

CHINA GOES GLOBAL 2011

Survey of Outward Direct Investment
Intentions of Chinese Companies

**Prepared by China Council for the Promotion of International Trade, the United Nations
Conference on Trade and Development and the Asia Pacific Foundation of Canada**

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Introduction

China's "Going Global" strategy has embraced its 10th anniversary in 2010. In the past decade, Chinese companies have been picking up their paces of going global and increasing their overseas investments. As the statistics of the Ministry of Commerce show, in 2009, China made direct overseas investments with a net value of US\$ 56.53 billion, over 50 times that of the year 2000. In 2010, domestic investors made direct investment to 3,125 overseas companies in 129 countries and regions, with the non-financial direct overseas investments of US\$ 59 billion cumulatively.

The year of 2010 witnessed Chinese companies maximizing their zeal for making investment overseas. Chinese companies were always involved in important international mergers and acquisitions worldwide. For example, Geely bought out Volvo, SinoPec purchased shares of Repsol's Brazilian subsidiary, and the joint venture of CNOOC and Bidas Energy Holdings bought shares of Pan American Energy. The transactions were accounted as the most important ones of the year, given their value or attention drawn. The Wall Street Journal published a list of ten significant international merger and acquisition cases, four positions among which were occupied by Chinese companies.

The year of 2010 also witnessed the effects of the global financial crisis fading away and the economy and investment bottoming out slowly. In contrast to a few emerging economies having gotten rid of recession through stimulus plans, main developed economic powers were still struggling on their ways to revitalization. The global financial crisis changed the overall situations of foreign direct investment (FDI) flows and also changed geopolitical determinants and regional patterns of foreign investment. Multinationals were taking a new round of adjustments in their globalization strategies and supply chains, which was interwoven with the structural adjustments of the world economy. This signified the rolling of industrial transfers and adjustment on the global stage. It created great opportunities for Chinese companies to Going Global and also made them have to face challenges and uncertainties.

In order to get more information on the overseas investment by Chinese companies in the year of 2010, their overseas-investment intentions in the post-crisis era, problems they met,

opinions of companies at various regions or sectors on the country's "Going Global" policy, and their needs for the government to meet, China Council for the Promotion of International Trade (CCPIT) conducted the "Survey on Current Conditions and Intentions of Outbound Investment by Chinese Companies" from December 2010 to March 2011, which will serve as reference and basis for relevant authorities to formulate and modify relevant policies.

This survey was carried out mainly in the form of questionnaires, the contents of which included the general information of companies, information on their overseas investments until now, their intentions, etc. The surveyed companies completed the questionnaires on their own or with assistance of researchers from CCPIT branches. This survey followed the criteria introduced last year in selecting sample companies to keep continuity and comparability of collected data. A total of 1,024 valid answer papers were returned from selected medium and small sized import and export companies.

This survey has been carried out continuously for years in China. Over 1,000 valid answer papers were returned each year from 2008 to 2010. This report focuses on analysis of the data collected in 2010 and presentation of the characteristics and trends of overseas investment by Chinese companies recent years by referring to the data collected from 2008 to 2010.

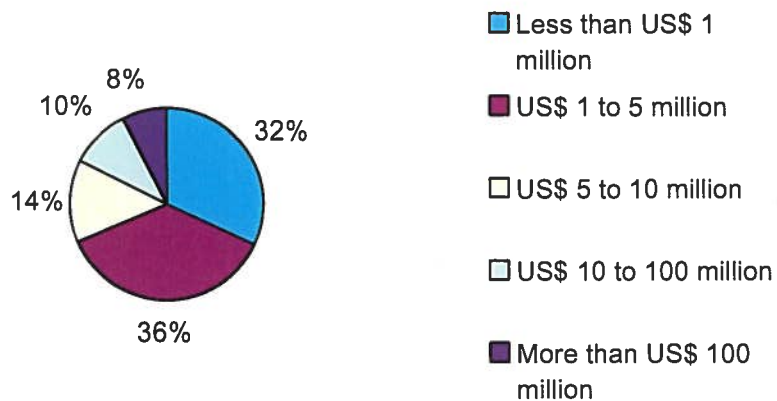
This survey was jointly conducted and completed by China Council for the Promotion of International Trade (CCPIT), United Nations Conference on Trade and Development (UNCTAD) and Asia Pacific Foundation of Canada (APF Canada) .

I. Status Quo of Overseas Investment by Chinese Companies

1. Scale of Overseas Investment

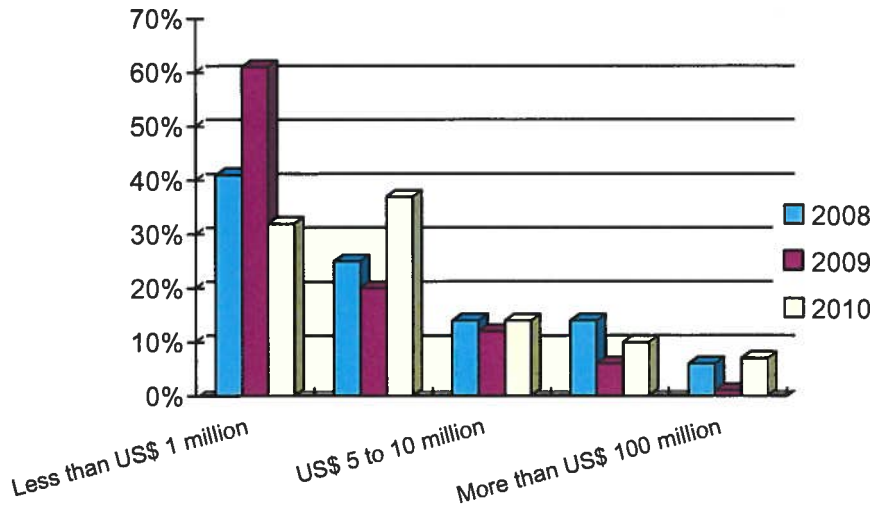
As this survey shows, the overseas investment scale of 2/3 surveyed companies which have made overseas investment is less than US\$ 5 million for the year of 2010. This indicates that the overseas investment scale of Chinese companies is small on the whole and that only a few companies are making large-scale overseas investment.

Chart 1.1 Overseas Investment Scale



According to the survey data of the past three years, the overseas investment scale of the surveyed companies is expanding. The 2010 survey showed that 8% of the surveyed companies make overseas investment with the value of over US\$ 100 million while the number was 6% and 1% respectively according to the 2008 and 2009 surveys. And the 2010 survey also showed that 32% of the surveyed companies make overseas investment with the value of less than US\$ 1 million while the number was 41% and 61% respectively according to the 2008 and 2009 surveys. The year 2010 witnessed the climax of overseas investment made by Chinese companies.

Chart 1.2 Changes in Overseas Investment Scale for Past Three Years



2. Target Countries and Regions of Overseas Investment

As the locations of Chinese overseas companies show, the overseas investment made by Chinese companies concentrates on Asia, Europe and North America. Of the 131 surveyed companies, 46% make investment in Asia, 23% in Europe and 27% in North America. This survey shows a notable different trend that there are rapidly more Chinese companies making investment in Africa. 22% of the surveyed companies make investment in Africa which has become a hot continent for Chinese investment. Only a few companies choose to make investment in Latin America and Oceania.

Chart 1.3 Overseas Investment by Region

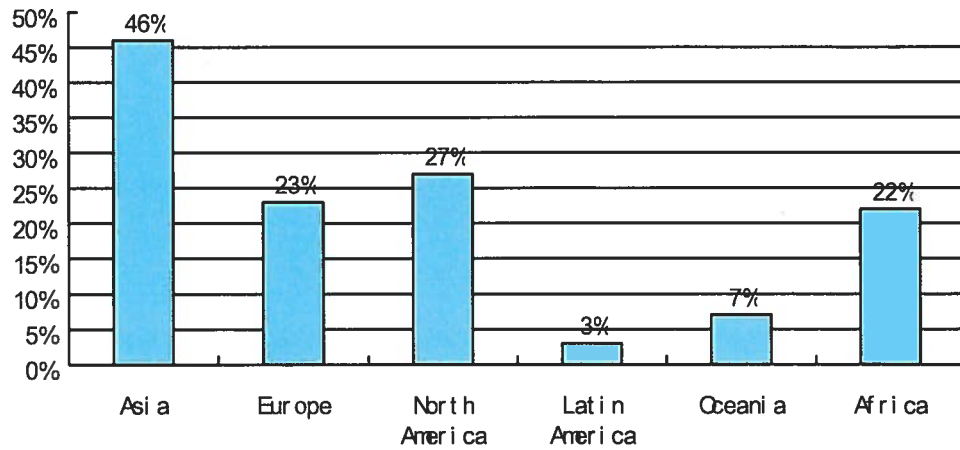
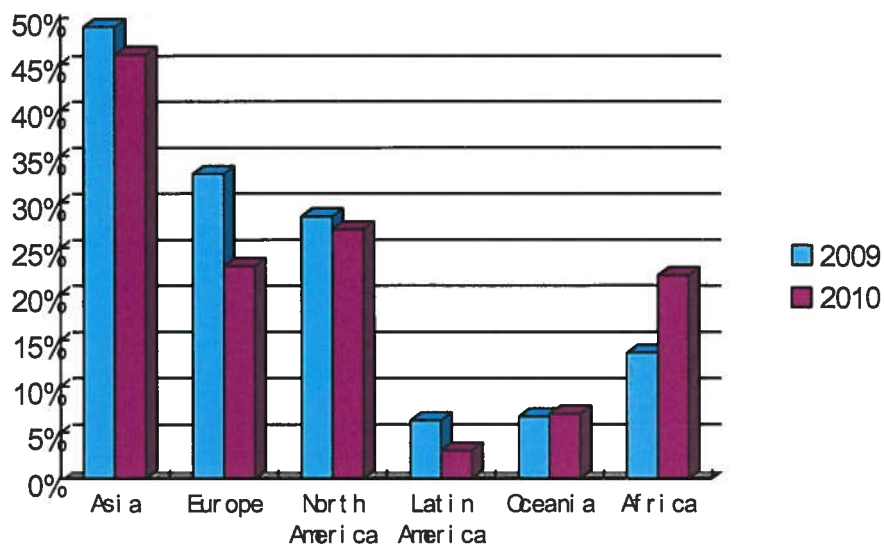


Chart 1.4 Comparison of Overseas Investment by Region: 2009 vs. 2010



3. Late Start in Overseas Investment

Chinese companies started late to make overseas investment. According to the 2010 survey, over 80% of the surveyed companies started to make overseas investment after 2000 when the central government enacted the “Going Global” strategy at the national level while only 4% of them had done before 1990. This indicates that most surveyed companies started to make overseas investment and internationalize their operations after the “Going Global” strategy was enacted and that great achievements have been made during the ten years of the execution.

Table 1.1 Experiences in Overseas Investment

Year of First Overseas Investment	%
~ 1985	2
1986 ~ 1990	2
1991 ~ 1995	2
1996 ~ 2000	6
2001 ~ 2005	19
2006 ~	69
TOTAL	100

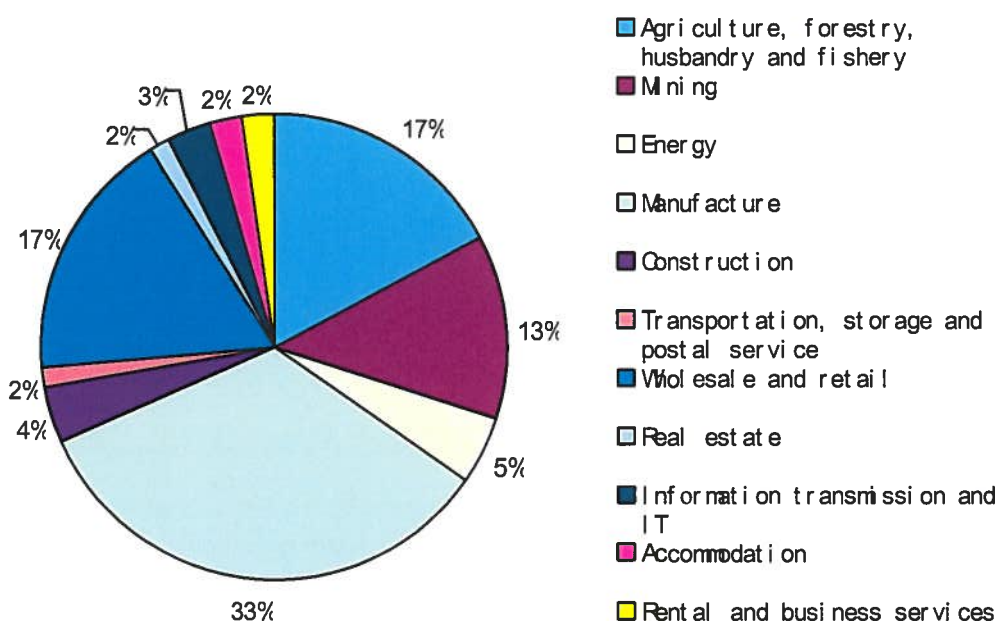
4. Industries Involved

Chinese companies make overseas investment in a variety of industries. Manufacture comes

first; wholesale, retail, agriculture, forestry, husbandry, fishery and construction come second; a little goes to transportation, real estate, accommodation and software. As this survey shows, of the manufacture, Chinese companies make the most overseas investment in machinery and then in textile. This is consistent with China's comparative advantages.

