



CHINA GOES GLOBAL

2010

SURVEY OF OUTWARD
DIRECT INVESTMENT
INTENTIONS OF
CHINESE COMPANIES

Prepared by the
Asia Pacific Foundation of Canada
and China Council for the Promotion
of International Trade

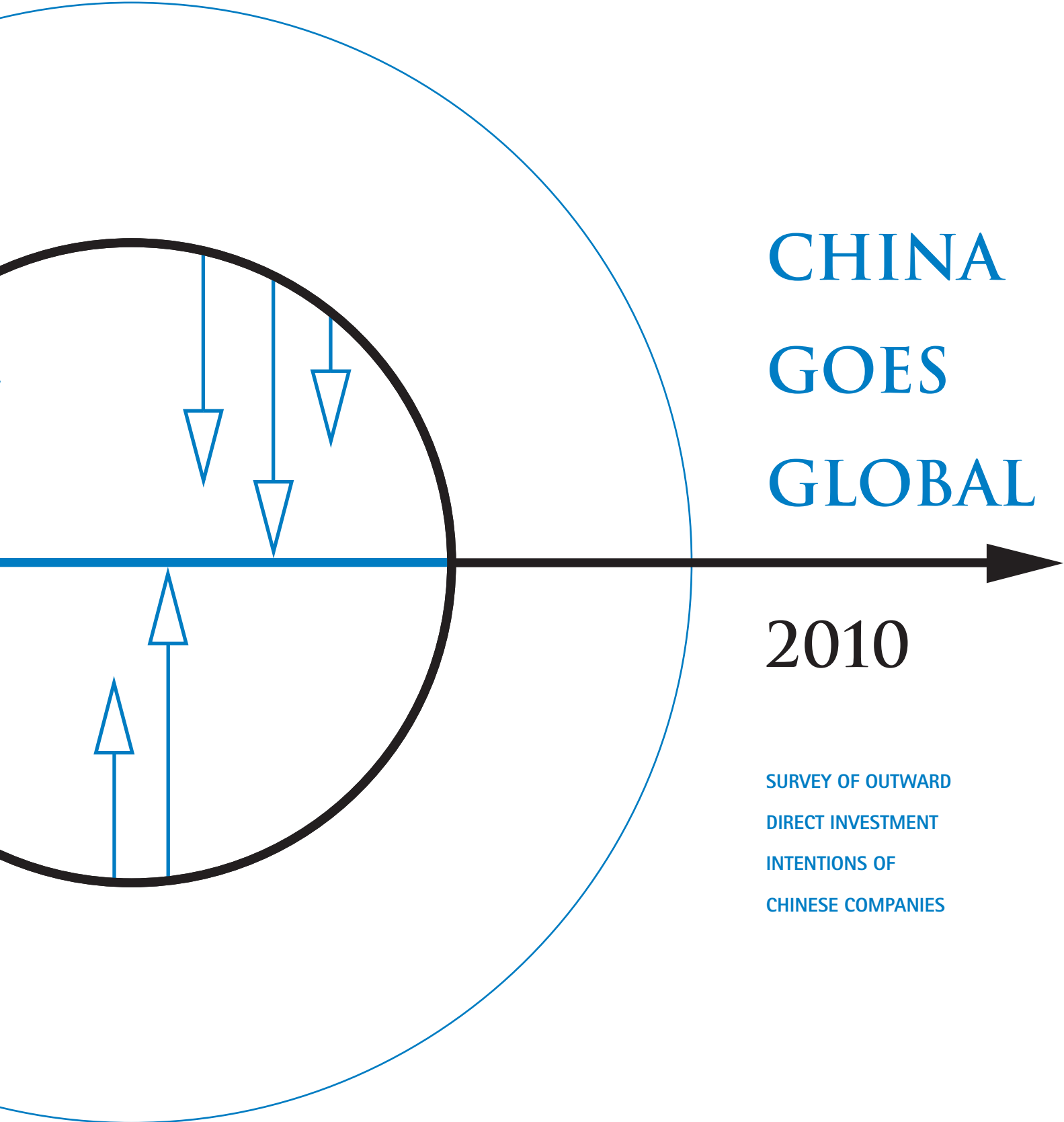
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FOREWARD



THE ASIA PACIFIC FOUNDATION OF CANADA is pleased to release the fourth in our series of reports on Chinese outward investment intentions. Thanks to the China Council for Promotion of International Trade, this year's publication draws on a larger and more detailed sample, which has allowed us to focus on differences in outward investment intentions between companies that expressed an interest in Canada versus those that did not.

The findings are an important reminder of the increasing role of Chinese outward investment in the global economy and the healthy interest that Chinese companies have expressed in Canada. Contrary to popular opinion, the appetite for investment in Canada comes not only from state-owned enterprises but also from private firms. Furthermore, the areas of interest go well beyond resources, and include such sectors as manufacturing, hospitality, and finance. Chinese enterprises have a favourable view of the investment environment in Canada, citing technology, US market access, and a dynamic/diversified labour force as key attractions.

Investing in Canada is not without challenges, and survey respondents identified three areas as the most important: lack of managerial / professional expertise, difficulty in finding local business partners, and the lack of knowledge about legal issues and markets risks in Canada. These are impediments that can be remedied through programs of investment promotion; education, training and mentorship; and policy development. There is a special role here for industry associations, financial intermediaries, professional services firms, and investment promotion agencies.

When we released the first of our *China Goes Global* reports in 2005, research on Chinese outward investment was a niche activity at best, and there was very little information about the nature of these capital flows. As China's global footprint has expanded, interest in Chinese outward investment has likewise grown. It is commonplace today to find stories about Chinese overseas investment on the front pages of international media. Through our partnership with CCPIT, we are proud to be a pioneer in what is still the largest survey of Chinese outward investment intentions. We intend to expand our work in this area and to present more detailed research on the practice of Chinese outward investment in future reports of the *China Goes Global* series.

As always, we welcome your feedback and thank you for your interest in the Asia Pacific Foundation of Canada.

Yuen Pau Woo
President and CEO
Asia Pacific Foundation of Canada



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OVERVIEW AND SUMMARY

1.1 SURVEY OVERVIEW

- This report presents Canada-focused findings of the 2010 survey of Chinese companies' outward foreign direct investment (OFDI) intentions.
- The survey was conducted by the China Council for the Promotion of International Trade (CCPIT, see Appendix C), between December 2009 and March 2010. This year's study is based on a larger sample and a more comprehensive questionnaire than in previous years. The questionnaire was sent to 3,000 Chinese small and medium-sized firms (SMEs) with experience in import and export activities. In total, 1,377 firms responded—a response rate of 46%.
- The objective of the survey is to collect in-depth information about the intentions of and problems faced in the overseas investments of Chinese enterprises, and their response to the Chinese government's Going Global policy. The survey also aims to understand sectors and areas where Chinese investors require enhanced assistance and support in their overseas investment activities.
- The general survey results were released by CCPIT in Beijing in March 2010.¹
- The purpose of this Canada-focused report is to highlight findings related to Canada by controlling for enterprises' investment interest in Canada.² Thus, the results presented here provide a focused depiction of the Chinese companies most likely to invest in Canada in the near future.
- The report is the fourth of the "China Goes Global" series. The previous reports are available at the Asia Pacific Foundation of Canada (APFC, see Appendix C) website at (<http://www.asiapacific.ca/surveys/chinese-investment-intentions-surveys>)
- This report is produced in part with the support of

Western Economic Diversification Canada and the Jack Austin Centre for Asia Pacific Business Studies.³

1.2. SUMMARY OF KEY FINDINGS

- *Interest in Canada:* 8% of respondent companies reported an intention to invest in Canada in the next three years. The survey results also revealed the following:
- *Ownership:* While investments by large State-owned enterprises (SOEs) grab the headlines, non-state-owned SMEs also have significant investment interest in Canada. Among respondent companies with investment interest in Canada, 50% are SMEs and 86% are non-SOEs.
- *Sector:* In this sample, Chinese manufacturing companies comprise 76% of companies with investment interest in Canada. These companies tend to see the North American manufacturing sector as promising.
- *Scale:* SOEs with investment interest in Canada have more ambitious overseas investment plans than their non-SOE counterparts. The mean of intended OFDI scale for SOEs is US\$39 million vs. US\$12 million reported by non-SOEs.
- *Financing:* Over half of Chinese enterprises "going global" will finance their overseas investments using their own capital.
- *Drivers:* Chinese firms with investment interest in Canada are highly responsive to the Chinese government's Going Global policy.
- *Disincentives:* North Americans' concern about product safety and quality inhibits Chinese investment.
- *Entry:* Most companies plan to enter the North American market by establishing their own sales channel.

¹ A copy can be purchased from CCPIT office in Beijing.

² Statistical tests were applied to the comparisons and the results are reported respectively in the relevant charts in this document.

