

Outward Direct Investment by Chinese Enterprises

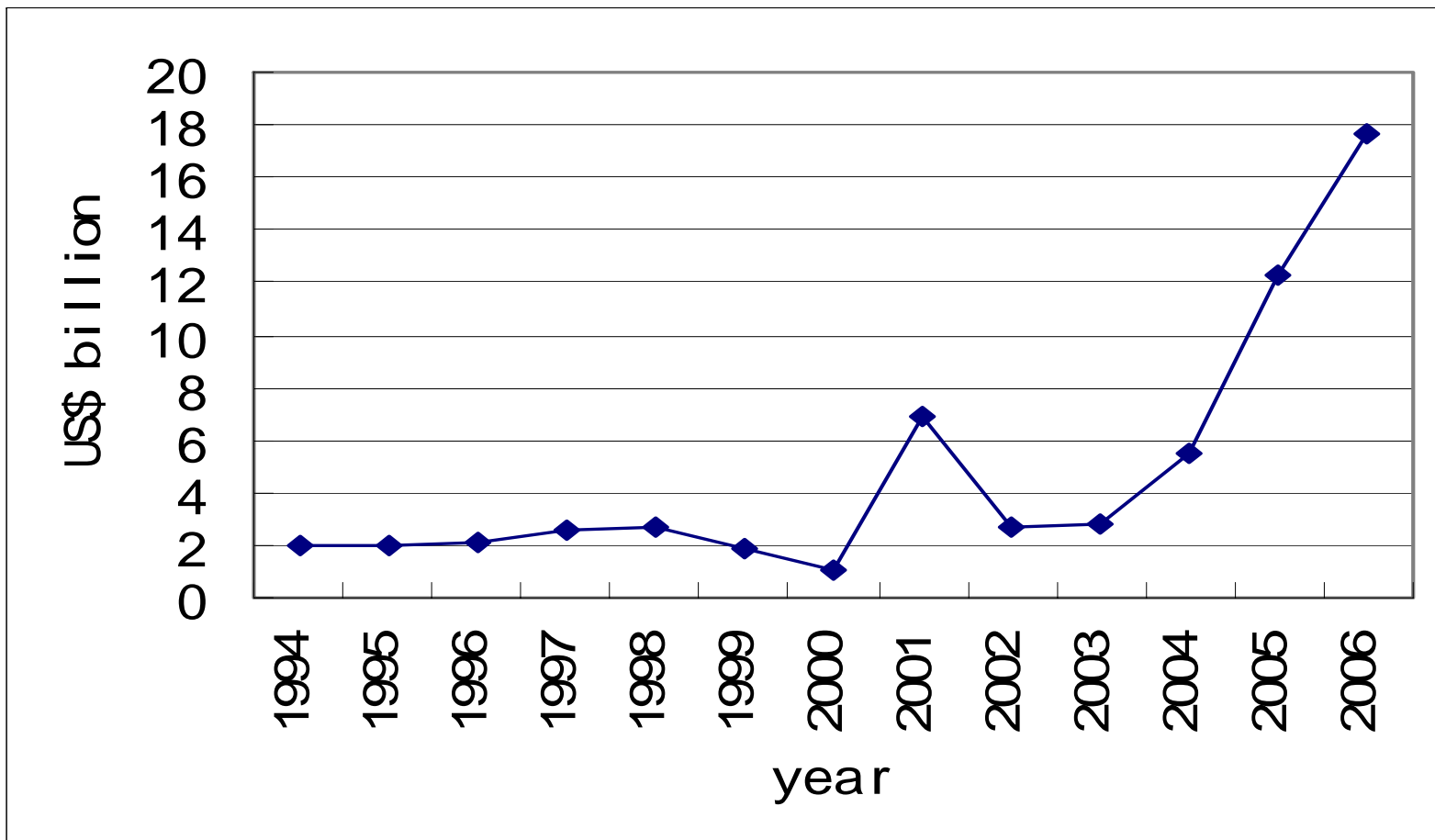
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Section A