In the industrial structure of the overseas investment for the past three years, the manufacture is still atop with a reduced focus. 33% of the surveyed companies in 2010 made overseas investment in the manufacture, which was lower than the results of the 2008 and 2009 surveys. In contrast, that of those making overseas investment in agriculture, mining and energy rocketed. This signifies the increasing significance of exploiting raw materials and natural resources in China's overseas investment.

Chart 1.5 Industrial Sector Distribution of Respondent Enterprises



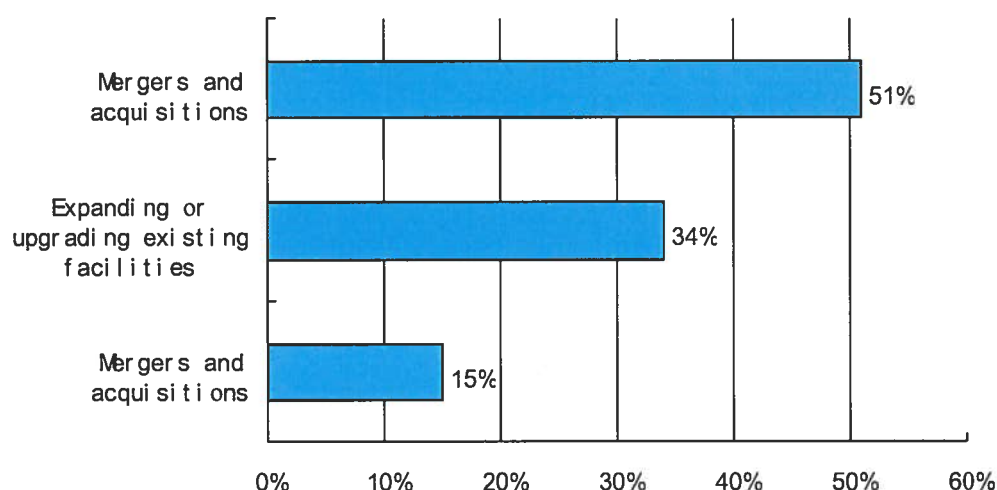
5. Models of Overseas Investment

Making direct investment to build plants is the model Chinese companies adopt the most in making overseas investment. 51% of the surveyed companies adopt this model. Expanding or upgrading the existing facilities comes second. 34% of the surveyed companies adopt this model. Though mergers and acquisitions are significant means for a multinational to internationalize its

operation, Chinese companies rarely adopt it as the preferred model yet. Only 15% of the surveyed companies did. However, comparing with the year 2008, 2010 witnessed the proportion of the surveyed companies making overseas investment through mergers and acquisitions increase from 8% to 15%, which shows that Chinese companies have become more interested in this model.

According to the statistics of the Ministry of Commerce, China made direct investment overseas with the value of US\$ 23.8 billion through mergers and acquisitions in 2010, accounting for 40.% of the total. This indicates that the few mergers and acquisitions have the huge value. Particularly in the world’s significant mergers and acquisitions in 2010, Chinese companies were always involved. For example, Geely bought out Volvo, and SinoPec purchased shares of Repsol’s Brazilian subsidiary

Chart 1.6 Models of Overseas Investment by Chinese Companies



6. Factors Having Impacts on Overseas Investment

Making overseas investment is a systemic engineering which is impacted and limited by many factors. They can be either positive or negative. As Table 1.2 shows, such positive factors as the “Going Global” policy and relevant favorable supports, the market potentials of target countries and natural resources of target countries are stimulus for Chinese companies to make overseas investment. Over 20% of the surveyed companies make decisions based on those factors first and then on capital availability and less transportation cost. Lower labor cost and better labor quality of target countries, acquiring famous brands and advanced technologies and other factors

are not their interest. This indicates that the main purpose of Chinese companies making overseas investment is expanding the foreign market and exploiting foreign resources by making use of favorable policies. Therefore, we should provide more relevant information and services to those companies and help them “Going Global” in a better way. There are little overseas investment in acquiring foreign technologies and brands for now.

In 2009, we carried out the survey on impacts of various factors on investment in developed countries and developing countries. It showed that Chinese companies were stimulated mainly by favorable policies and needs of acquiring foreign markets in making investment in developed countries and that they were driven mainly by favorable policies and increasing labor cost at home in making investment in developing countries.

Of negative factors, financing difficulty and want of international operation and management talent are the major ones. Over 60% of the surveyed companies see the two negative factors as “decisive factors” or “important factors”. Thus, it will effectively solve our bottleneck problems with overseas investment and such investment will be facilitated if we can provide more services in financing channels and talent introduction.

Table 1.2 Positive Factors for China’s Overseas Investment

Positive Factors	Decisive Factors	Important Factors	Unimportant Factors	Irrelevant	TOTAL
	% (of the surveyed companies)				L
“Going Global” policy and relevant favorable supports	25	67	5	3	100
Sluggish home market	7	50	45	8	100
Capital availability	17	63	18	2	100
Increasing labor cost at home	7	44	37	12	100
Less transportation cost	12	48	28	12	100
Market potentials of target countries	37	49	12	2	100

Natural resources of target countries	21	7	34	38	100
Better labor quality of target countries	4	40	46	10	100
Lower labor cost of target countries	8	37	40	15	100
Advanced technologies of target countries	11	37	40	12	100
Acquiring famous brands	10	28	46	16	100
Benefiting from favorable policies of target countries	15	55	22	8	100
Circumventing trade barriers	9	57	25	9	100

Table 1.3 Negative Factors for China's Overseas Investment

Negative Factors	Decisive	Important	Unimportant	Irrelevant	TOTAL
	Factors	Factors	Factors		L
% (of the surveyed companies)					
Limited knowledge of Chinese brands of local consumers	11	43	35	11	100
Concern of local consumers about quality of Chinese products	8	44	36	11	100
Financing difficulty	11	53	25	9	100
The company is in want of international operation and management talent.	11	54	27	8	100
The company has limited knowledge of the legal system and market risks of the target country.	6	59	27	8	100
Products and technologies have no cutting edge.	11	40	39	10	100
Cultural discrepancy	8	44	37	11	100

7. Satisfaction with Status Quo of Overseas Investment

According to the surveys of recent years, most surveyed companies are satisfied with the status quo of their overseas investment. The proportion was 66% in the 2010 survey. In the 2009

survey, over 90% were satisfied with their investment in EU and other developed countries and 81% were satisfied with their investment in developing countries. Of the surveyed companies making investment in developing countries, 9% were very satisfied while 15% were basically not satisfied. In contrast, the proportion was 25% and 5% respectively for those making investment in EU. On the whole, Chinese companies are more satisfied with investment in developed countries than in developing ones.

Chart 1.7 Satisfaction with Existing Overseas Investment, 2010

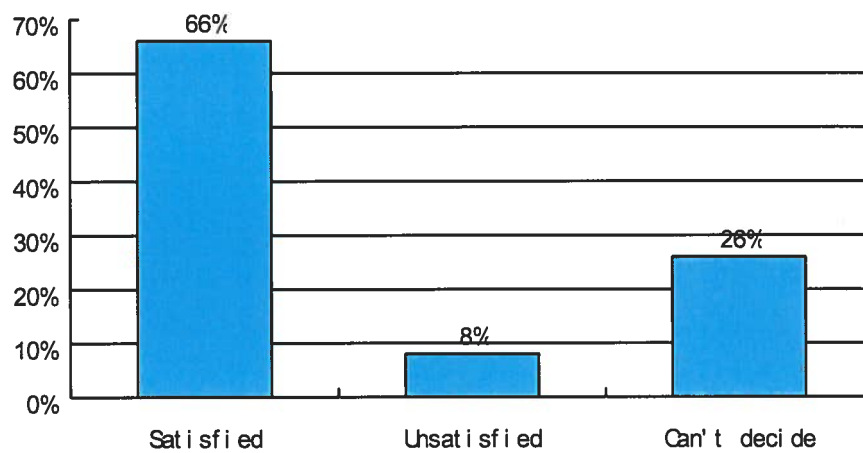
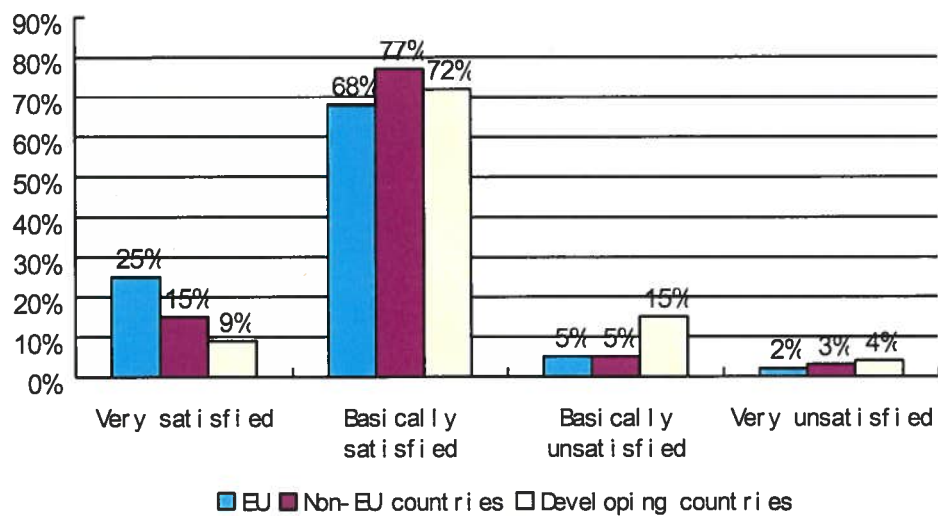


Chart 1.8 Satisfaction with Existing Overseas Investment, 2009



II. Intentions on Overseas Investment in the Future

1. Trend of Overseas Investment

When answering to the questions on intentions on overseas investment in the next 12 months, 10% of the surveyed companies replied that they would significantly increase the investment, 53% would moderately increase the investment, 36% would maintain the existing level and only 1% would reduce the investment.

In the two to five year plan, 88% would significantly or moderately increase the investment. This signified the strong desire of Chinese companies for making overseas investment in the future.