³ The centre—a joint venture of the Asia Pacific Foundation of Canada and Simon Fraser University—was named to recognize Jack Austin's exceptional contribution to Canada-Asia relations. The goal of the centre is to carry out research, outreach and training activities on business issues that are relevant to Canada's interests in the Asia Pacific region. For more information about the centre please visit <http://business.sfu.ca/jack-austin-centre/>.

- *Destinations*: Chinese companies with investment intentions toward Canada tend to have interests in a group of regions comprising North America, Europe and Asia.
- *Openness*: Respondents perceive Canada as among the economies most open to Chinese outward investment.
- *Challenges*: Chinese firms see their lack of local knowledge and expertise as a significant challenge.
- *Determining Factors*: A regression analysis of the survey results identifies the following factors that may have an impact on the likelihood of investing in Canada:
 - a larger company is significantly more likely than a smaller one to invest in Canada;
 - whether a company is state-owned or not does not affect the probability of it investing in Canada;
 - the likelihood of investing in Canada is not significantly different among Chinese firms across various industries;
 - a Chinese company based in a province with high rates of OFDI is more likely to consider investing in Canada;
 - a company that has experience in dealing with inward FDI in China is significantly more likely to invest in Canada than one with no such experience;
 - previous OFDI experience in the USA or Canada significantly increases the likelihood of investing in Canada;
 - if companies' priority markets for OFDI are outside North America, they are significantly less likely to invest in Canada.

1.3. 调查结果概要

- 投资加拿大兴趣：8%的受访中国公司有意在未来三年内投资加拿大。
- 所有制：虽然大中型国有企业对外投资常常成为加拿大的头条新闻，但非国有中小企业在加拿大也有明显的投资兴趣。在应答企业中，表示具有投资加拿大兴趣的企业，50%属于中小型企业，86%是非国有企业。
- 行业：在本次调查的样本中，有投资加拿大意

向的企业，制造业的公司占76%。故此类公司往往也倾向于看好北美制造业的投资机会。

- 规模：在具有投资加拿大兴趣的公司中，国有企业比非国有企业在海外投资计划方面更加雄心勃勃。国有企业拟对外直接投资的规模平均为3,900万美元，远远高于非国有企业平均1,200万美元的计划投资规模。
- 融资方式：超过一半的中国企业表示在“走出去”的过程中，将使用自有资金进行其海外投资项目。
- 驱动力：对加拿大有投资兴趣的中国公司，表现出对中国政府“走出去”政策的高度响应。
- 抑制因素：北美洲公众对中国产品安全和质量的担忧被认为是抑制中国在北美投资的主要因素。
- 进入方式：决大多数公司计划以建立自己销售渠道的方式进入北美市场。
- 目的地：对加拿大有投资意向的中国企业往往会依次考虑北美，欧洲和亚洲作为其投资目的地。
- 开放性：受访企业认为加拿大是对中国对外投资最开放的经济体系之一。
- 挑战：中国的公司认为投资加拿大的一个重大挑战，就是他们对当地的市场信息，法律知识和管理方式的了解不够。
- 决定因素：调查发现，下列因素可能影响到中国公司投资加拿大的兴趣，即：
 - 大公司明显比小公司更有可能投资加拿大；
 - 是否是国有企业对投资加拿大的可能性没有显著影响；
 - 在加拿大投资的可能性与中国企业原来所属行业无明显差异；
 - 位于一个具有较高对外投资比率的省份之中国企业比其他省份的企业更有可能考虑在加拿大投资；
 - 有经历外商对华投资经验的公司比没有这样经历的企业更有可能考虑在加拿大投资；
 - 有在美国或加拿大有对外直接投资的经验可能大大增加该公司在加拿大投资的可能性；
 - 如果公司的对外直接投资的目标市场是在北美以外的市场，他们不太可能选择在加拿大投资。

2 SURVEY HIGHLIGHTS: FOCUSING ON CANADA

“While investments by large SOEs grab headlines, non-state-owned SMEs also have significant investment interest in Canada.”

2.1. INVESTMENT INTENTIONS TOWARD CANADA

As Chinese outward investment grows apace, will companies look to Canada for more investment opportunities? Of 1,377 Chinese companies surveyed, 1,105 responded to the question “Is your company considering investing in North America in the next three years?”⁴ Nearly 8% (or 84 companies) reported an intention to invest in Canada in this period. The descriptive statistics are reported in Table 1.

- Of these companies that have an intention to invest in Canada, 50% are small or medium-sized enterprises (SMEs) and 23% are large companies.⁵ (27% did not provide this information).
- Of the group with investment intentions toward Canada, 14% are SOEs, and 85% are non-SOEs, a

category which includes foreign joint ventures, wholly-owned foreign enterprises, private companies and publicly listed companies.

- Of these companies, 76% are in the Chinese manufacturing sector, followed by 14% in services. The remaining companies are found in a variety of sectors including agriculture, hunting, forestry and fishing; construction; and transport, storage and communication and utilities.
- Regarding the international business experience of these companies, 45% reported having experience only in international trade; 26% have experience in international trade and inward foreign direct investment (IFDI); 5% have only IFDI experience and 24% have neither trade nor IFDI experience.

TABLE 1: DESCRIPTIVE STATISTICS OF RESPONDENT COMPANIES

	Have Intention to Invest in Canada in Next 3 Years		
	YES	NO	TOTAL
Respondent companies	84	1,021	1,105
Share	7.6%	92.4%	100%
By size			
Large	23%	15%	
SME	50%	63%	
Not reported	27%	22%	
By ownership			
SOE	14%	13%	
Non-SOE	86%	86%	
Not reported	0%	1%	
By industry			
Agriculture	5%	3%	
Manufacturing	76%	78%	
Construction and Infrastructure	5%	5%	
Services	14%	14%	
By international business experience			
Trade and inward FDI	26%	20%	
Trade only	45%	61%	
Inward FDI only	5%	2%	
Neither trade nor inward FDI	24%	17%	
By existing OFDI scale			
Less than US\$1 million	30%	28%	
US\$1-5 million	19%	10%	
US\$5-10 million	13%	5%	
US\$10 million-1 billion	13%	2%	
Over US\$1 billion	2%	1%	
Not Reported	23%	54%	

⁴ This question asked respondents to indicate their companies' OFDI plans in the next three years, 1) considering investing in USA and Canada; 2) considering investing in USA only; 3) considering investing in Canada only; 4) not considering investing in North America. We classified companies which responded positively to either 1) or 3) as a group with an intention to invest in Canada in the next three years.

⁵ Companies with gross revenue of greater than 300 million RMB are classified as large scale and all others are considered SMEs.

- In terms of experience related to OFDI, 30% reported existing OFDI investments of less than US\$1 million; 19% have OFDI between US\$1 and \$5 million; 13% report OFDI of between US\$5 million and \$10 million; and another 13% are in the category US\$10 to \$100 million. Some 23% have either no existing OFDI or declined to reveal the scale of their OFDI.

2.2. SCALE OF INTENDED INVESTMENT

While the statistics tell us that aggregate Chinese OFDI has been expanding at a rapid clip over the past few years, we know much less about the scale of individual companies' overseas investments. This section considers responses to the question "In the next two to five years, what do you estimate the scale of your overseas investment will be?"⁶

- Among companies with intentions to invest in

Canada, the mean intended investment abroad is US\$16.1 million. This is significantly greater than the average intended overseas investment of US\$3.7 million reported by companies with no plans to invest in Canada.

- In the sample of companies with investment interest in Canada, two variables have a statistically significant relationship with the size of intended overseas investment. First, investment scale is related to ownership. The mean of intended overseas investments of SOEs (US\$39.3 million) is significantly greater than that of non-SOEs (US\$12.3 million). Second, the scale of companies' existing investments abroad is significantly related to the size of their future investments. Companies with larger existing overseas investments tend to have more ambitious investment plans (See Charts 1 and 2).

"SOEs with investment interest in Canada plan much larger overseas investments than their non-SOE counterparts."