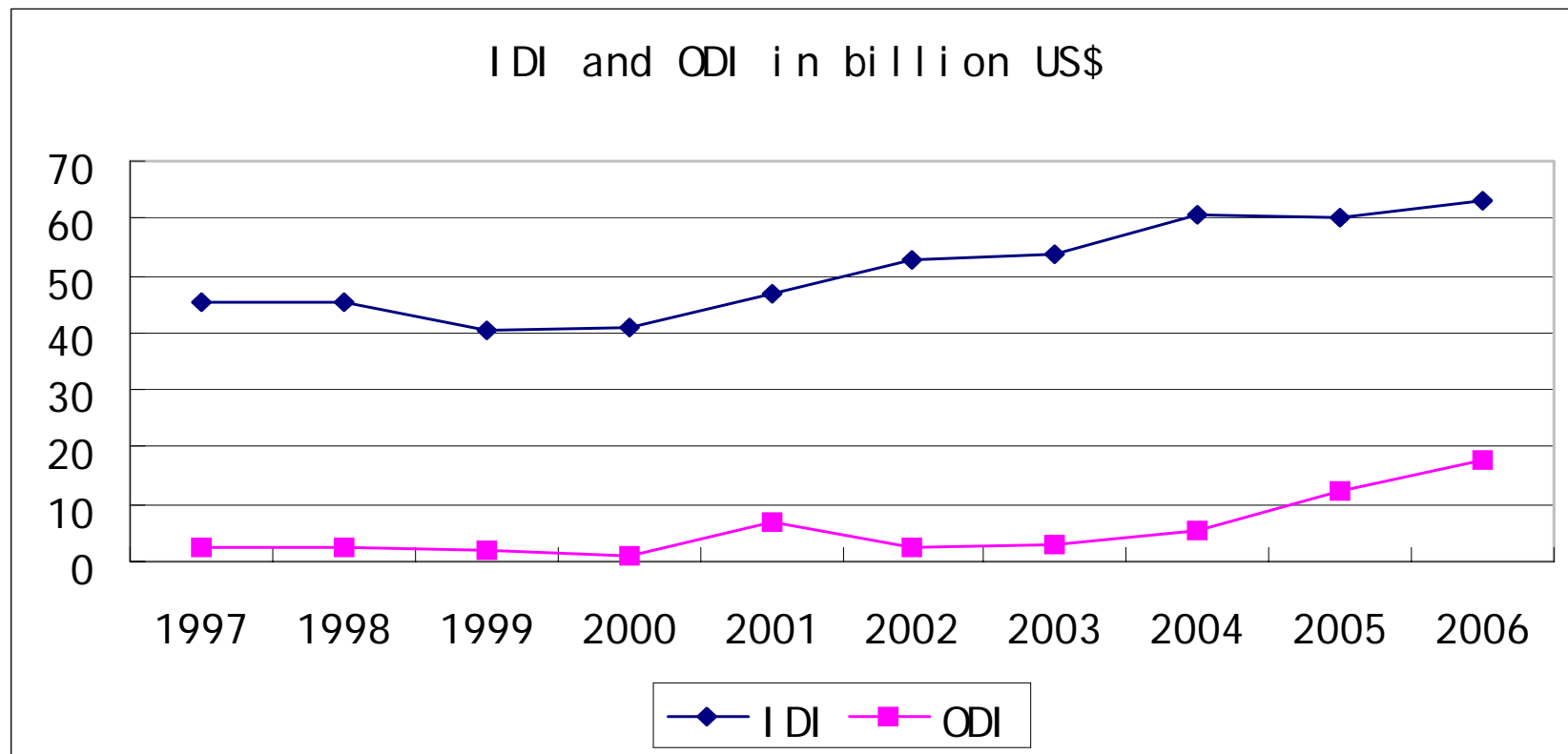
How much
Chinese Enterprises invested abroad

Chinese enterprises' ODI flow since 1994 (non financial)



- During 1994 -2003, the scale of the ODI had been sustained in a comparatively stable status at around 2 to 3 billion USD annually expect 2001.
- During 2004-2006, the ODI growth had been sped up. The ODI (by non-financial sectors) had increased from 2.85 billion USD in 2003 to 17.63 billion USD in 2006, with average annually growth rate reached 83.6%. The total ODI flow in 2006 is 21.16 billion USD (including financial sector)
- The scale of China's ODI is still a relatively low one. China's GDP ranked 4th, but ODI ranked 13th in the world in 2006.