Chart 2.1 Trend of Overseas Investment for Next 12 Months

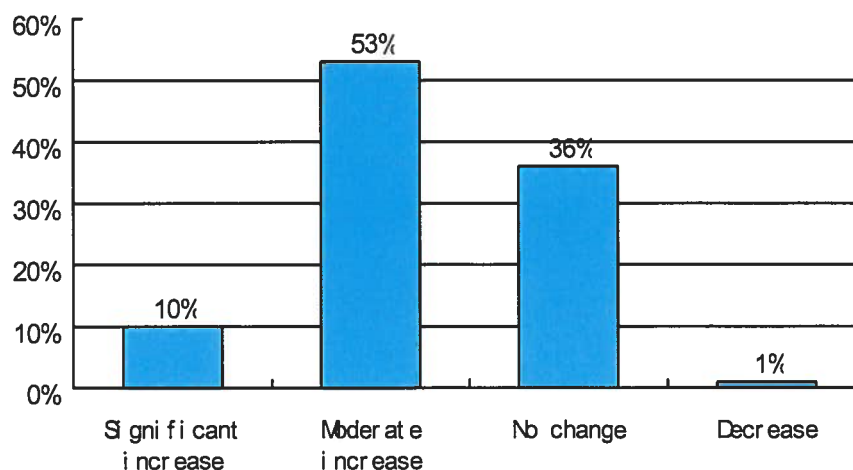
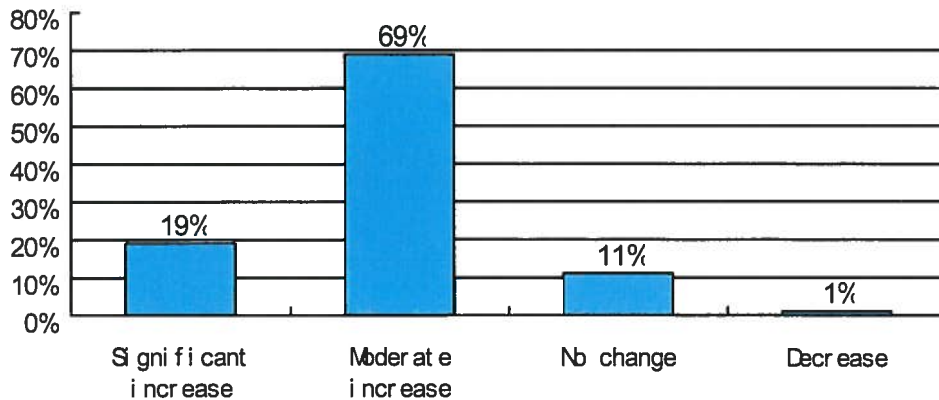


Chart 2.2 Trend of Overseas Investment for Next Two to Five Years



2. Scale of Future Overseas Investment

In the medium and long run, or in the next two to five years, the scale of planned overseas investment by the surveyed companies is still small on the whole. 43% of them expect it less than US\$ 1 million, 27% budget between US\$ 1 million and US\$ 5 million, and the rest 30% anticipate it over US\$ 5 million which is a 12 percentage point increase over the result of the 2008 year end survey. This indicates that Chinese companies are shaking off the impacts of the financial crisis and building up enthusiasm for making overseas investment.

Chart 2.3 Scale of Future Overseas Investment

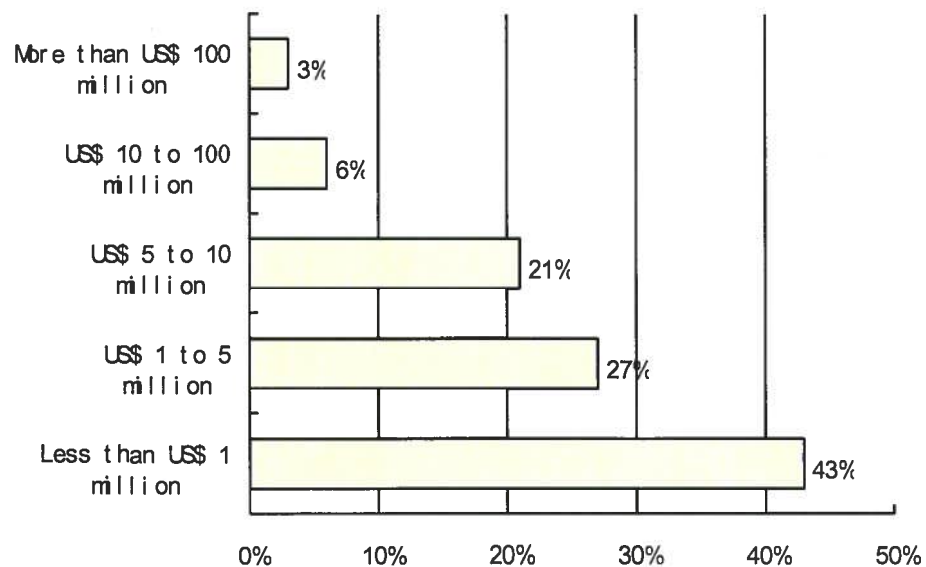
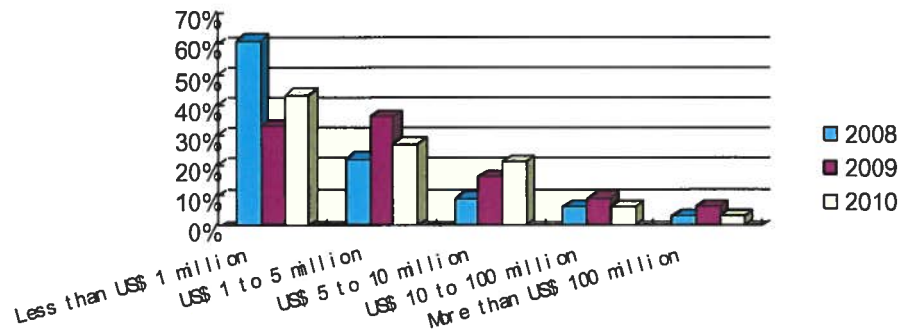


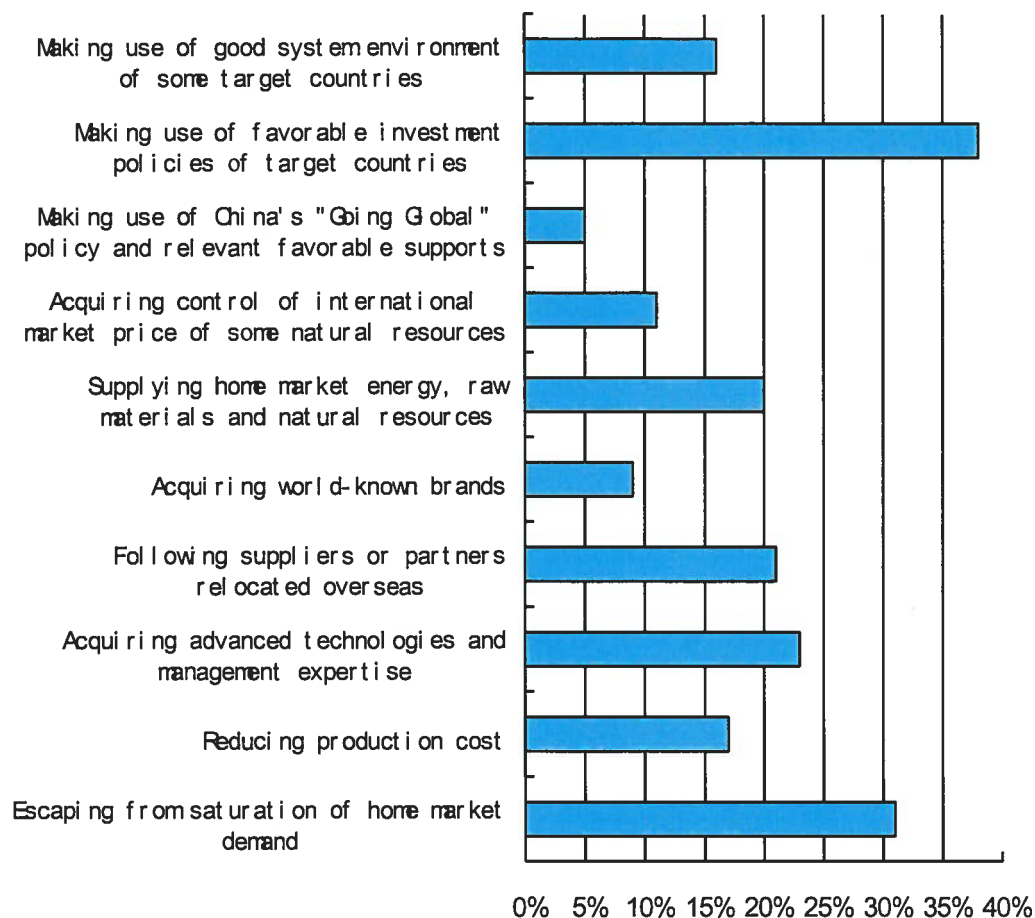
Chart 2.4 Scale of Future Overseas Investment: 2008-2010 Surveys



3. Purposes of Future Overseas Investment

The main purpose of Chinese companies making overseas investment in the future is making use of favorable policies of target countries and escaping from the saturation of home market demand, which is seen as decisive by over 30% of the surveyed companies in their overseas investment. Over 20% of them consider acquiring advanced technologies and management expertise, following their partners relocated overseas and supplying energy, raw materials and natural resources to the home market as the main purpose. In addition, Chinese companies also take into account making use of the good system environment of some target countries like convenience in financing and low taxation, reducing the production cost and seeking to take control of the international market price of natural resources. Only less than 10% of them set the purpose of their overseas investment for acquiring world-known brands. This indicates that the purposes are diversified.

Chart 2.5 Main Purpose of Future Overseas Investment



4. Capital Sources of Future Overseas Investment

According to this survey, 44% of the surveyed companies make overseas investment by using their own capital and 27% of them by making loans from banks, which are the two main channels of capital sources in this sector. Additionally, 14% of them issued stocks and bonds to raise funds for making overseas investment. On the whole, this shows the monotony of the financing channels accessible to Chinese companies. The "Going Global" strategy is still haunted by the financing difficulty.

Comparing with last year's survey data, the proportion of the surveyed companies using their own capital to make overseas investment has decreased from 55% to 43% while that of them raising funds through issuing stock and bonds has increased from 7% to 14%. This shows the

narrowing proportion of companies using their own capital in overseas investment and the increasing diversification of fund-raising channels by using stocks, securities and other capital market instruments in overseas investment, which changes the monotonous situation of financing channels of overseas investment to some extent.

Chart 2.6 Choices of Future Financing Channels

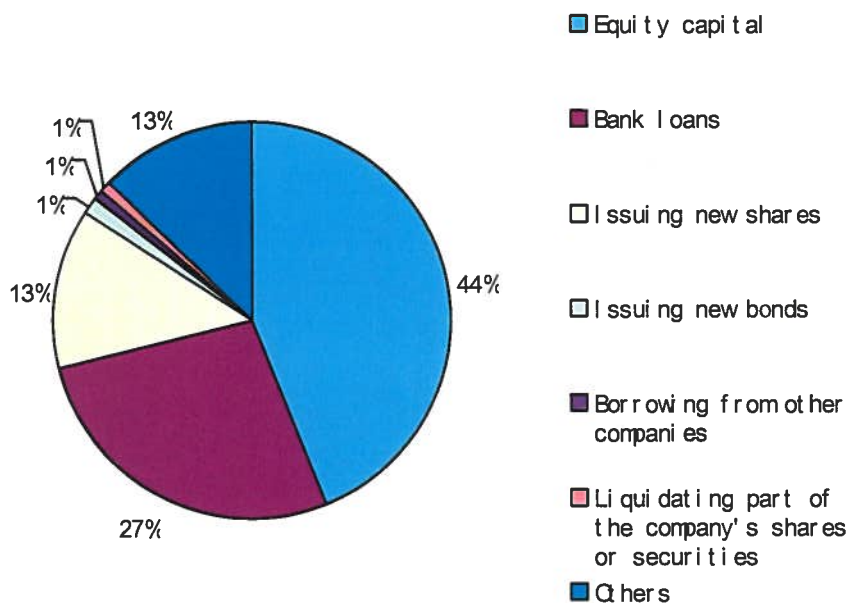
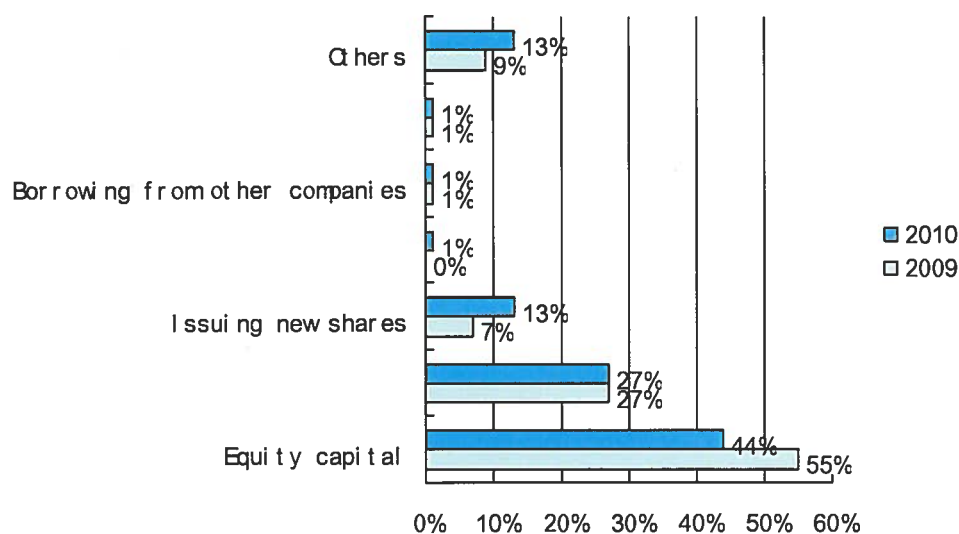