CHART 1: Scale of Intended Investment (Mean: US\$M)

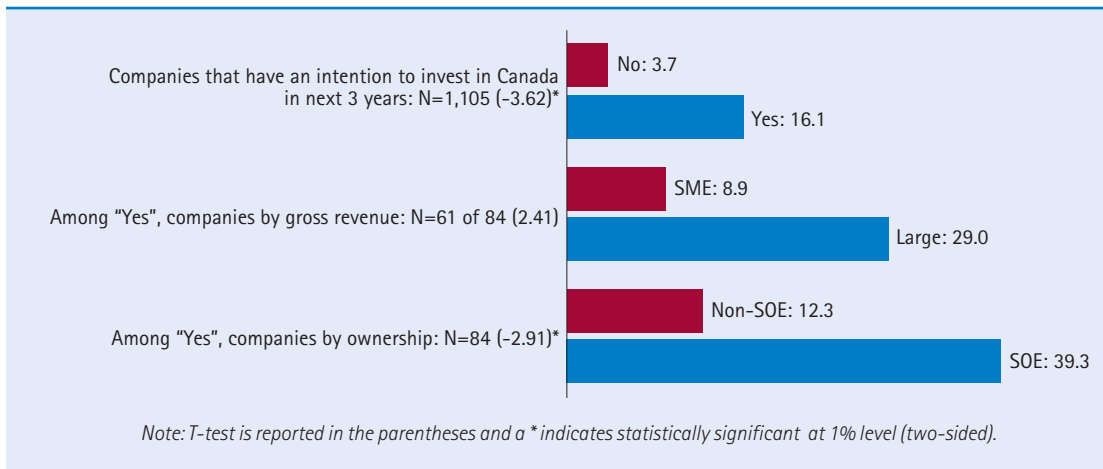
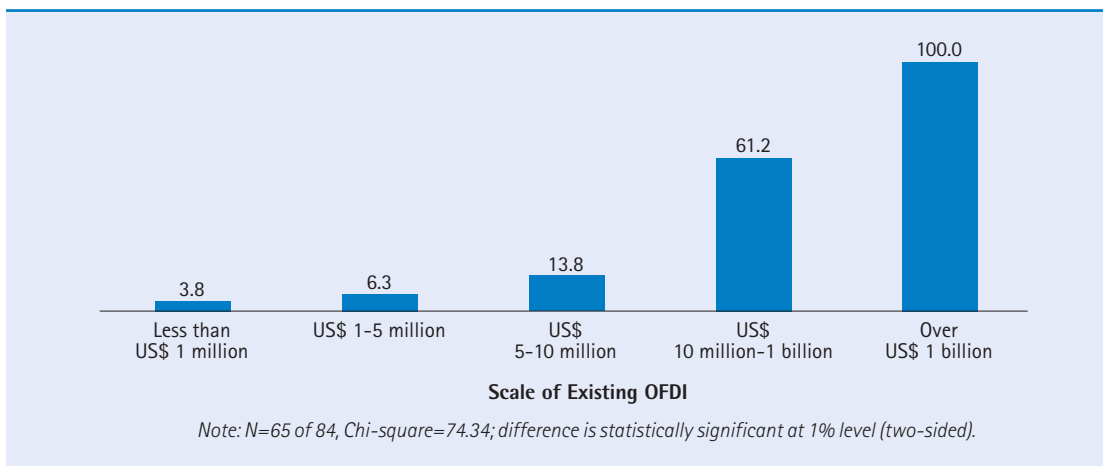


CHART 2: Scale of Intended Investment by Scale of Existing OFDI (Mean: US\$M)



⁶ This question asked respondents to indicate range of estimated scale of OFDI in the next two to five years.

"Most Chinese firms will finance overseas investment using their own capital."

⁷ The original question asked respondents to choose the most appropriate of the following options: 1) Company's own capital; 2) Loan from a Chinese State-owned bank; 3) Issue stocks on the Chinese capital market (incl. Hong Kong); 4) Sell bonds on the Chinese capital market (incl. Hong Kong); 5) Issue stocks on overseas capital market; 6) Sell bonds on overseas capital market; 7) Borrow from another Chinese company; 8) Selling off a portion of the company's shares or securities; 9) Other.

On the basis of the frequency of responses we regrouped the categories into: 1) Company's own capital; 2) Loan from a Chinese State-owned bank; 3) Non-bank domestic financing (combining original 3, 4 and 7); 4) Overseas financing (combining original 5 and 6); 5) Other.

⁸ The question asked respondents to indicate all the foreign investment aims pertinent to their company: 1) avoid the saturated domestic market; 2) lower production costs; 3) avoid overseas trade barriers; 4) acquire first-rate technology or management experience; 5) follow suppliers or partners overseas; 6) acquire international well-known brands; 7) provide energy, raw materials and natural resources for the domestic market; 8) gain control over international price of certain natural resources; 9) make use of Going Global policy-related incentives; 10) take advantage of preferential investment policies in host country; 11) take advantage of favourable institutional environment in host country including protection of intellectual property, financing, convenience and tax laws.

- Among companies with no declared investment interest in Canada, four factors have a statistically significant relationship with the scale of their intended overseas investments. First, larger companies had significantly bigger planned investments (US\$8.8 million) than SMEs (US\$2.7 million). SOEs also had larger planned investments (US\$8.5 million) than non-SOEs (US\$2.9 million). Companies' international business experience and the scale of existing investments were also related to the scale of their future investments.

2.3. SOURCE OF CAPITAL FOR INVESTMENT

How do Chinese companies finance their expansion into overseas markets? This section analyzes responses to the question "How will your company raise funds for foreign investment?"⁷

- Among companies with investment interest in Canada, a majority (53%) planned to finance overseas investment using their own capital. 23% of these companies planned to finance their foreign investments with loans from Chinese state

banks. A small number of companies (12%) planned to raise money in China by other means.

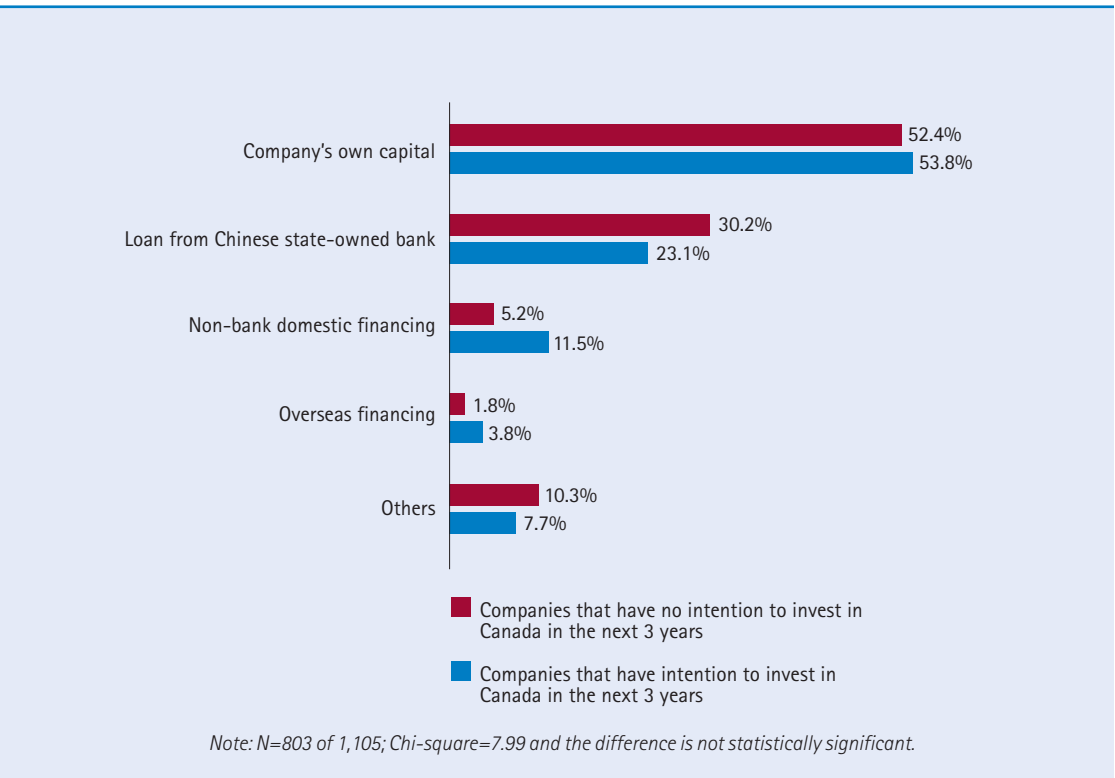
- The breakdown among companies with no stated investment interest in Canada is broadly similar. Some 52% of companies planned to rely on their own capital and 30% intended to use loans.
- In the group of companies with no investment interest in Canada, two variables have a statistically significant relationship with sources of capital investment: international business experience and scale of existing investments abroad. There were no statistically significant relationships within the group of companies with a stated investment interest in Canada.

2.4. DRIVERS FOR INVESTMENT

PART 1

Here we consider responses to the question "What is the main purpose of your foreign investment?"⁸ The discussion focuses on factors that were most salient for companies with plans to invest in Canada in descending order of importance.

CHART 3: Source of Capital for Investment



- **Make use of Going Global policy:** Among companies with plans to invest in Canada, 45% said the Going Global policy was a main reason behind their decision to invest abroad. This is significantly greater than the 26% of companies with no plans toward Canada which cited this as a main driver.
- **Acquire first-rate technology or management experience:** A significantly greater number of companies with plans to invest in Canada (32%) described this as a major driver of overseas investment than companies with no intentions toward Canada (23%).
- **Acquire international well-known brands:** More than one-quarter of companies with plans to invest in Canada cited this as a major driver of overseas investment compared to just 14% of companies with no Canadian investment plans.
- **Avoid saturated domestic market:** 26% of companies with an investment interest in Canada described this as a major driver of overseas investment compared to 24% of companies with no plans involving Canada.
- **Avoid overseas trade barriers:** Approximately one-fifth of companies either with or without investment plans for Canada described this as a major driver of investment.
- **Lower production costs:** Roughly one in five of both groups of companies described this as a major driver of investment.
- **Make use of preferential investment policies in host country:** Among companies with an investment interest in Canada, 21% described this as a major driver of overseas investment compared to 15% of those with no Canadian plans.