The gap between IDI and ODI is shrinking



Economic development

- After nearly 3 decades of high growth, China's GDP per capita reached 2010 US\$ in 2006.
- The regions with higher GDP per capital in China rank top in ODI.

| Rank | Region | ODI Stock (US\$ billion) | ODI Flow (US\$ billion) | GDP per Capita (US\$) |
|------|-----------|-----------------------------|----------------------------|-----------------------------|
| 1 | Guangdong | 4.17 | 0.63 | 3630 |
| 2 | Shanghai | 2.61 | 0.45 | 7330 |
| 3 | Shandong | 1.1 | 0.13 | 3040 |
| 4 | Beijing | 0.92 | 0.06 | 6410 |
| 5 | Zhejiang | 0.7 | 0.22 | 4080 |

Growth of enterprises

- The reform of state owned enterprises (SOEs) has made great progress. Small and medium SOEs have been privatised. Most large SOEs have not only realized multi/international ownership, but also been listed in domestic or overseas capital markets, or in both markets. They operate under market rules instead of planning rules.
- Non state owned enterprises grows fast, and contribute 2/3 of China's GDP. They are active foreign investors. For example, Huawei based in Shenzhen, Newhope group based in Chendu.

22 Chinese Enterprises (in China Mainland) listed in *Fortune Global 500, 2007*

| Company | Rank | Industry | Revenues (\$ million) |
|---------------------------------------|------|----------------------------|-----------------------|
| Sinopec | 17 | Petroleum Refining | 131,636 |
| China National Petroleum | 24 | Petroleum Refining | 110,520.2 |
| State Grid | 29 | Electric Power (Utilities) | 107,185.5 |
| Industrial & Commercial Bank of China | 170 | Banks | 36,832.9 |
| China Mobile Communications | 180 | Telecommunications | 35,913.7 |
| China Life Insurance | 192 | Insurance | 33,711.5 |
| Bank of China | 215 | Banks | 30,750.8 |
| China Construction Bank | 230 | Banks | 28,532.3 |
| China Southern Power Grid | 237 | Electric Power (Utilities) | 27,966.1 |
| China Telecommunications | 275 | Telecommunications | 24,791.3 |
| Agricultural Bank of China | 277 | Banks | 24,475.5 |
| Sinochem | 299 | Trading | 32,109.2 |
| Baosteel Group | 307 | Metals | 22,663.4 |
| China Railway Engineering | 342 | Engineering, Construction | 20,520.4 |
| China Railway Construction | 384 | Engineering, Construction | 18,735.7 |
| China FAW Group | 385 | Motor Vehicle | 18,710.7 |
| China State Construction | 396 | Engineering, Construction | 18,163.2 |
| Shanghai Automotive | 402 | Motor Vehicle | 18,010.1 |
| COFCO | 405 | Trading | 17,953.2 |
| China Minmetals | 435 | Trading | 16,902.2 |
| China National Offshore Oil(CNOOC) | 469 | Petroleum Refining | 16,038.9 |
| China Ocean Shipping(COSCO) | 488 | Shipping | 15,413.5 |

Development of Trade

- China is becoming the second largest trader in the world economy. FDI, especially IDI, is important engine of trade growth.
- Cross-border trade stimulates investment to cross-border networks serving cross-border business and mobilization.

