of Chinese Overseas Investments

Dependant Variable : Number of Investment in Industry i and Destination Country j						
	(1)	(2)	(3)	(4)	(5)	(6)
Ln Market Potential	0.221***	0.0486	0.367***	0.523***	-0.148	-0.236
	(0.0188)	(0.0324)	(0.112)	(0.124)	(0.347)	(0.334)
ln Distance	0.200***	0.0534	0.308	-0.463	-3.854**	-6.618***
	(0.0608)	(0.0659)	(0.237)	(0.333)	(1.751)	(1.803)
Ln GDP per capita		0.265***	0.133	0.327*	-0.632	-1.198**
		(0.0386)	(0.111)	(0.175)	(0.520)	(0.520)
Ln (Ease of Doing Business)			0.296***			
			(0.111)			
Ln (Starting A Business)				-0.0236	-1.150***	-2.083***
				(0.128)	(0.390)	(0.410)
Ln (Protection of investors)				-0.145	0.820*	1.661***
				(0.148)	(0.468)	(0.478)
Ln (Paying Taxes)				0.768***	-3.746**	-5.190***
				(0.217)	(1.518)	(1.505)
Ln (Trading Across Borders)				0.313**	0.716*	0.712*
				(0.158)	(0.411)	(0.404)

Ln (Employment Protection)					3.036*	3.019*
					(1.769)	(1.681)
Industry Fixed Effects	No	No	No	No	No	Yes
Observations	173	169	46	46	25	25
Pseudo R^2	0.09	0.108	0.112	0.155	0.145	0.712

All results are from Poisson regressions. Standard errors are in parenthesis. *,**,*** indicate respectively that coefficients are significant at 10%, 5% and 1%.

The results of this econometric analysis show that **Chinese companies tend to invest in countries characterized by large market size, a high level of economic development and a good trading environment**. One should now compare these results to the answers given by Chinese companies regarding the pull factors that affect their overseas investments. Interestingly, most Chinese companies have rated market potential as a decisive or very important factor in determining their overseas investment in EU countries and other developed countries. Accessibility to skilled labor also appeared to be an important factor regarding investments in these regions. These results confirm that accessing the world's largest markets is the main driving force of the current internationalization strategies of Chinese companies.

X . Conclusions

For Chinese enterprises that have "gone global", 2009 was a year of both challenges and opportunities. Despite the continuing impact of the financial crisis and the fragile world economy, Chinese companies made 43.3 billion USD of non-financial foreign direct investment, a year-on-year increase of 6.5%, but a significant slow-down from the 60% annual growth rates seen between 2002 and 2008. The extensive survey of outbound investment by Chinese enterprises, covering replies from nearly 1,400 CCPIT member companies and other companies, provides valuable new information about overseas investments by Chinese enterprises, including firms' current activities, future investment plans and the impact of the financial crisis. In particular the following findings emerge from the survey:

1. China's outbound foreign direct investment is still at an early stage but develops rapidly. In terms of investment scale, the proportion of Chinese enterprises having made overseas investments is 25%, especially among small and medium-sized enterprises (which make up most of CCPIT's membership). Most enterprises have made relatively small scale overseas investments. 61% of responding firms indicated that their overseas investments remained below USD 1 million, while more than 80% of investments are below USD 5 million. Only a few companies have been capable of making large scale overseas investments in excess of USD 100 million. In terms of investment projects, overseas representative offices and sales offices are most frequent types of overseas expansion routes adopted by Chinese enterprises. Nonetheless, some large enterprises, especially state-owned enterprises, have made some cross-border merger & acquisitions (M&A). In firms' future investment plans, M&A figures more prominently than in the past and activity can therefore be expected to pick up.

2. Most Chinese outbound investors are active in manufacturing sectors, although the industry profile is becoming increasingly diversified. Within the manufacturing industry, the textile and machinery & equipment sectors figure most prominently, reflecting China's strong export performance in these industries. Whereas most outbound investment in Europe has been aimed at enhancing market access through distribution and sales offices, manufacturing investment has been more significant for investment in developing economies. Apart from the manufacturing industries, companies active in construction and wholesales & retail operations are among the most active foreign investors. Overall, the investment profile of the companies covered by the survey would seem to reflect China's presence in its export markets.