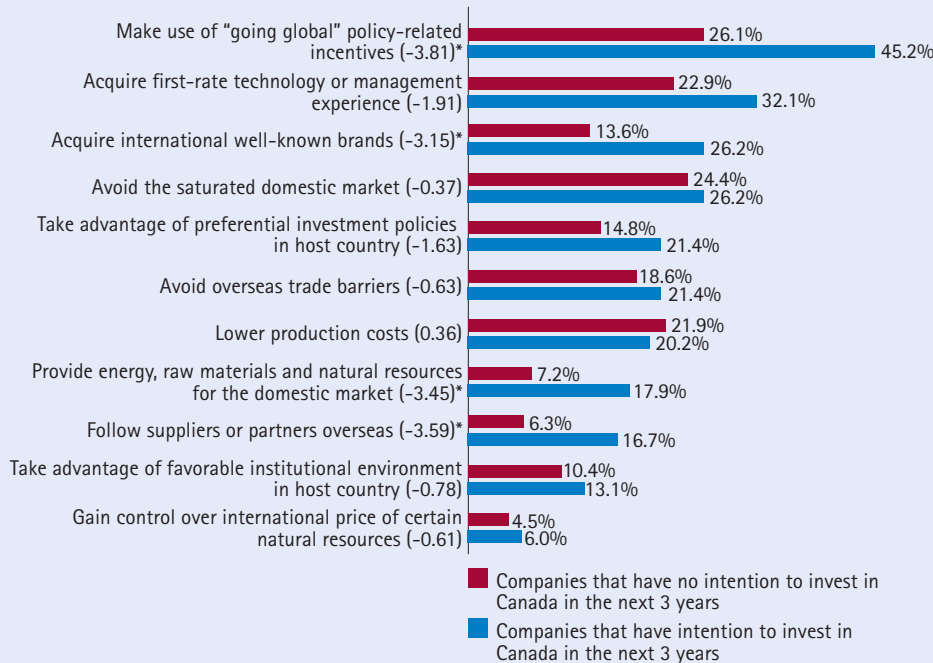
PART 2

While North America is attractive to many Chinese companies, the data show that firms' decision makers also see reasons not to invest here. This section analyzes responses to the question "If your company has never invested in North America, why not?"⁹

- **North American consumers'/institutions' concerns about the safety and quality of Chinese goods:** Nearly one in three companies that are looking to

"Chinese firms with investment interest in Canada are highly responsive to the Chinese government's Going Global policy."

CHART 4: Drivers for Intended OFDI



Note: N=1,105; T-test is reported in the parentheses and a * indicates statistically significant at the 1% level (two-sided).

⁹ The question asked respondents to indicate all reasons appropriate to their company: 1) Lack understanding of North American legal system and market risk; 2) Difficult to find business partners in North America; 3) North American consumers lack understanding of Chinese brands; 4) North American consumers'/institutions' concerns about the safety and quality of Chinese goods; 5) North American workers do not understand your company; 6) Exporting to the North American market is more convenient so no need to invest; 7) Difficult to get a visa in North America.

“North Americans’ concerns about product safety and quality inhibits Chinese investment.”

invest in Canada described this as a main reason for not having previously invested in North America compared to approximately one in four companies with no such plans.

- *Exporting to the North American market is more convenient so there is no need to invest:* A significantly greater number (26%) of companies with an investment interest in Canada described this as a main reason for not having previously invested in North America than companies with no Canadian ambitions (14%).
- *Lack understanding of North American legal system and market risk:* Roughly one quarter of both companies with and without Canadian investment plans described this a main reason for not having previously invested in North America.
- *North American consumers lack understanding of Chinese brands:* 21% of companies with investment interest in Canada described this as a main reason for not having previously invested in North America compared to 19% of companies without plans to invest in Canada.

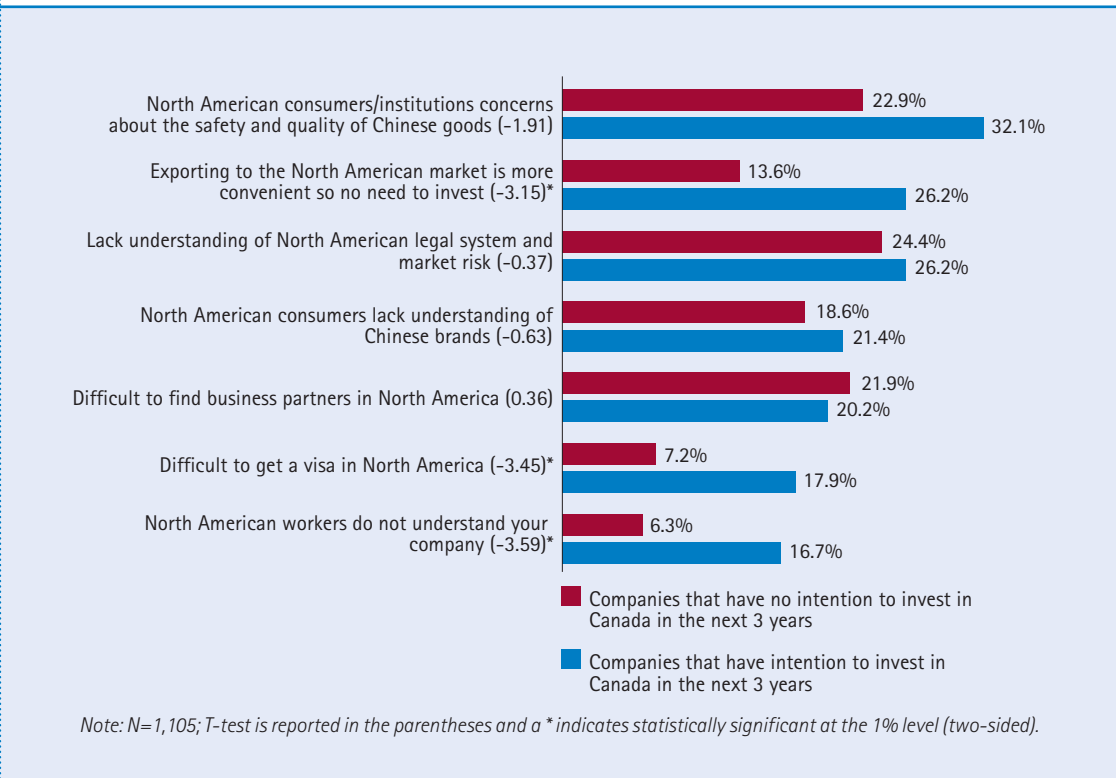
- *Difficult to find business partners in North America:* Approximately one in five companies with both planned and no planned Canadian investment described the difficulty in finding a suitable partner as a main reason for not having previously invested in North America.

2.5. ENTRY MODES OF INVESTMENT

This section analyzes responses to the question “What is your company’s mode of investment entry into North America?”¹⁰ The following discussion compares responses between two samples: 1) a group of companies with an intention to invest in Canada in the next three years, and 2) a group of companies with existing investments in North America but no immediate plans to invest in Canada.

- *Establish own sales channels:* 56% of companies with an intention to invest in Canada described this as their entry mode of investment into the North American market compared to 61% with no new investment intentions.
- *Establish JV joint-stock company with local company*

CHART 5: Reasons for Not Having Invested in North America



¹⁰The question asked respondents to choose the most appropriate answer from among the following responses: 1) Mergers, acquisitions of foreign assets or companies; 2) Set up a new wholly-owned manufacturing company; 3) Set up own sales channels; 4) Establish JV joint-stock company with local company or government department; 5) Set up non-equity partnership with local company or government department.

or government department: In the group with Canadian investment plans, 14% of companies described this as their entry mode of investment into the North American market compared to 13% of those with no new investment plans.

- *Mergers, acquisitions of foreign assets or companies:* 12% of companies planning new investments in Canada described this as their entry mode of investment into the North American market compared to 8% of companies not looking to new investment in Canada.
- *Setting up a new wholly-owned manufacturing company:* One in ten companies either with or without intentions for new investment in Canada described this as their chosen mode of entry.