Chart 2.7 Comparison of Future Financing Channels



5. Future Models of Overseas Operation

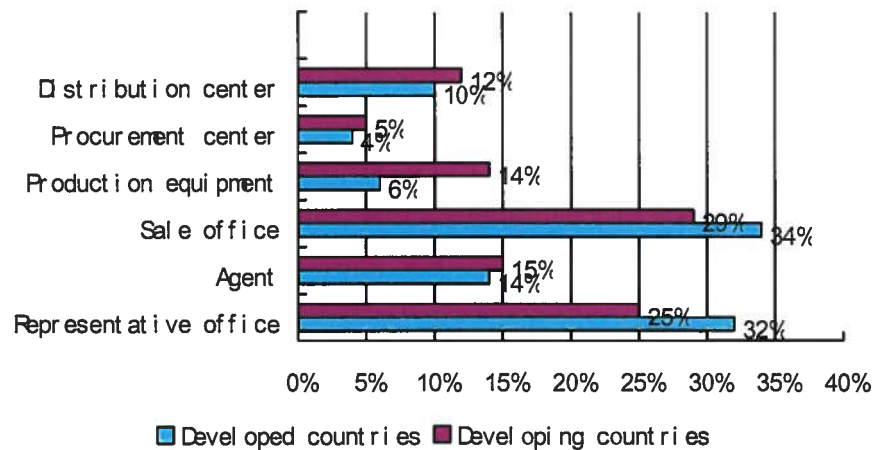
Most Chinese companies plan to set up a sale office or a representative office for overseas operation. There are also alternatives to designate an agent or provide production equipment. Those testing the water usually set up the sale office or the representative office due to its low investment and operational flexibility. So the fact that most Chinese companies prefer to set the sale office or the representative office indicates that they are still at the early stage in overseas investment. It is a higher stage to set up a distribution center or a procurement center overseas, requiring capital strength and internationalized management capacity. Less than 10% of Chinese companies have chosen to set up a distribution center or a procurement center overseas for local investment, signifying their prudence in making large-scale investment overseas.

Table 2.1 Future Operational Models of Overseas Investment

Models	Number of Samples	% (of answering companies)	% (of all companies)
Set up a representative office	178	28.75%	17.38%
Designate an agent	83	13.41%	8.10%
Set up a sale office	174	28.11%	16.99%
Provide production equipment	106	17.12%	10.35%
Set up a procurement center	25	4.04%	2.44%
Set up a distribution center	53	8.56%	5.18%
No answer	405		39.55%
TOTAL	1024		100.00%

Besides, according to the 2009 survey, Chinese companies adopt different operational models when making investment in developed countries and developing countries. As Chart 2.8 shows, more Chinese companies set up a representative office in developed countries than in developing countries while far more of them provide production equipments in developing countries than in developed countries. This indicates the difference in needs, i.e., providing developing countries production equipment to make use of local labor and resources while setting up a representative office in developed countries to better know local markets and consumer demands.

Chart 2.8 Operational Models of Overseas Investment



III. Overseas Investment in Manufacture and Mining

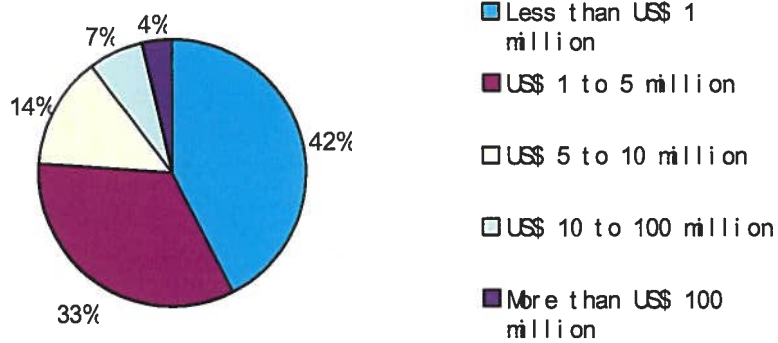
The manufacture is one of the hot sectors China’s overseas investment concentrates on. Surveys of recent years sample the most companies from this industry, over 30% of the total surveyed companies each year. The mining is another hot field. According to the statistics of the Ministry of Commerce, China’s overseas investment in mining has reached US\$ 40.58 billion until 2009 year end. Mining companies account for a large proportion of the samples of the past three years, 11% in 2008 and 13% in 2010. Following is the analysis of characteristics of China’s overseas investment in the manufacture and mining.

1. Characteristics of Overseas Investment in Manufacture

1.1 Scale of Investment

The surveys from 2008 to 2010 show that there are a total of 226 companies making overseas investment in manufacture, the scale of which is as shown in Chart 3.1. 42% of them invested less than US\$ 1 million, 33% between US\$ 1 million to US\$ 5 million, and only 4% over US\$ 100 million. The data is consistent with the scale of China’s overseas investment for the years mainly because manufacture companies account for a large proportion of the samples. On the whole, the scale of overseas investment in the manufacture is small and it is rarely made in large projects.

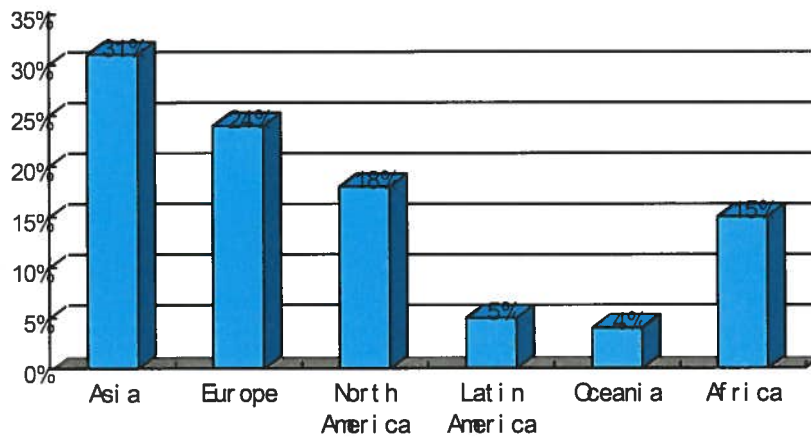
Chart 3.1 Overseas Investment in Manufacture



1.2 Investment by Region

China’s overseas investment in the manufacture is made in Asia for the most part, then in Europe, North America and Africa, and little in Latin America and Australia. This is due to the characteristics of this industry. Its industrial chain is stretchy which needs supporting from related industries at both upstream and downstream. So when overseas investment is to be made in the manufacture, the companies prefer such regions in Europe and North America where cornerstones have been laid rather than Latin America and Australia.

Chart 3.2 Overseas Investment in Manufacture by Region

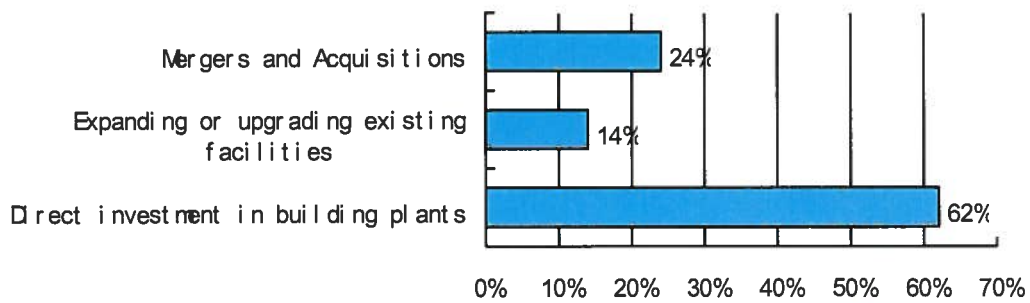


1.3 Models of Overseas Investment in Manufacture

The main model of overseas investment in the manufacture is making direct investment in building plants. 62% of the companies choose this model. What is notable is that the investment is

often made through mergers and acquisitions which account for 24%, higher than the 15% on the whole as the 2010 survey showed. This indicates that comparing with companies of other industries, the manufacture companies adopt mergers and acquisitions more often.

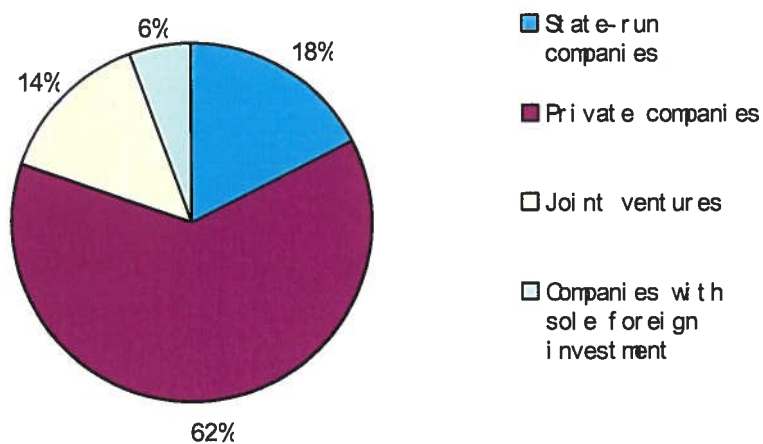
Chart 3.3 Models of Overseas Investment in Manufacture



1.4 Ownership Structure of Overseas Investment in Manufacture

The existing overseas investment in the manufacture is mostly made by private companies, accounting for 62%. Companies of other forms of ownership make up a small proportion. This is because the survey is made by random sampling and there are a huge number of private companies, especially medium and small sized ones.

Chart 3.4 Ownership Structure of Overseas Investment in Manufacture



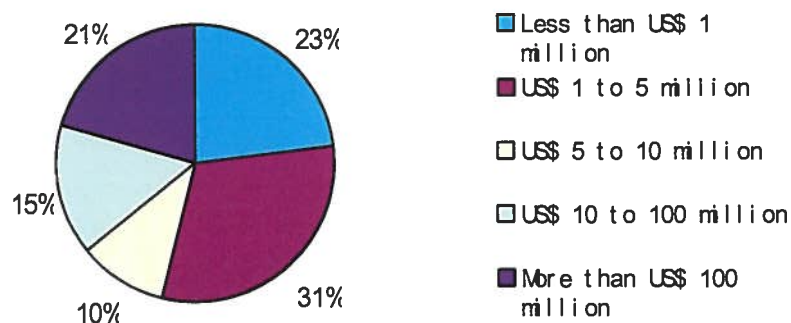
2. Characteristics of Overseas Investment in Mining

2.1 Scale of Investment

The scale of overseas investment in the mining is larger than that in the manufacture. 21%

of the companies make overseas investment in the mining with the value of over US\$ 100 million while only 4% of them in the manufacture. And 15% of them make overseas investment in the mining with the value between US\$ 10 million and US\$ 100 million. This indicates that the few companies making overseas investment in the mining are usually involved with large-sized projects with the huge value, which is consistent with the characteristics of the mining.

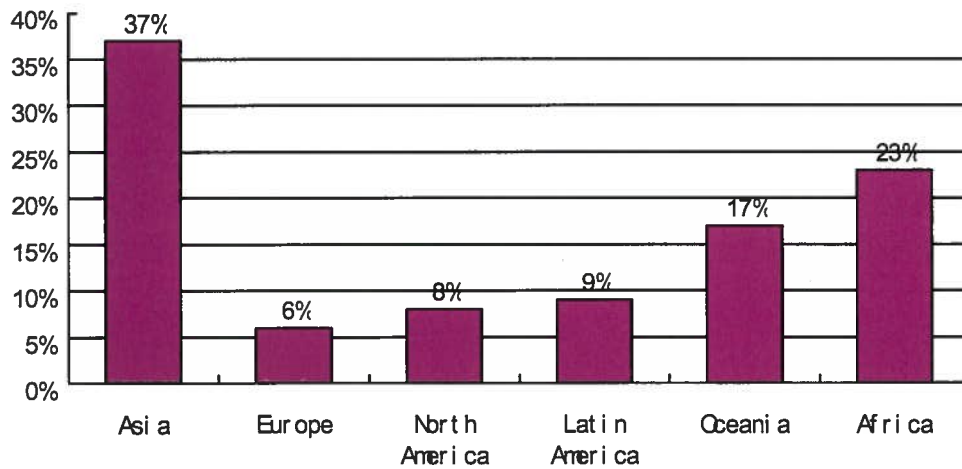
Chart 3.5 Scale of Overseas Investment in Mining



2.2 Overseas Investment in Mining by Region

The most of the overseas investment in the mining goes to Asia, then Africa, Oceania and Latin America, while there is little in Europe and North America. This is quite different from the general layout of China's overseas investment which concentrates on Asia, Europe and North America. This is also consistent with the characteristics of the mining. The overseas investment in mining prefers such regions abounding with natural resources. Oceania, Africa and Latin America become the focus of China's overseas investment in mining due to their rich natural resources available to exploit.