3. The overseas investments made by Chinese enterprises mainly aim to improve access to overseas markets and to acquire overseas resources and technology. With the saturation of domestic market demand, accessing overseas markets has become an important objective of many Chinese enterprises in their overseas investments, according to the survey replies. The survey also indicates that the introduction of advanced technology is an important motive for making overseas investments in

developed countries, whereas access to natural resources is an important objective of investments in developing economies.

4. The main destinations for the overseas investments of Chinese enterprises are Asia, followed by Europe and North America, while only a few respondents have overseas investments in other regions. Asia, especially the Southeast Asian region which has a strong complementarity with China in terms of economic structure, similar cultural traditions and long-standing commercial relations with China, has become the preferred destination for Chinese enterprises in their “going out” for development, and they have attracted a large proportion of Chinese overseas investment, a situation that will not significantly change for some time. It is noteworthy that Vietnam, following its economic reforms, is becoming an important destination for Chinese investment. In addition, Europe and North America have also attracted a certain number of Chinese enterprises. In terms of future investment plans, African destinations are likely to become more important.

5. The financial crisis has had a significant impact on the overseas investments of Chinese enterprises. Indeed, the survey indicates that the overseas investments of most enterprises have been affected by the financial crisis. The financial crisis has caused economic recessions in many countries as well as a reduction in China’s domestic demand growth, which has made overseas investments more difficult for many Chinese enterprises. Moreover, access to financing for overseas investment has become difficult due to the crisis, and trade protectionism has been on the rise in some destination markets. By contrast, some respondents have identified positive effects associated with the crisis, such as weakened overseas competitors and the availability of acquisition targets at more attractive prices.

6. When Chinese companies invest in the EU, they mainly locate in Germany, France, Italy and the United Kingdom. Respondents' future investment plans show the same geographic profile. Concerning the main advantages of investing in the EU 27, being an integrated market and having a single currency and a good regulatory environment are considered very important. The most promising sectors for investing in the EU are considered to be manufacturing and wholesale and retail trade. Meanwhile, the United States remains a very important destination for Chinese FDI. Setting up distribution centres is the most important investment method, while the number of companies who invest through M&A is small at present. Regarding the intention of investing in North America, the United States is considered more attractive to Chinese companies than Canada.

7. Chinese enterprises have taken overseas investments as a long term development strategy and respondent firms indicate a strong resolve to view overseas investments in a medium and long term perspective. Though the investment scale of the sample enterprises is generally small, over half of the respondent enterprises expressed an intention to increase overseas investments in the coming 2~5 years. Finally, the objectives, financing channels and investment forms of overseas investments of Chinese enterprises show a trend towards diversification.

Exhibit I: Method for the Calculation of TNI of Chinese Enterprises

Transnationality Index (TNI) is used by the United Nations Conference on Trade and Development (UNCTAD) to measure the transnationality of a multinational company, calculated according to average of the ratio of foreign assets to total assets, the ratio of foreign sales to total sales and the ratio of number of foreign employees to number of total employees. This index can measure how much a multinational relies on its foreign assets, sales and employees. The higher the TNI is, the more important a role overseas businesses play in the multinationals as compared with businesses in the home country. The lower the TNI is, the more the company relies on its assets, markets and employees in the home country despite its overseas investment. TNI is calculated according to the following formula:

TNI = (foreign assets /total assets +foreign sales/total sales +number of foreign employees/number of total employees) ÷ 3×100%

According to the methodology of UNCTAD, TNI can be used to measure the transnationality of not only a specific company but also a certain region and a certain industry. For a certain industry, suppose the number of our sample is N and the TNI of Company i is TNI_i . The TNI of this industry is $TNI = \sum_{i=1}^{N} TNI_i / N$. For a certain region, suppose the number of our sample is N and the TNI of Company j is TNI_j . The TNI of this region is $TNI = \sum_{j=1}^{N} TNI_j / N$. Through the industrial and regional comparison between the TNI, we can measure the transnational level of different industries and regions. In the World Investment Report, UNCTAD used to choose world’s top 100 transnational companies as samples and calculate the TNI of different industries and regions.