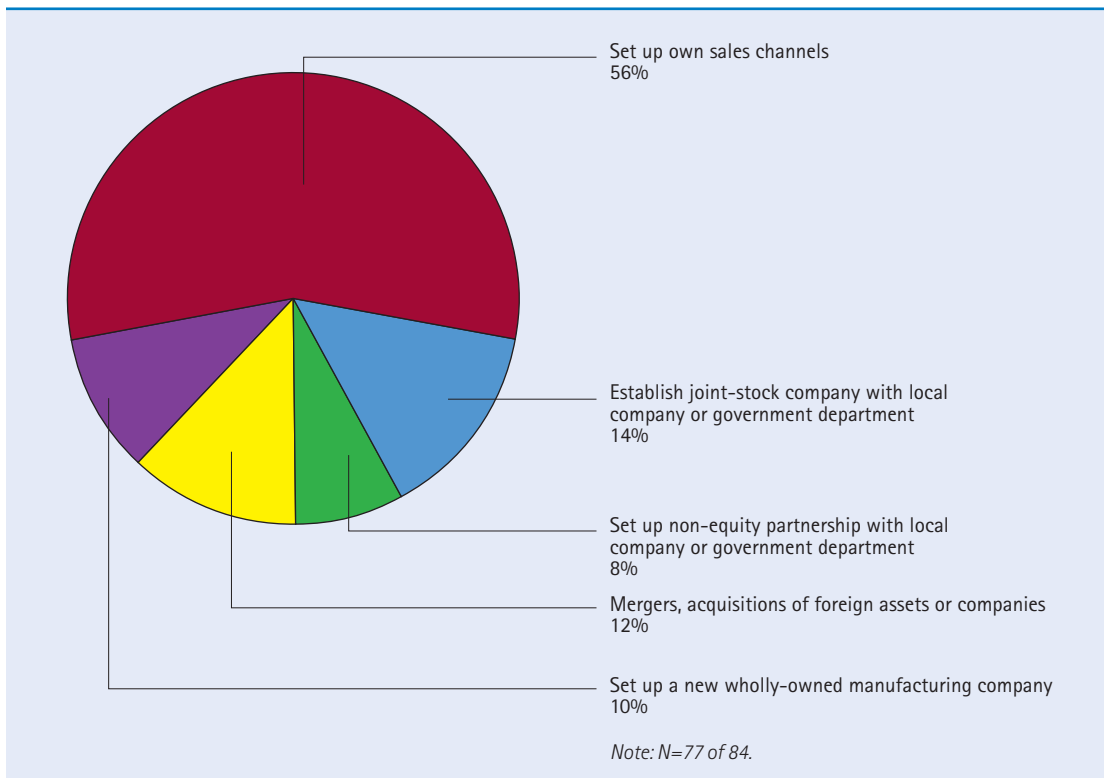
2.6. DESTINATIONS OF INVESTMENT

The survey results suggest that Chinese companies with investment interest in Canada are inordinately attracted by a group of regions comprising North America, Europe and Asia. Here we consider responses to the question "In the next two to five years, which

of the following regions will draw 20% or more of your total investment?"¹¹

- *North America:* Among the group of companies with the intention to invest in Canada, 44% indicated that at least 20% of their investment would go to this region compared to just 12% with no Canadian plans.
- *Europe:* A significantly greater number of companies with investment intentions toward Canada (38%) planned to invest in this region than those with no Canadian interest (16%).
- *Asia:* 35% of companies with Canadian plans and 34% of those with no Canadian interest planned to invest at least 20% of their investment funds in Asia.
- *Africa:* Approximately one in ten companies in both groups reported that at least 20% of their investment would go to Africa.
- *Oceania:* 5% of companies looking to Canada to invest reported significant investment intentions in Oceania compared to 3% of companies with no Canadian investment intentions.

CHART 6: Entry Modes of OFDI



¹¹The question asked respondents to select as many regions as appropriate: 1) Asia; 2) Europe; 3) North America; 4) South America; 5) Oceania; 6) Africa.

- South America: Small numbers of companies looking to Canada (5%) and companies looking elsewhere (2%) indicated that at least 20% of their investment would go to this region.

2.7. NORTH AMERICAN SECTORS OF INTEREST

The data show that companies with investment plans directed at Canada see economic opportunity in a number of North American sectors not typically associated with Chinese overseas investment. This discussion focuses on responses to the question "Which of the following industries have the best investment prospects in the North American region?"¹²

- *Manufacturing:* Almost half of companies with an intention to invest in Canada described this industry in North America as having good investment prospects compared to 19% of respondents with no intention to invest in Canada.
- *Hotel and Restaurants:* A significantly larger group of companies (14%) planning a Canadian investment described this as an industry with good investment prospects than companies with no Canadian investment plans (4%).
- *Wholesale and Retail Shops:* Roughly equal numbers of companies with (14%) and without (13%) Canadian plans described this as an industry with promising investment prospects.

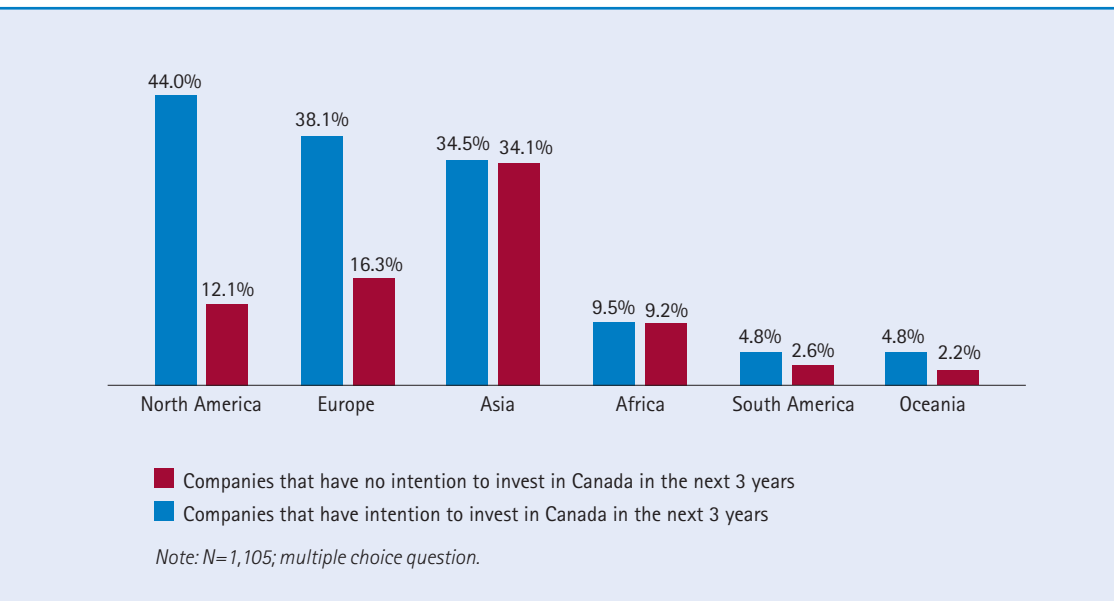
- *Financial Intermediation:* A significantly greater number of companies planning a Canadian investment (13%) described this as a promising industry compared to 4% of companies with no new plans.
- *Mining:* A relatively small percentage of companies (4%) with Canadian investment intentions compared to companies with no medium-term interest (3%) described this industry as having good investment prospects. The data suggest that SOEs with investment intentions toward Canada are more interested in North American mining than non-SOEs in this group. 17% of SOEs in planning investments described mining as a promising sector compared to only 2% of non-SOEs. This difference is statistically significant.

2.8. PRIORITY MARKET FOR GOODS AND SERVICES

How is foreign investment activity incorporated into Chinese enterprises' core business plans? This section analyzes responses to the question "In carrying out foreign investment, what is the priority market for your goods and services?"¹³

- *Local market at OFDI destination:* Approximately one in three companies both with and without investment plans aimed at Canada described the

CHART 7: Destinations of Intended OFDI



¹² Respondents could choose from as many industries as appropriate in the following list: 1) Agriculture, Forestry, Animal Husbandry; 2) Fisheries; 3) Mining; 4) Manufacturing; 5) Water, Electricity, Gas Supply; 6) Construction; 7) Wholesale, Retail and Repair; 8) Hotel and Restaurants; 9) Transport, Storage and Communications; 10) Financial Intermediation; 11) Real estate and business consulting.

¹³ Respondents were asked to choose from one of the following options: 1) Local market at OFDI destination; 2) North American market; 3) Asian market; 4) European market; 5) China's domestic market; 6) Global market; 7) Others.

host country as the priority market for their goods and services.

- **China's domestic market:** 20% of respondents with intentions toward Canada described this as their priority market compared to 14% of companies with no Canadian intentions.
- **Asian market:** In the group of companies with investment intentions toward Canada, 13% described Asia as their priority market against 21% of companies with no stated intention to invest in Canada.
- **Global market:** 12% of companies with intentions toward Canada indicated that the global market was their priority market compared to 13% of those companies with no Canadian investment plans.