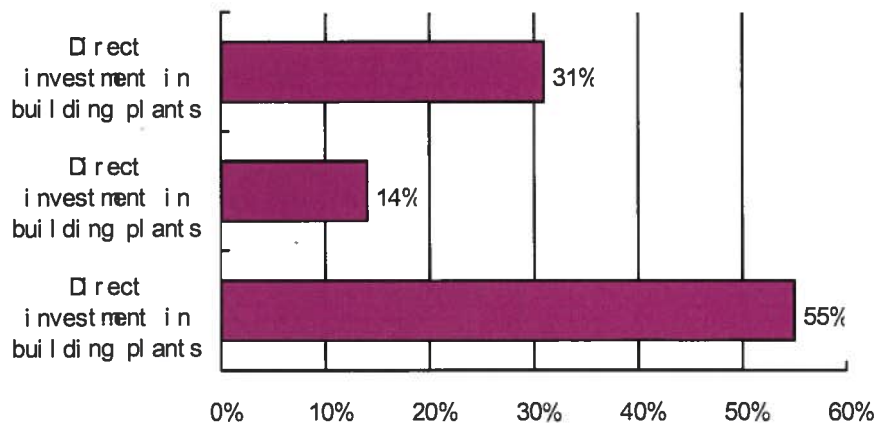
Chart 3.6 Overseas Investment in Mining by Region



2.3 Models of Overseas Investment in Mining

The overseas investment in the mining is usually made either by making direct investment in building plants or through mergers and acquisitions. 31% of the companies adopt mergers and acquisitions, higher than the average level of the surveyed companies. This model is a good choice because it can start production at an earlier time and shorten the construction time considering that the value of mining projects is usually huge and that it usually takes a very long time to complete a mining project.

Chart 3.7 Models of Overseas Investment in Mining

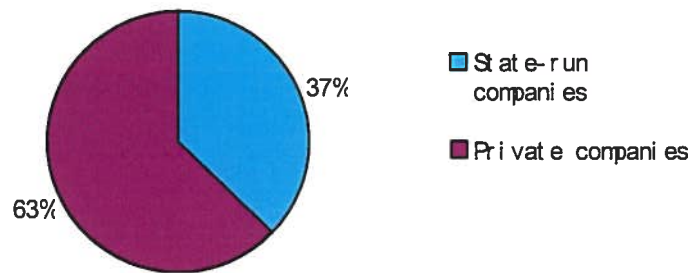


2.4 Ownership Structure of Overseas Investment in Mining

The ownership structure of overseas investment in the mining is simple. 37% of the

companies are national and the rest 63% are private. There is no indication to participation of joint venture or with the sole foreign investment.

Chart 3.8 Ownership Structure of Overseas Investment in Mining



IV. Regional Characteristics of Overseas Investment

1. Investment in EU Countries

1.1 Main Target Countries

Table 4.1 Investment in EU Countries, 2009-2010

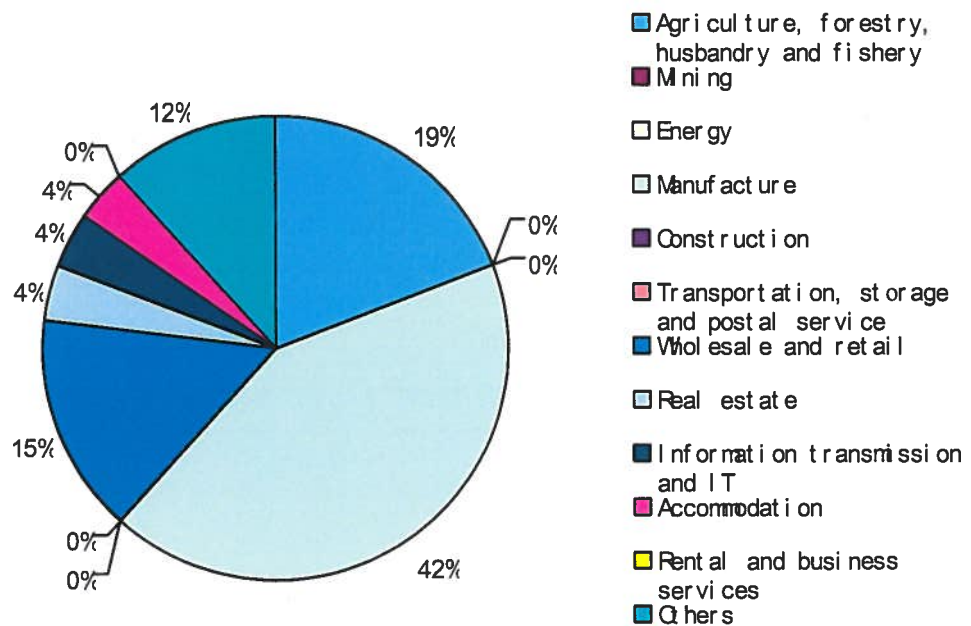
Country	Number of Projects	Country	Number of Projects	Country	Number of Projects
France	66	Hungary	2	UK	60
Germany	64	Ireland	9	Romania	5
Greek	2	Italy	35	Spain	13
Austria	20	Lithuania	1	Sweden	20
Belgium	13	Holland	16	Czech	11
Bulgaria	4	Poland	2	Denmark	6
Cyprus	1	Portugal	1	Finland	4
Latvia	3	Malta	2		

As Table 4.1 shows, investment of Chinese companies in EU concentrates on France, Germany, and UK accounting for 45% of the total in EU. They are followed by Italy, Austria and Sweden.

1.2 Target Industries

Investment of Chinese companies in EU concentrates on manufacture which is followed by agriculture, wholesale and retail. Little is made in mining, energy and business services.

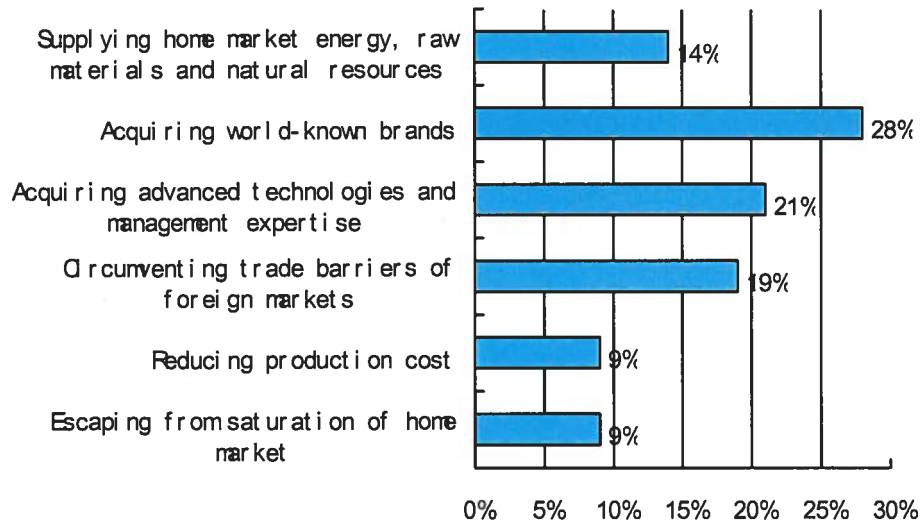
Chart 4.1 Investment by Industry in EU



1.3 Purposes of Investment

The main purpose of Chinese companies making investment in EU is acquiring world-known brands. Another purpose is acquiring advanced technologies and management expertise. Reducing the production cost and expanding the market are not their concerns.

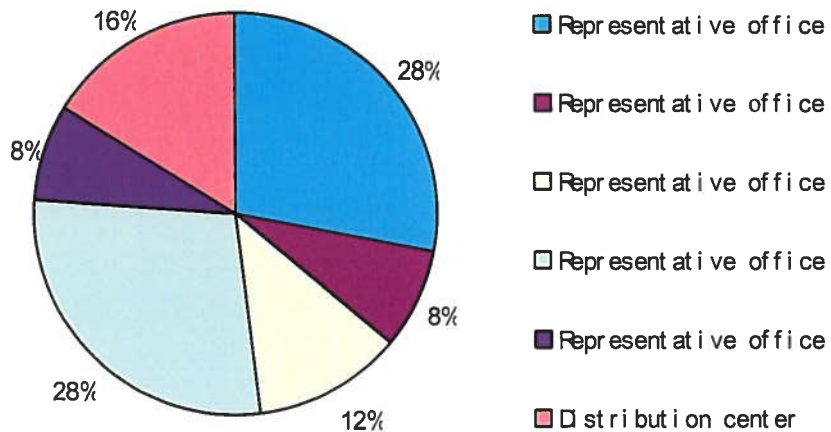
Chart 4.2 Purposes of Investment in EU



1.4 Operational Models in EU

Most of Chinese companies making investment in EU set up a representative office or provide production equipment rather than setting up a procurement center.

Chart 4.3 Operational Models in EU

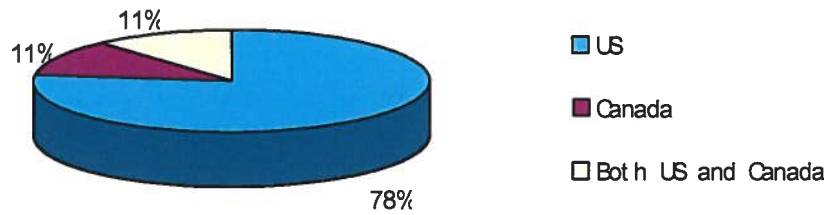


2. Investment in North America

2.1 Main Target Countries

Investment of Chinese companies in North America concentrates on US. 78% of the surveyed companies making investment in North America choose US which can be seen as an important target country for China's overseas investment.

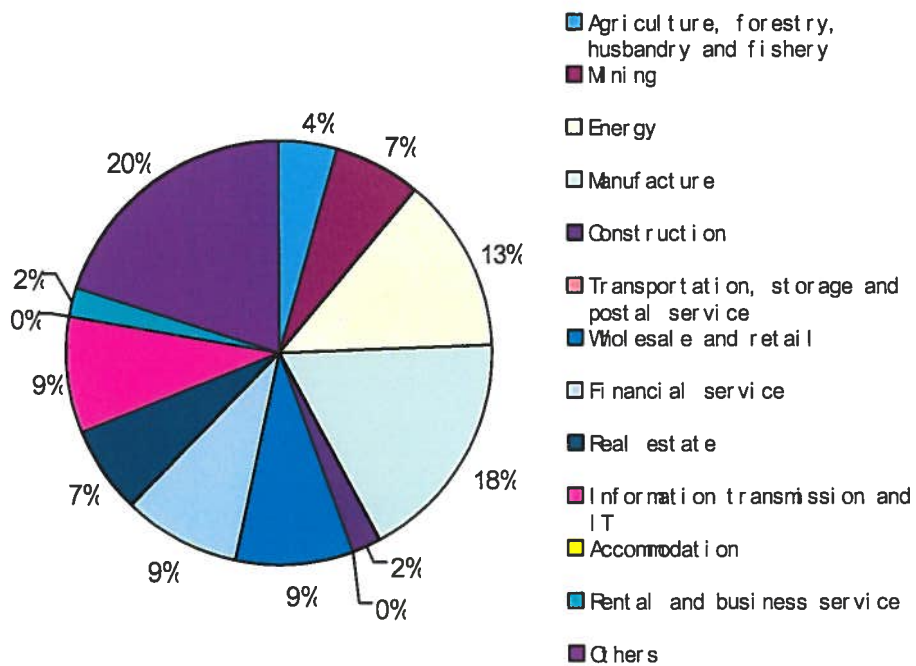
Chart 4.4 Investment in North American Countries



2.2 Investment in Industries

Chinese companies make extensive balanced investment in almost every industry of North America. Energy and manufacture make up the most part of the portfolio. And mining, the financial industry and IT also account for quite a proportion.