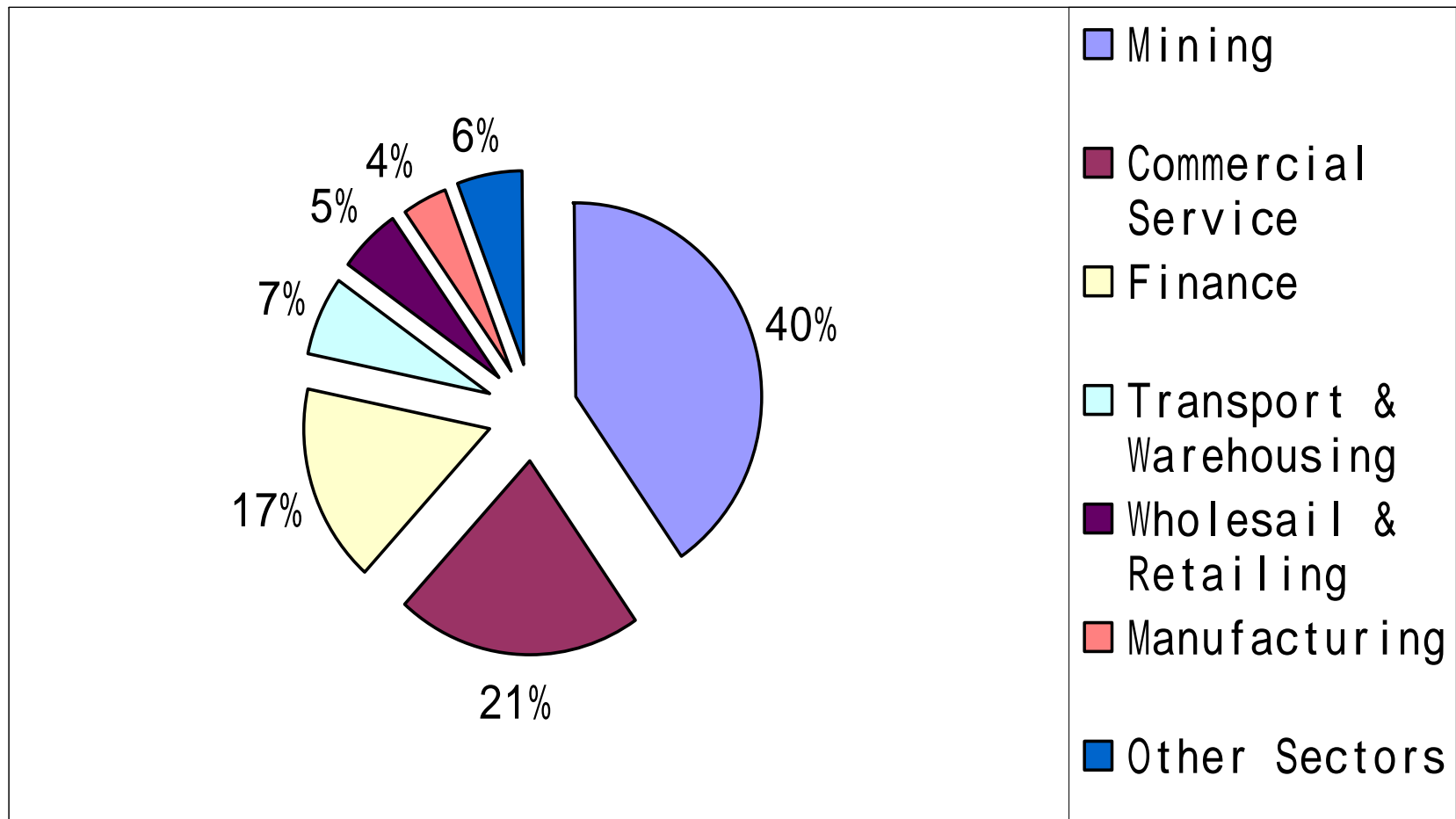
Deregulation

- China government had strict regulations on ODI before 2001.
- Since 2001, China government has taken actions to loosen regulations . For example, the government simplified examination and approval procedure for overseas investment, allowing enterprises to keep foreign exchanges.