- **North American market:** 9% of companies with investment plans for Canada reported the North American market as the target of investment which suggests at least some companies may see Canada as a base for penetration of the US market.

2.9. PERCEPTION OF INVESTMENT ENVIRONMENT

While Canada claims to be one of the best places in the world to do business, how do Chinese companies view the investment environment in Canada? In this section, we present responses to the question "If North America is one of your investment destinations, do you agree or disagree with the following statements describing investment environment in your destination market?"¹⁴

CHART 8: Sector of Interest for Investment

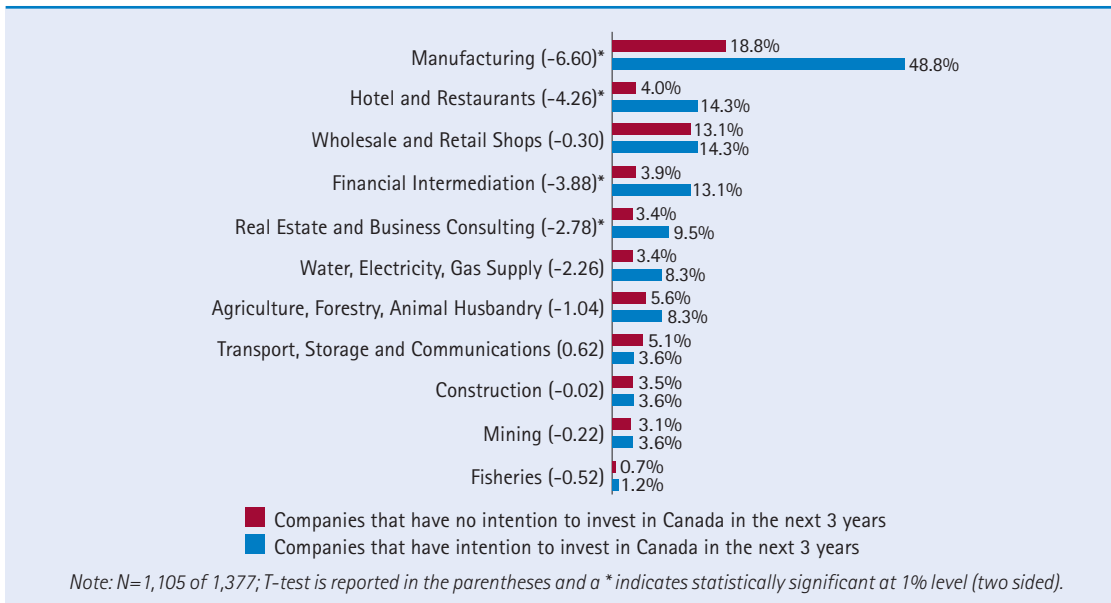
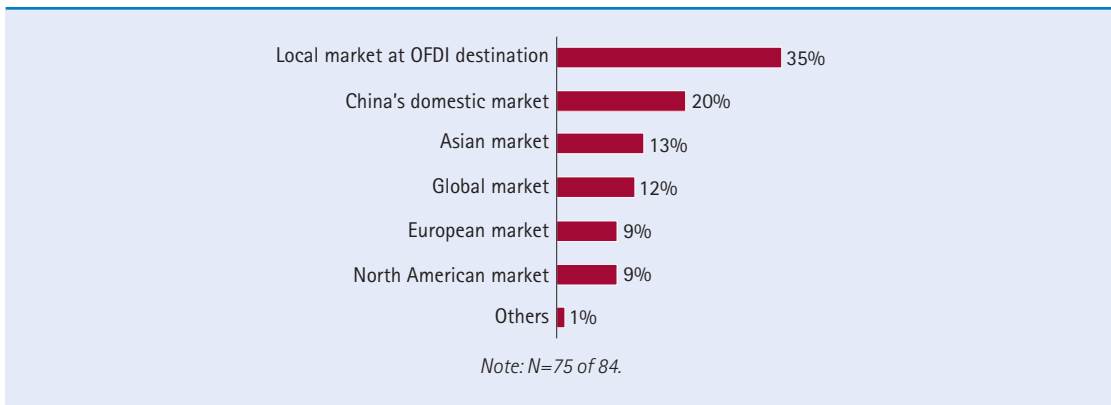


CHART 9: Priority Market for Intended OFDI in Canada



"Chinese OFDI aims at market expansion."

¹⁴All statements describing Canada's investment environment are reported in Chart 10.

"Canada is perceived as one of the most open economies toward Chinese investment."

- Surveyed Chinese companies perceived these to be the most important aspects of Canada's investment environment:
 - 1) Canada offers the right technology for your investment.
 - 2) Canada can access US and other key markets.
 - 3) Canada has the dynamic and diversified labour force that your investment requires.
- Other factors, such as lower business costs, greater expansion opportunities, reliable energy resources, government supports and living environment, are all recognized as important features of doing business in Canada.
- The ratings of Canada's investment environment

are significantly higher among companies planning investments there than among their counterparts which have no plans for Canada.

The survey also collected data on Chinese companies' perceptions of various countries' openness to Chinese OFDI. The responses to the question "Please rate each of following destinations from 1 as least open to 5 as most open toward Chinese investment"¹⁵ are reported in Chart 11.

- Among companies planning investment, Canada is perceived as one of the most open economies toward Chinese outward investment.
- Apart from economies which belong to, or are closely associated with, the Greater China economic

CHART 10: Perception of Investment Environment in Canada

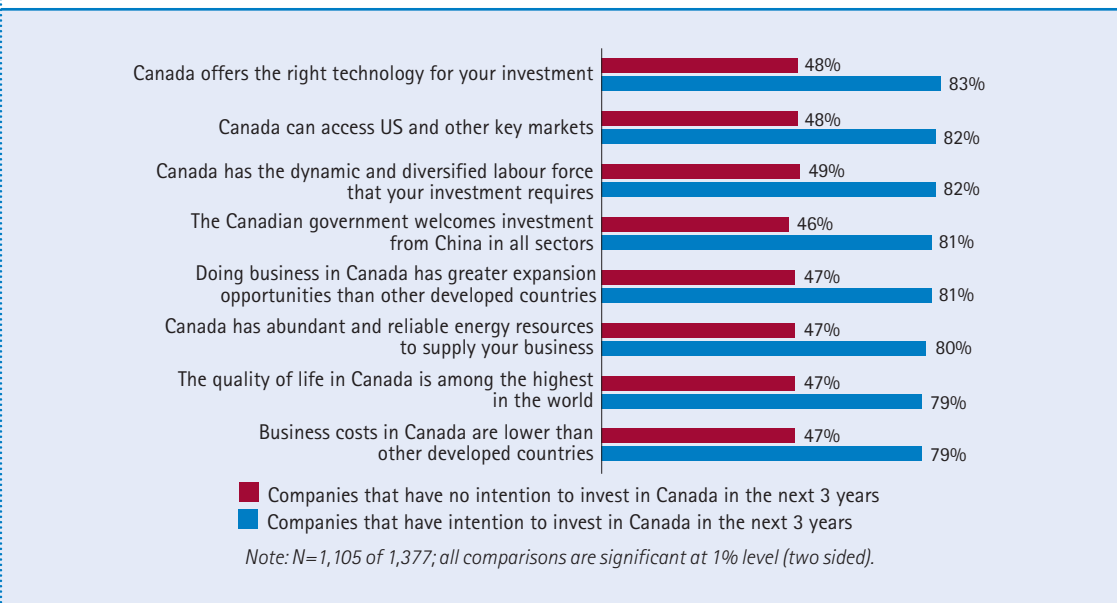
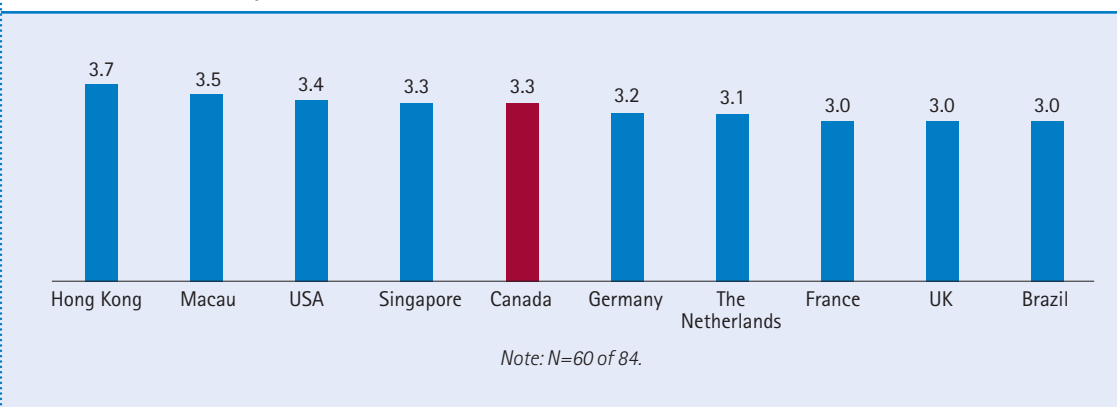


CHART 11: Perceived Openness Towards Chinese OFDI (Rated 1 to 5)



¹⁵The question listed 29 destinations, including Hong Kong, Australia, Singapore, South Africa, USA, Russia, Macau, Kazakhstan, Pakistan, Canada, Mongolia, South Korea, Germany, UK, Nigeria, Zambia, Saudi Arabia, Indonesia, Sweden, Spain, The Netherlands, Italy, France, Mexico, Brazil, Chile, Argentina, Peru, and Venezuela. Top 10 destinations are reported in Chart 11.

bloc, the US and Canada are ranked highest in terms of perceived openness toward Chinese OFDI.