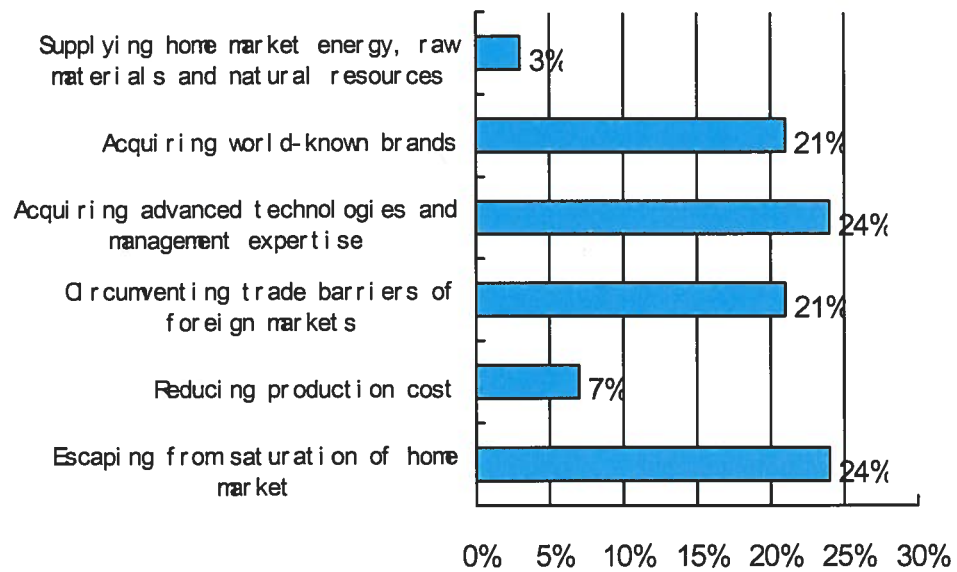
Chart4.5 Investment in North America By Industry



2.3 Purposes of Investment

The main purpose of Chinese companies making investment in North America is acquiring world-known brands, advanced technologies and management expertise and escaping from the saturation of the home market, rather than acquiring raw materials and reducing the production cost.

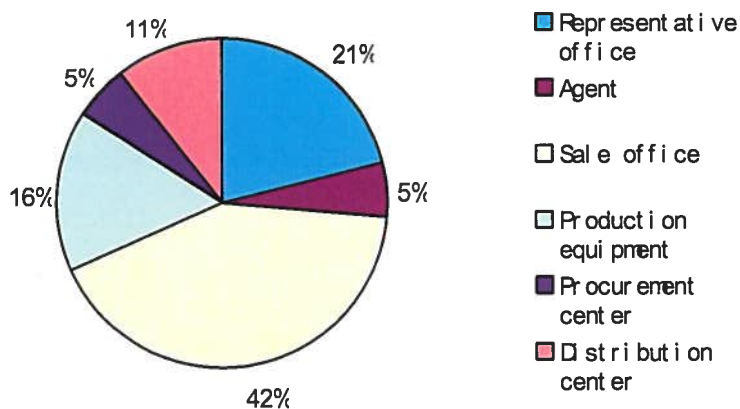
Chart 4.6 Purposes of Investment in North America



2.4 Operational Models in North America

The most adopted model is setting up a sale office. Another two are setting up a representative office and providing production equipment.

Chart 4.7 Operational Models in North America



3. Investment in Africa

3.1 Main Target Countries

Chinese companies make extensive investment in Africa. As Table 4.2 shows, Nigeria, South Africa and Sudan are the African countries where Chinese companies make their most investment.

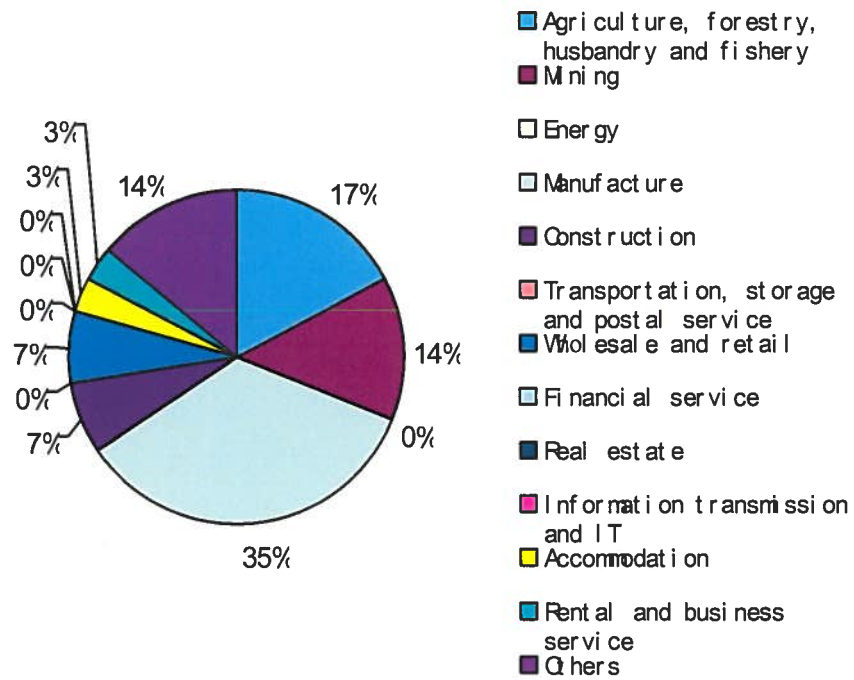
Table 4.2 Investment Projects in Main Target African Countries, 2010

Country	Number of Projects	Country	Number of Projects	Country	Number of Projects
Egypt	2	Ethiopia	1	Gana	1
Cameroon	2	Kenya	1	Libia	1
Madagascar	1	Mozambique	1	Namibia	1
South Africa	4	Nigeria	5	Senegal	1
Sudan	4	Tanzania	1	Uganda	1
Zambia	2				

3.2 Investment in Industries

Investment of Chinese companies concentrates on manufacture, agriculture and mining, accounting for 66% of the total. Little is made in other industries.

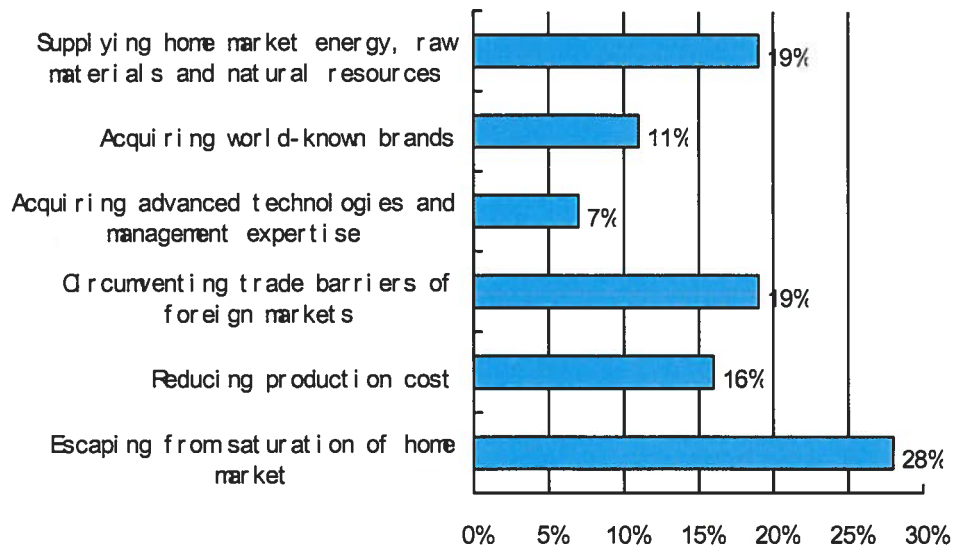
Chart 4.8 Investment in African Industries



3.3 Purposes of Investment

In contrast to investment in developed countries in EU and North America, the main purpose of Chinese companies making investment in Africa is acquiring energy, raw materials and natural resources and escaping from the saturation of the home market. Another purpose is circumventing trade barriers rather than acquiring famous brands, advanced technologies, or management expertise.

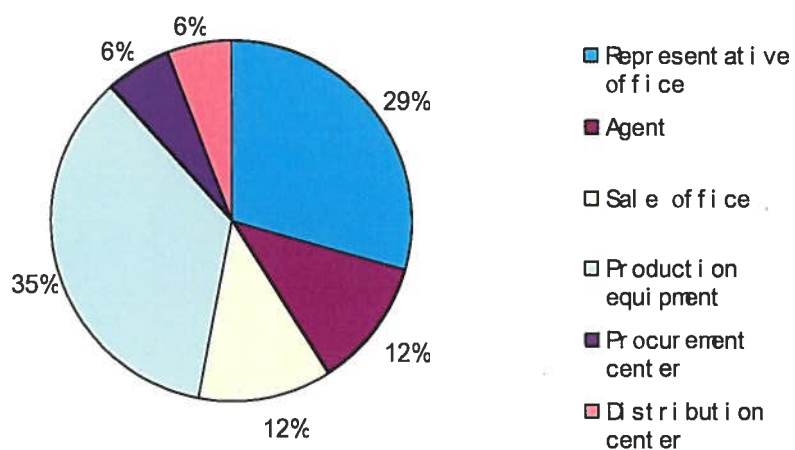
Chart 4.9 Purposes of Investment in Africa



3.4 Operational Models in Africa

The main model is providing production equipment. Another one is setting up a representative office. This indicates that Chinese companies prefer to make direct investment in building plants to acquire local markets and meet local consumer demands.

Chart 4.10 Operational Models in Africa



4. Investment in Asia

4.1 Main Target Countries/Regions

Asia is where China makes the most investment. As Table 4.3 shows, Chinese companies make investment in many Asian countries and regions. Countries of East Asia, South Asia and

West Asia are all the target countries of investment made by Chinese companies. According to the survey, Hong Kong, UAE, Japan and Indonesia are where Chinese companies make the most investment.

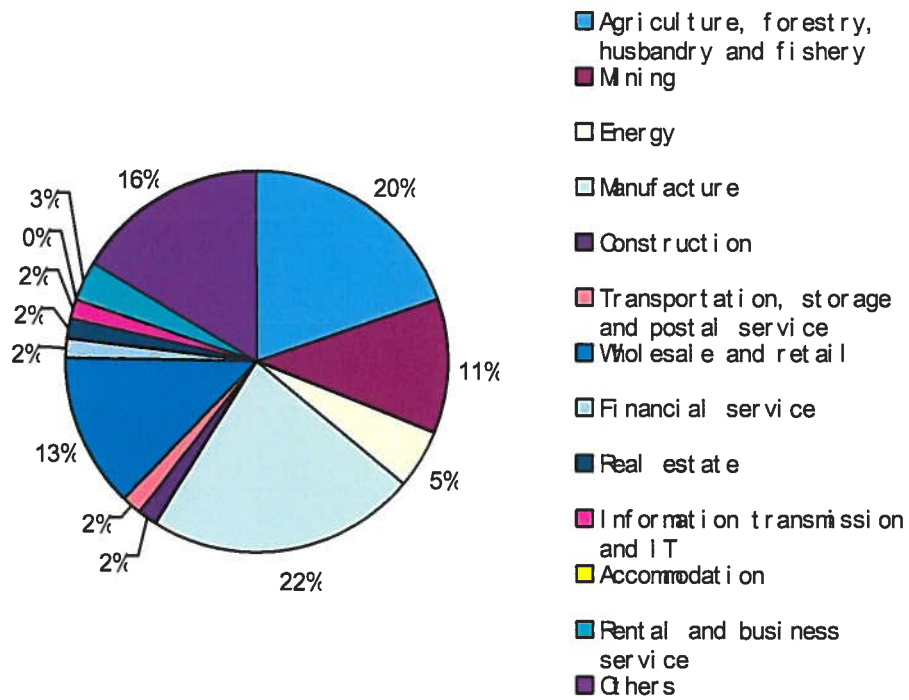
Table 4.3 Investment Projects In Main Target Asian Countries

Country	Number of Projects	Country	Number of Projects	Country/Region	Number of Projects
UAE	9	North Korea	2	Macau	1
South Korea	5	Russia	3	Philippines	1
Kazakhstan	1	Kirghizstan	1	Cambodia	1
Japan	8	Laos	2	Saudi Arabia	1
Sri Lanka	1	Thailand	2	Hong Kong	10
Singapore	2	India	4	Indonesia	6
Vietnam	4	Iran	1		

4.2 Investment in Industries

Chinese companies make extensive investment in various industries of Asia, most of which is in agriculture, manufacture, mining, wholesale and retail. Energy, construction, the financial industry and IT also receive quite a proportion.