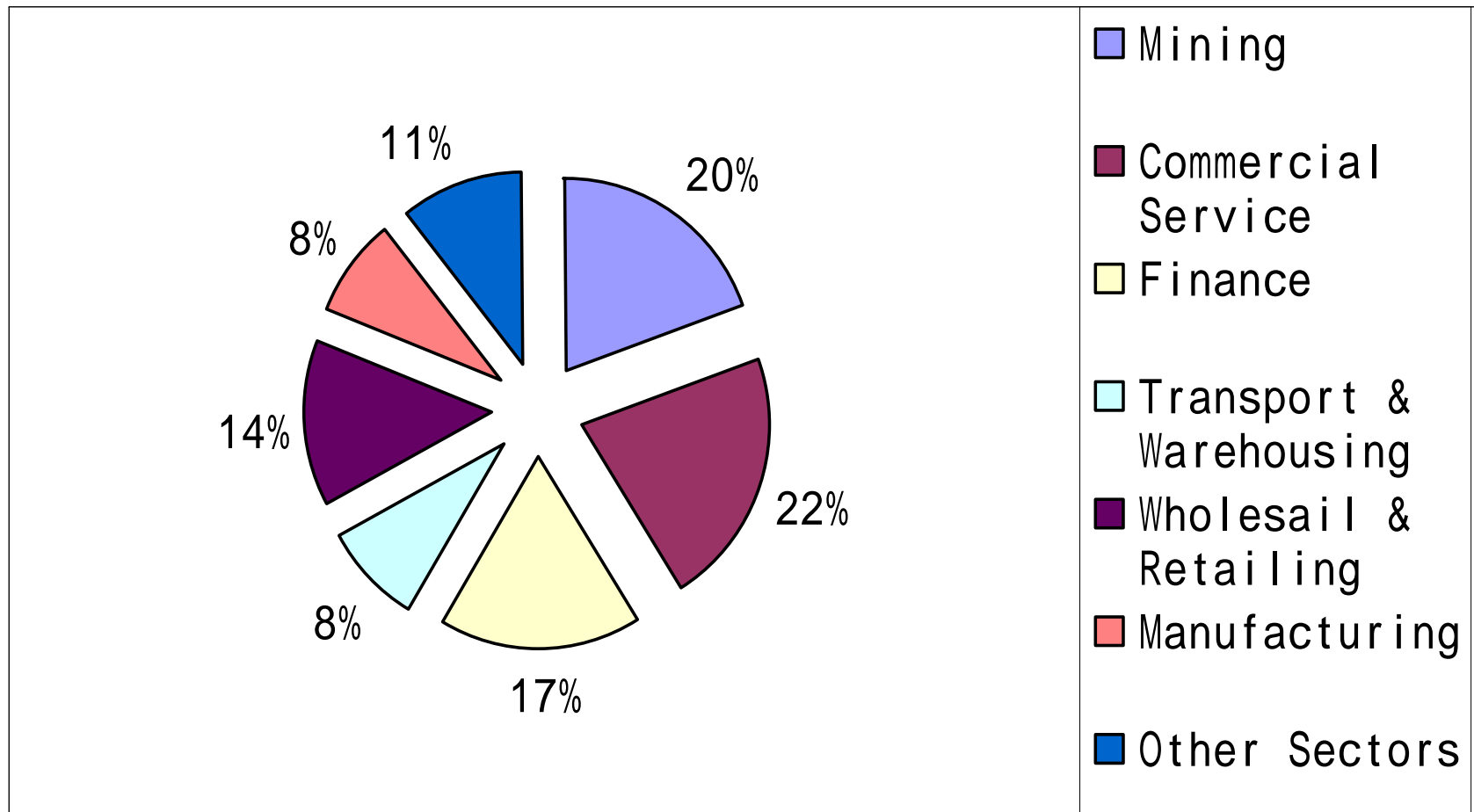
Section B

What Sectors
Chinese Enterprises invested in abroad

Sectors for ODI flow in 2006



Sectors for ODI stock in 2006



- Chinese Enterprises' ODI is concentrated in 6 sectors.
- Chinese Enterprises' ODI is closely linked with trade or domestic demand .
- Chinese Enterprises' ODI to manufacturing sector is small.