- The perception of openness does not vary significantly between companies with and without Canadian investment plans. There is no significant difference between companies by size, ownership, industry sector, international business experience or OFDI experience.

2.10. PERCEPTION OF INVESTMENT CHALLENGES IN NORTH AMERICA

Finally, we discuss responses to the question "What is the most difficult challenge you face in investing in North America?"¹⁶ The highest-ranked challenges to Chinese investment in North America were:

- 1) Lack of managerial competence and professional expertise.
 - 2) Difficulty of finding business partners in Canada.
 - 3) Lack of knowledge about legal and market risks in Canada.
- The proposition that the Canadian government or public will react negatively to Chinese investment was not seen as a major challenge. Another often-heard complaint about the difficulty of

getting a visa to Canada for business travelers was not perceived as a major challenge by respondents.

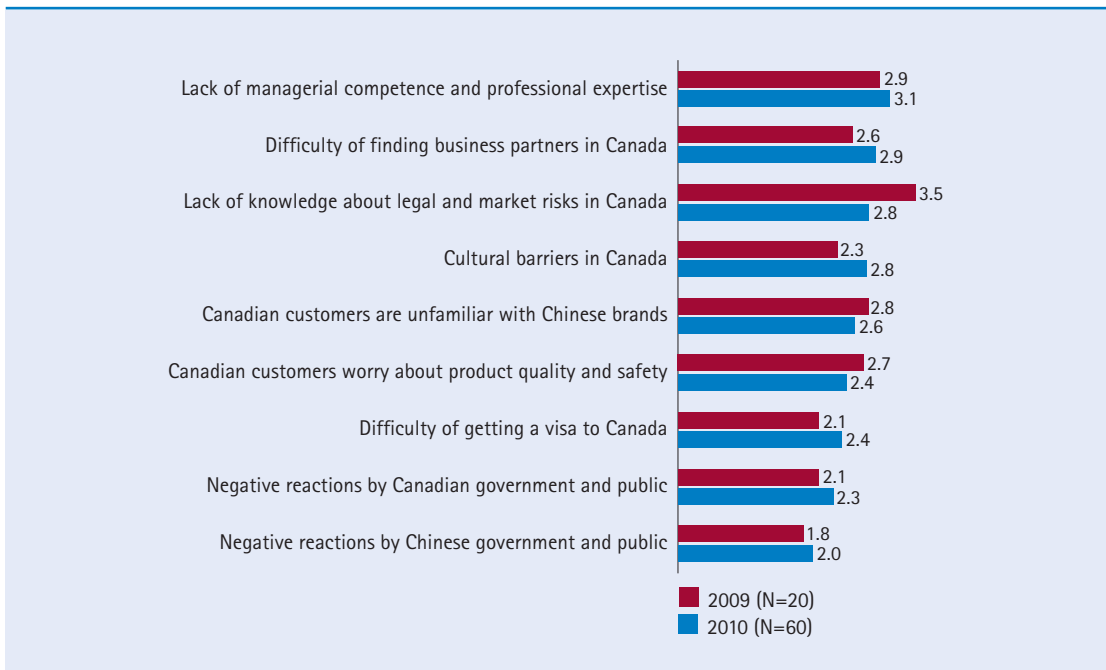
- The challenges described by respondents this year are slightly different from those highlighted in last year's survey. However, the results consistently show that Chinese companies see issues related to operating a business in a foreign market as posing major challenges. Respondents have not seen issues related to policy and public opinion as posing major challenges.
- The perception of investment challenges in Canada does not differ significantly between companies with a near-term intention to invest in Canada and those with no such interest.
- Perception of investment challenges also does not vary according to any of: size, ownership, industry sector, international business experience or OFDI experience.

2.11. DETERMINING FACTORS

Having discussed Chinese companies' intention to invest in Canada and various aspects of their outward FDI behaviors, a remaining question is: what shapes Chinese firms' decision to choose Canada as one of their investment destinations. In this section, we use

"Chinese firms see a lack of local knowledge and expertise as a significant challenge."

CHART 12: Challenges in Canada (Mean of 1 to 5 rating)



¹⁶The question asked respondents to rate from 1 as least significant to 5 as most significant challenges perceived by respondents in following aspects: 1) Canadian customers are unfamiliar with Chinese brands; 2) Canadian customers worry about product quality and safety; 3) Negative reactions by Chinese government and public; 4) Negative reactions by Canadian government and public; 5) Lack of managerial competence and professional expertise; 6) Lack of knowledge about legal and market risks in Canada; 7) Cultural barriers in Canada; 8) Difficulty of finding business partners in Canada; and 9) Difficulty of getting a visa to Canada.

a regression analysis¹⁷ of the survey results and identify the following factors that may or may not have an impact on the likelihood of investing in Canada:

- *size*: a larger company is significantly more likely than a smaller company to invest in Canada;
 - *ownership*: whether a company is an SOE or non-SOE does not affect the likelihood of it investing in Canada;
 - *sector*: the likelihood of investing in Canada is not significantly different among Chinese firms in various industrial sectors;
 - *home province*: a Chinese company based in a province with high rates of OFDI is more likely to consider investing in Canada.
- the effect of home province remains significant;
 - experience with IFDI remains significant and companies with no international business experience stand out as significant players in making Canada their investment destination;
 - existing OFDI becomes significant and companies with lower levels of existing OFDI are found to be more likely to invest in Canada;
 - the effect of previous North American investment remains significant;
 - if the companies' priority market for OFDI is outside North America, they are significantly less likely to invest in Canada.

Combining firm characteristics and their previous experience in international businesses suggests:

- the effect of home province remains significant;
- a company that has experience dealing with inward FDI in China is significantly more likely to invest in Canada than one with no such experience;
- the scale of their existing OFDI does not have an effect on companies' decisions to invest in Canada;
- previous OFDI experience in the USA or Canada significantly increases the likelihood of investing in Canada.

Finally, combining firm characteristics, previous experience and priority market location suggests:

¹⁷Regression results are reported in Appendix B of this document.





CONCLUSION



This report emphasizes Canada-focused findings of the 2010 survey of Chinese companies' outward FDI intentions. It found that 8% of respondent companies reported an intention to invest in Canada in the next three years.


The survey also reveals that while investments by large Chinese SOEs grab headlines, non-state-owned SMEs also have significant investment interest in Canada. Furthermore, the SOEs with investment interest in Canada plan overseas investments three times larger than their non-SOE counterparts. Chinese firms are also interested in a range of sectors in Canada, including manufacturing, natural resources, and services. A selected list of Chinese investments in Canadian business in 2010 (see Appendix A) reflects this diversified investment interest.

Chinese firms with investment interest in Canada are highly responsive to the Chinese government's Going Global policy. They are also motivated by an interest in expanding in the global market. Approximately one in three companies interested in Canada described the host country as the priority market for their goods

and services. Another 43% see investing in Canada as a means of tapping NAFTA and other global markets.

Chinese firms continue to perceive Canada as among the economies most open to Chinese outward investment. Nevertheless, they see their lack of local knowledge and expertise as a significant challenge in operating in the Canadian market.

The survey results suggest that while Canada remains open to FDI, more attention should be paid to what matters to Chinese and other foreign investors when they decided to invest in Canada. In this way, Canadian businesses and policies can offer targeted services and mechanisms to make Canada a leading destination for international investment.



APPENDIX A

SELECTED LIST OF CHINESE INVESTMENTS IN CANADA IN 2010 (Abstracts from APF Investment Monitor)¹⁸

FEBRUARY

- Toronto-based Khan Resources Inc. entered into a definitive agreement with an indirect wholly-owned subsidiary of **China National Nuclear Corporation, CNNC Overseas Uranium Holding Ltd.** CNNC agreed to acquire all of Khan's outstanding common shares for C\$0.96 per share in cash. Khan Resources is a Canadian company engaged in the acquisition, exploration and development of uranium properties. (Source: Khan Resources Inc. press release, February 3.)¹⁹

MARCH

- Toronto-based Chariot Resources Limited entered into an arrangement in which **China Sci-Tech** agreed to acquire through an indirect, wholly-owned subsidiary all of the issued and outstanding common shares of Chariot at a price of C\$0.67 in cash per common share. Chariot Resources focuses on the exploration, acquisition and development of copper and precious metals in Latin America. (Source: Chariot Resources Limited press release, March 3.)