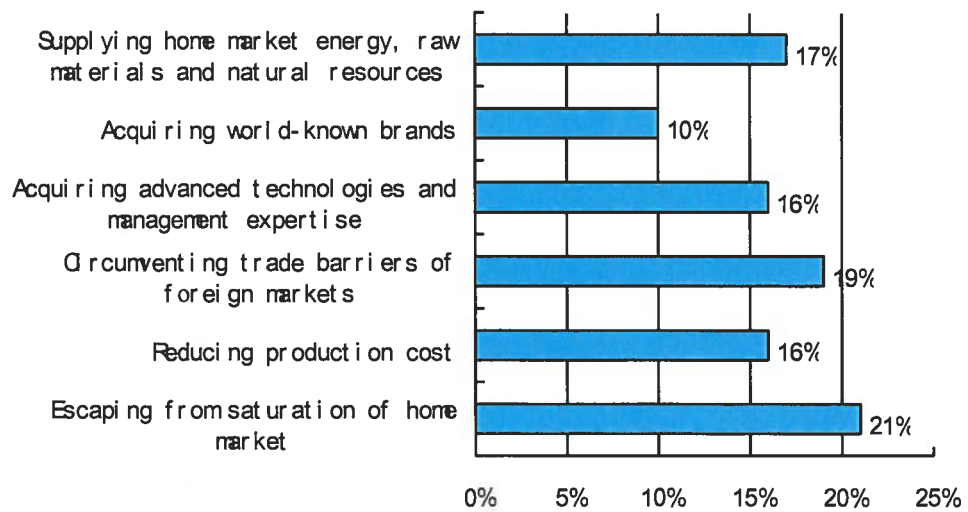
Chart 4.11 Investment in Industries of Asia



4.3 Purposes of Investment

The main purposes of Chinese companies making investment in Asia are diversified, including circumventing trade barriers, escaping from the saturation of the home market demand, acquiring natural resources and raw materials as needed by the home market and reducing the production cost.

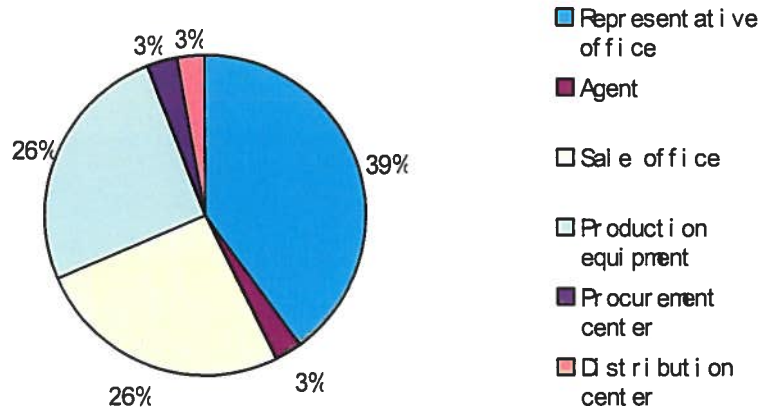
Chart 4.12 Purposes of Investment in Asia



4.4 Operational Models in Asia

The most adopted operational model is setting up a representative office or a sale office or providing production equipment. Other models are rarely adopted.

Chart 4.13 Operational Models in Asia



5. Investment in Oceania

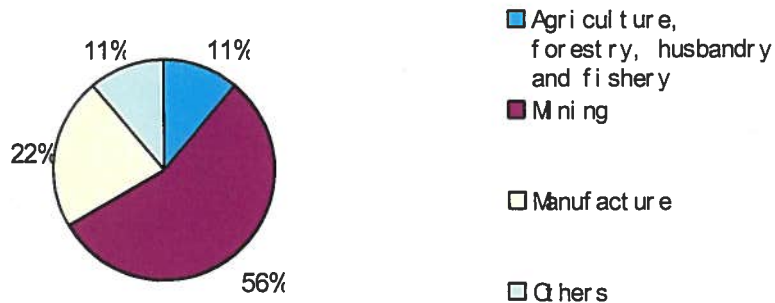
5.1 Main Target Countries

Few surveyed companies make investment in Oceania. Those making investment there are mostly located in Australia. The few others are located in Fiji and New Zealand.

5.2 Investment in Industries

The investment in Oceania concentrates on mining, accounting for 56% of the total, which is followed by manufacture. Other industries only make up a small part of the portfolio. This is consistent with the natural advantages of the continent.

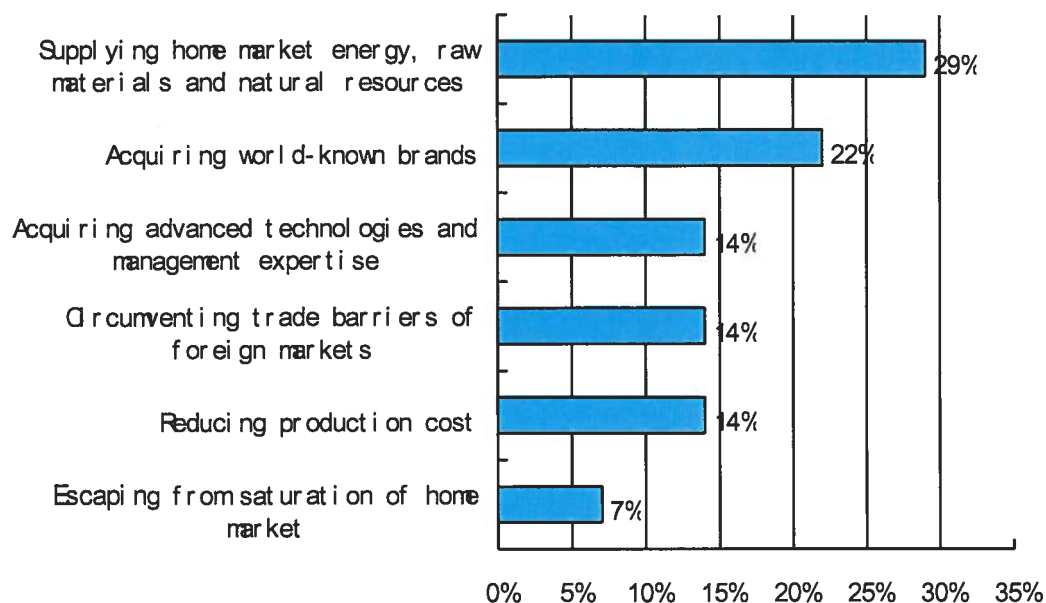
Chart 4.14 Investment in Industries of Oceania



5.3 Purposes of Investment

The main purposes of Chinese companies making investment in Oceania is supplying energy, raw materials and natural resources to the home market. Another purpose is acquiring famous brands and advanced technologies. This is consistent with the investment layout in industries.

Chart 4.15 Purposes of Investment in Oceania

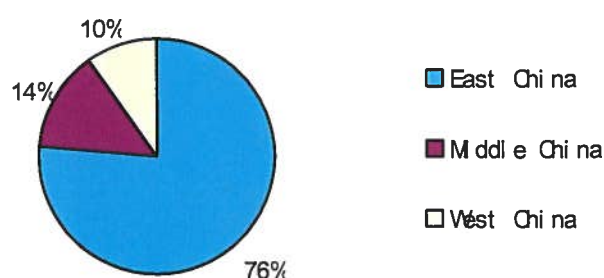


V. Comparison Between Overseas Investment by Companies in East China and Mid-West China

1. Proportion of Companies from East China and Mid-West China Making Overseas Investment

According to the surveys from 2008 to 2010, most of Chinese companies making overseas investment are from East China, accounting for 76%. Those from Middle China and West China account for 14% and 10% respectively. This is because East China has stronger economy and companies. As the surveys of the past three years show, there will be no more companies from Mid-West China to make overseas investment, and those from East China will still make up the majority.

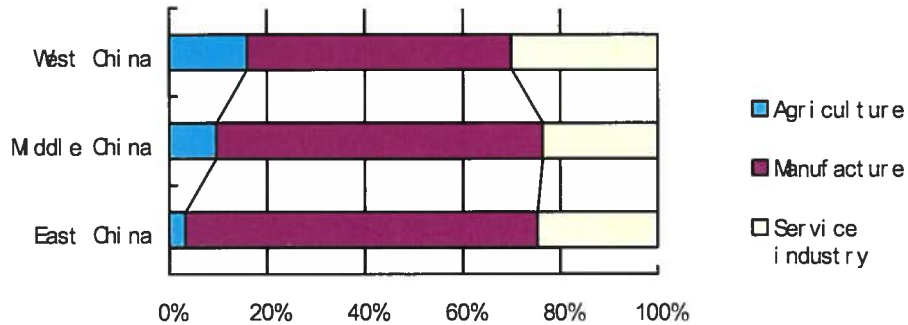
Chart 5.1 Overseas Investment of East China, Middle China and West China



2. Investment in Industries

Over 40% of the companies making overseas investment from each of the three regions of China make their overseas investment in manufacture, which signifies the importance of manufacture to China's overseas investment. West China makes more overseas investment in agriculture and service industry while East China makes more of it in manufacture. East China makes about 70% of its overseas investment in manufacture in contrast to less than 5% of it in agriculture. As Chart 5.2 shows, the industrial layout of overseas investment made by three regions of China is consistent with their industrial structures and comparative advantages.

Chart 5.2 Comparison by Industry of Investment Made by East China, Middle China and West China Make Overseas Investment

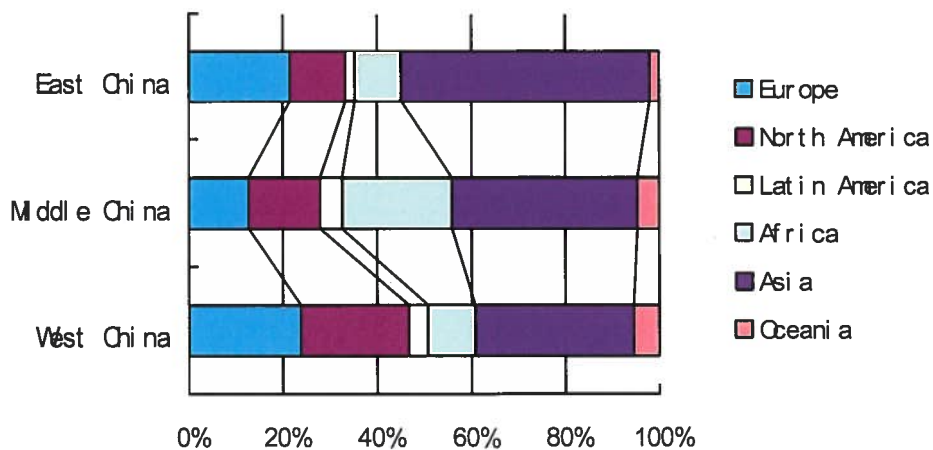


3. Target Countries/Regions of Overseas Investment

Chinese companies make the most investment in Asia. Those from East China make more investment in EU and North America than those from Mid-West China which make more of it in Africa. Companies from the three regions of China make little investment in Latin America and Oceania.

Companies from East China make extensive overseas investment in almost every continent. In contrast, over 50% of companies from West China make investment in Asia, over 20% of them make investment in Europe, and few of them make investment in other countries or regions.

Chart 5.3 Comparison of Target Countries/Regions of Investment Made by East China, Middle China and West China

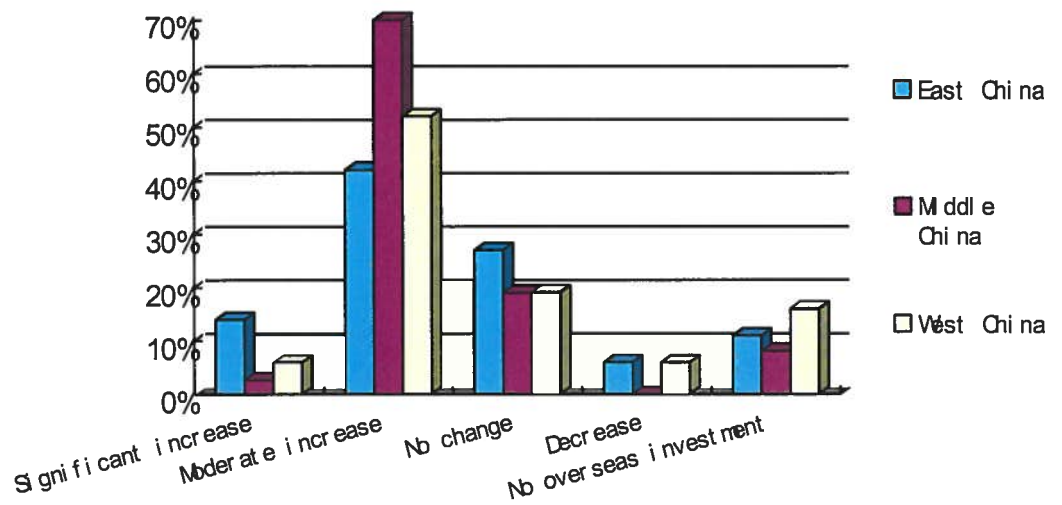


4. Intentions on Future Overseas Investment

Over half of the companies in the three regions of China anticipate to increase their

overseas investment in the next two to five years, especially those in Mid-West China, showing a strong desire for it. Their desire for making overseas investment is stronger. 74% in Middle China and 58% in West China plan to significantly or moderately increase their overseas investment.