Section C

Where
Chinese Enterprises invested abroad

Top 10 regions for ODI flow in 2006 (non financial)

| Rank | Country/Region | Amount (in 100 million USD) | Proportion (%) |
|------|----------------------|-------------------------------|------------------|
| 1 | Cayman Is. | 78.3 | 44.41 |
| 2 | Hong Kong SAR, China | 69.3 | 39.31 |
| 3 | British Virgin Is. | 5.38 | 3.05 |
| 4 | Russia | 4.52 | 2.56 |
| 5 | U.S.A. | 1.98 | 1.12 |
| 6 | Singapore | 1.32 | 0.75 |
| 7 | Saudi Arabia | 1.17 | 0.66 |
| 8 | Algeria | 0.99 | 0.56 |
| 9 | Australia | 0.88 | 0.50 |
| 10 | Mongolia | 0.87 | 0.49 |

- Hongkong SAR is a window and bridge for Chinese enterprises' globalization .
- The investment in Cayman Is. and British Virgin Is. might be initiated with multiple motives, considering the nature of the regions .

Section D

Who invested abroad

- By enterprises quantity, the distribution of enterprises engaged in ODI is quite scattered in terms of ownership.
- By investment volume, the state owned enterprises were major investors because the state owned enterprises happened to be the main players in the most heavily invested sectors.

Section E

Why
Chinese Enterprises invested abroad

Major motives

- Market seeking
 - Chinese enterprises extend their service network to overseas to catch the opportunities brought by the fast growing cross-border trade and mobilization. ODI to financial, transportation and trade service network contribute 28% and 40% of total ODI flow and stock respectively in 2006.
 - ODI to overseas manufacturing sector contributes 4% and 8% of total ODI flow and stock respectively in 2006. It mainly targets overseas market.
- Resource seeking.
 - Chinese enterprises invest in overseas resources to meet domestic demand. ODI to overseas mining sector contributes 40% and 20% of total ODI flow and stock respectively in 2006.

Subordinate motives

- Assets seeking
 - A few firms seek foreign assets. For example, BOE Co. acquired Korea's Hyundai Electronics' TFT-LCD business in 2002.
- Efficiency seeking
 - A few firms seek efficiency. For example, some manufacturers of consumer electronic products have founded factories in Europe for avoiding trade barriers.

Section F

Cases

Chinese Enterprises invested abroad

China National Petroleum Corporation

- CNPC is the largest oil and gas producer, second-largest oil products supplier in China. It is the biggest overseas resources developer in China.
- Major assets of CNPC is listed both in domestic and overseas capital markets as petrochina.
- CNPC invested abroad to improve international competitive edge in opened China oil market.
- CNPC invested by means of purchasing, sharing, bidding and construction etc.
- CNPC's oil output from overseas is low compared to the major international oil players.

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Output of crude oil(in 10 thousand tons) | 11295 | 11483 | 11755 | 12243 | 12818 | 12598 | 13471 |
| Overseas equity output (in 10 thousand tons) | 690 | 831 | 1011 | 1288 | 1642 | 2002 | 2807 |
| Overseas Proportion (%) | 6.1 | 7.2 | 8.6 | 10.5 | 12.8 | 15.9 | 20.8 |

Lenovo Group Ltd.

- Lenovo has been China's largest PC maker since 1990s.
- Lonovo is listed in Hongkong capital market.
- In 2005, Lenovo merged IBM's money-losing PC division. In the deal, IBM got cash and 18.9% of Lenovo' share.
- The motive is market seeking. Lenovo jumped from the 9th PC maker to the 3th PC maker in the world.

ZTE Corporation

- ZTE is China's second largest telecommunication equipment supplier.
- ZTE is listed both in Hongkong and mainland capital markets.
- The motive is market seeking. China market is opened and highly competitive, and there are opportunities in developing countries.
- ZTE has set up a lot of overseas customer service centers, sales offices and R&D institutes.
- In 2006, ZTE's overseas assets accounts for 10% of its total assets. It has 6500 foreign employees accounting for 25% of its total staff.
- ZTE has more than half of its income from overseas in 2007