Chart 5.4 Comparison of Intentions on Overseas Investment of East China, Middle China and West China

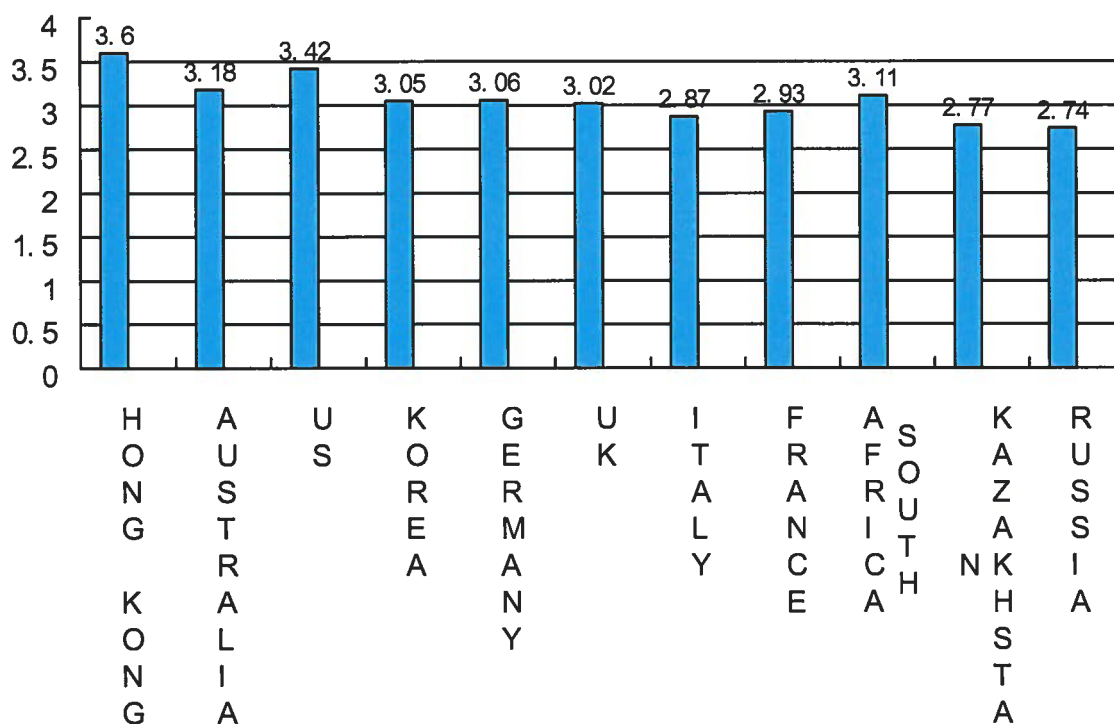


VI. Evaluation of Investment Environment and Policy

1. Evaluation of Openness of Target Countries/Regions

We evaluate the investment environment and openness of such target countries or regions where Chinese companies make the most investment. The surveyed companies are satisfied with the openness of such target countries or regions to China's direct investment on the whole. The most open ones are given five points. And most countries and regions are given three points, i.e., between moderately open and open. As the survey shows, Hong Kong is seen as the most open region, the second are US, Australia and South Africa, and Kazakhstan and Russia are seen as less open, given points indicating somewhere between not open and moderately open.

Chart 6.1 Evaluation of Openness of Target Countries/Regions of Investment

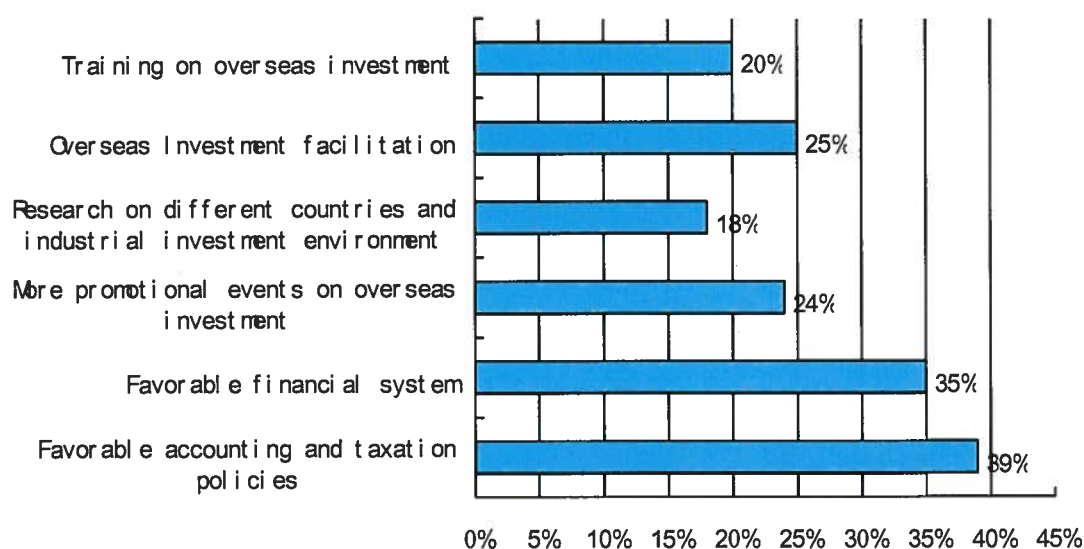


Note: 1 – completely not open, 2 – not open, 3 – moderately open, 4 – open, 5 – very open.

2. Evaluation of Chinese “Going Global” Policy

Recent years, relevant administrations of the government have formulated a series of policies and measures in examination and approval, accounting and taxation, insurance, foreign exchange, foreign affairs, and information services for companies set up overseas to better carry out the “Going Global” policy. According to the survey, what the surveyed companies need most is support in accounting, taxation and financing. 39% of them need more favorable accounting and taxation policies for their overseas investment, and 35% of them need more favorable financing policies for their overseas investment.

Chart 6.2 Evaluation of “Going Global” Policy



3. Reasons for Not Making Overseas Investment

34% of the companies not making overseas investment expressed their interest in this sector. However, limited by various factors, they finally do not make any move. In this questionnaire, we list ten limitations which the surveyed companies give them points by severity. It turns out to be insufficient capital as the most severe one. Some surveyed companies consider import-export operation better than overseas investment which is unnecessary as they see. Cultural discrepancy, logistics cost and problems with the quality of China’s products are not main reasons.

Table 6.1 Reasons for Companies Not Making Overseas Investment Despite Interest

	Decisive Factor	Important Factor	Unimportant Factor	Irrelavant	TOTAL
	% (of answering companies)				L
No idea in expanding on international market	11%	18%	35%	36%	100%
Uncompetitive products and technologies	13%	27%	33%	27%	100%
Insufficient capital	22%	40%	22%	16%	100%
Difficulty finding qualified partners	16%	41%	30%	13%	100%
Cultural discrepancy	8%	24%	41%	27%	100%
Difficulty in logistics	3%	20%	44%	33%	100%
Poor knowledge of legal system and market risks of target countries	11%	45%	29%	15%	100%
Little knowledge of local consumers of Chinese brands	10%	36%	35%	19%	100%
Concern of local consumers about quality of Chinese products	8%	36%	37%	19%	100%
Import and export rather than unnecessary direct overseas investment	21%	32%	31%	16%	100%

VII. Conclusion

CCPIT has been conducting the annual nationwide Survey on the Current Conditions and Intention of Outbound Investment by Chinese Companies from 2008 to 2010. Over 1,000 valid answering papers are returned to each annual survey. We issue questionnaires and have discussion with typical companies, most of which are small and medium sized enterprises, to get deep knowledge of the current conditions and intentions of overseas investment by more than 3,000 CCPIT membership companies and other companies and also a better understanding of impacts of China's macro policies on this sector. This report presents the following conclusions based on the analysis of the survey data of the past three years which can be seen as a general picture of overseas investment by Chinese companies.

1. China's overseas investment is still at an early stage. About 20% of the surveyed companies make overseas investment. Most of them do it in small scale. Strong ones who make overseas investment in large scale with the value of over US\$ 100 million are few. What is noticeable is that over 80% of the companies making overseas investment started after 2000, which indicates that the "Going Global" strategy has produced remarkable results since the Tenth Five-Year Plan period by helping a large number of Chinese companies penetrating the international market. In addition, more and more Chinese companies make overseas investment through mergers and acquisitions, which is expected to become a main model in this field.

2. Manufacture is where Chinese companies concentrate their overseas investment, which is increasingly diversified in various industries anyhow than ever. In sight of the industrial structure of China's overseas investment of the past three years, manufacture still comes first but in a decreased proportion in the portfolio. 33% of the companies making overseas investment in 2010 are in manufacture, which is lower than the numbers in 2008 and 2009. Meanwhile, there are many more companies in agriculture, mining and energy. This signifies the increasing importance of exploiting raw materials and natural resources in China's overseas investment portfolio.

3. Such positive factors as "Going Global" policy and relevant favorable supports, and market potentials and natural resources of target countries have great impacts on companies making overseas investment, which are considered as decisive by 20% of them. Other important

factors are capital availability and less transportation cost. Lower labor cost and better labor quality of target countries, and acquiring famous brands, advanced technologies and management expertise are not what they care about. This indicates that the main purpose of Chinese companies making overseas investment is making good use of favorable policies, expanding foreign markets and exploiting and utilizing foreign resources.

Such negative factors as financing difficulty and lack of international operation and management talent are major limitations to Chinese companies making overseas investment. Over 60% of them consider the two limitations as “decisive factor” or “important factor”. Thus, it will effectively solve bottleneck problems with overseas investment which will be facilitated if we can provide more services in financing channels and talent introduction.

4. The main target countries of investment made by Chinese companies are in Asia, Europe and North America. Asia is where Chinese companies make the most overseas investment, which is followed by Europe and North America. Few companies make investment in other continents. Asia is the best choice for Chinese companies and has absorbed substantial plenty of China’s overseas investment because Asia, especially Southeast Asia, is a complementation to China in economy, while they have similarities in culture and tradition, and also have a long business transaction history. This will last for quite a period. The surveys of the past three years show that Chinese companies are making more investment in Africa which has become a hot destination for China’s overseas investment.

5. Companies of different industries show variety in overseas investment. Manufacture companies concentrate their investment in Asia, Europe and North America, which is small in scale and made in few large-size projects. In spite of the small number of overseas projects mining companies make investment in, they are usually large in size with the huge value. Besides in Asia, mining companies concentrate their investment in Africa, Oceania and Latin America where natural resources abound, and they often do it through mergers and acquisitions.

6. Chinese companies concentrate their EU investment in UK, France and Germany, and their North America investment in US. They focus their EU and North America investment on manufacture to acquire world-known brands, advanced technologies and management expertise and escape from the saturation of the home market. Acquiring raw materials and reducing the production cost are not their consideration. Manufacture, agriculture and mining are the main

industries in which Chinese companies make investment in Africa. And mining are the main sector in which Chinese companies make investment in Oceania. The purpose of the overseas investment made in the two continents is acquiring energy, raw materials and natural resources. Chinese companies make extensive investment in Asia involving a variety of industries for diversified purposes.

7. 76% of the companies who have made overseas investment are located in East China. Those from Middle China and West China account for 14% and 10% respectively. The overseas investment by companies in West China is concentrated in agriculture and service industry while that of companies in East China in manufacture. Companies in East China make regionally extensive overseas investment in almost every continent while over half of the companies in West China concentrate their investment in Asia.

8. 34% of the companies who haven't made overseas investment yet express their interest in making the investment in the future. However, insufficient capital is the decisive reason for their failure to do so. Some companies consider import-export operation better than overseas investment which is unnecessary as they see. Cultural discrepancy, logistics cost and problems with the quality of China's products are not major limitations.

9. Chinese companies have taken making overseas investment as a long run development strategy. They show strong interest in medium and long term overseas investment. Though most of the surveyed companies are small in size, over half of them plan to increase their overseas investment in the next two to five years.