APRIL

- ConocoPhillips, of Houston, Texas, announced that it had entered into definitive agreements with subsidiaries of **Sinopec International Petroleum Exploration and Production Company** of China to sell its 9.03% interest in Syncrude for US\$4.65 billion. Syncrude's operations are located on the Athabasca Oil Sands Deposit in northeastern Alberta. Sinopec Corp. is an integrated energy and

chemical company. (Source: ConocoPhillips press release, April 13.)

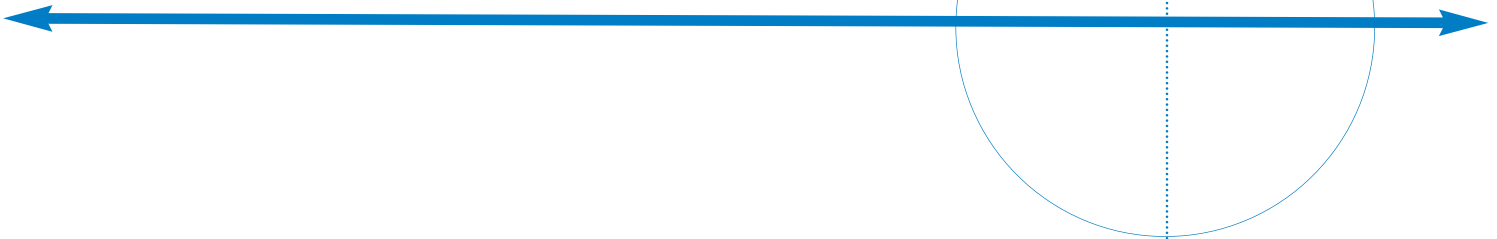
- Toronto-based, Inter-Citic Minerals Inc. announced agreement to a C\$18.56 million strategic investment by gold producer, **Zijin Mining Group Co. Ltd.** of China. Inter-Citic Minerals Inc. is an exploration and development company with property in China, including its Dachang gold project in Qinghai province. (Source: Inter-Citic Minerals Inc. press release, April 19.)
- Shenzhen, China-based **Huawei Technologies Co. Ltd.**, a provider of next-generation telecommunications network solutions for operators, announced the official opening of its Ottawa R&D Centre. As the first Canadian R&D Centre for Huawei, the facility is designed to provide operators and partners with local access to Huawei's industry solutions. To date, the R&D Centre has more than 70 employees. Huawei opened its first Canadian office in the spring of 2008 and provides telecom solutions to Bell Canada, TELUS and SaskTel. (Source: Huawei Technologies Co. Ltd. press release, April 21.)

MAY

- Calgary-based **Penn West Energy Trust** announced that it had entered into an agreement with a wholly-owned subsidiary of the Beijing-based **China Investment Corporation (CIC)** to form a joint venture to develop Penn West's bitumen assets located in the Peace River area of northern Alberta. Under the terms of the agreement, Penn West will

¹⁸Investment Monitor is a monthly summary of new Canadian investments in Asia and of Asian investments in Canada, taken from the daily listing of transactions in the Canada-Asia News Service. The publication includes a running annual total of investments in Asia by Canadian companies, broken down by country and sector. Previous issues of the Investment Monitor are available at <http://www.asiapacific.ca/investment-monitor>.

¹⁹The deal was later cancelled as the CNNC failed to obtain regulatory approval from Beijing.



contribute assets valued at approximately \$1.8 billion and will retain a 55% partnership interest. CIC will invest a total of \$817 million to acquire a 45% interest in the partnership. Penn West is a large producer of light and medium oil in western Canada. (Source: Penn West Energy Trust press release, May 13.)

JUNE

- Shenzhen, China-based ZTE Corporation, a global provider of telecommunications equipment and network solutions, and Toronto-based operator **Public Mobile** announced their collaboration to build a commercial CDMA network in Canada. The network is designed to provide mobile service to 19 million potential customers across the Canadian provinces of Ontario and Quebec. ZTE has partnered with Public Mobile to design, build and operate the end-to-end CDMA network including wireless, core network, service platforms and IP architecture. ZTE is also supplying Public Mobile with handsets. (Source: ZTE Corporation press release, June 4.)

AUGUST

- Vancouver-based **IND DairyTech Limited**, a raw milk producer in China, announced that China Construction Bank International (Tianjin) Co. Ltd. (CCB International) and SAIF III Mauritius Limited will invest C\$11.9 million and C\$4.5 million respectively to subscribe for 20 million shares and 7.52 million shares of **IND Lifetech (China) Co. Ltd.** IND China is an indirect subsidiary which is 94%

owned by IND Dairytech's wholly-owned subsidiary, **IND Lifetech Group Ltd.** At the close of the transaction, **IND Dairytech**, **CCB International** and **SAIF** will each hold approximately 76%, 13% and 5% of **IND China**. (*Canada NewsWire*, August 16.)

NOVEMBER

- Hamilton-based **JNE Consulting**, an engineering company, is entering into a joint venture with the Chinese manufacturing firm **Daqo Group Co. Ltd.** to build a \$5-million solar panel assembly project which is expected to bring 300 manufacturing jobs to Hamilton, Ont. JNE is investing \$1.5 million and Daqo Group is contributing \$3.5 million. It is the most recent in a string of Canadian renewable energy manufacturing agreements with foreign companies. The plant should be up and running in two years. (Source: JNE Consulting Ltd. press release, November 9.)

APPENDIX B

LOGISTIC REGRESSION ANALYSIS OF CHINESE COMPANIES' INTENTION TO INVEST IN CANADA

FACTORS	SPECIFICATION 1	SPECIFICATION 2	SPECIFICATION 3
Constant	-3.17***	-3.08***	-1.83**
Size of Company (reference is "Large")			
SME	-0.71**	0.01	0.17
Ownership (reference is "Non-SOE")			
SOE	-0.17	-0.22	-0.22
Industry (reference is "Manufacturing")			
Agriculture	0.77	0.53	0.00
Construction and Infrastructure	-1.11	no obs.	no obs.
Services	0.03	0.02	-0.48
Provincial average of intention to invest in Canada in next 3 years	14.18***	10.34*	11.38*
International business experience (reference is "Trade and IFDI")			
Trade only		-0.13	0.07
IFDI only		2.39***	3.73***
Neither trade nor IFDI		0.52	1.19*
Existing OFDI scale (reference is less than US\$1 million)			
US\$1-5 million		-0.32	-1.04*
US\$5-10 million		-0.82	-2.15**
US\$10 million -1 billion		0.64	no obs.
Over US\$ 1 billion		0.97	-0.05
OFDI Experience in North America (reference is "only in Canada")			
In USA only		1.93**	1.89**
Neither USA nor Canada		0.38	0.27
Both USA and Canada		1.99***	1.95**
Priority market for OFDI (reference is "Local market at OFDI destination")			
North American market			-0.59
China's domestic market			-0.58
European market			-1.79**
Asian market			-1.13*
Global market			-2.01*
Others			-0.13
Statistics			
Number of effective observations	847	313	277
Pseudo R-Square	7%	19%	26%
Chi-square	20.35	38.52	48.76

Note:

Specification 1: firm characteristics only

Specification 2: firm characteristics + previous experiences

Specification 3: firm characteristics + previous experiences + priority market to serve

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

APPENDIX C

ABOUT THE AUTHORS

- The Asia Pacific Foundation of Canada (APFC), created by an Act of Parliament in 1984, is an independent, not-for-profit think-tank on Canada's relations with Asia. The Foundation functions as a knowledge broker, bringing together people and knowledge to provide current and comprehensive research, analysis and information on Canada's transpacific relations. It promotes dialogue on economic, security, political and social issues, fostering informed decision-making in the Canadian public, private and non-governmental sectors. The Foundation also provides grants to support policy research and informed discussion on Canada's relations with Asia.

The Foundation is funded primarily by the proceeds of an endowment from the Government of Canada and by corporate and individual donors. Project funding is provided by Western Economic Diversification Canada, Citizenship and Immigration Canada and the Government of British Columbia. (www.asiapacific.ca).

- Established in May 1952, the China Council for the Promotion of International Trade (CCPIT) comprises VIPs, enterprises and organizations representing all economic and trade sectors in China. It is the most important and the largest institution for the promotion of foreign trade in China. Recently, promoting two-way investment has been added to its mandate. CCPIT has 50 local branch offices, 20 industrial branch offices, more than 600 sub-level branch offices and county-level chambers of commerce, and close to 70,000 member enterprises, covering all areas of China and all trades and industries in the country. CCPIT operates 16 representative offices in overseas markets including one in Canada, based in Toronto. (www.ccpit.org).
- The joint research team consists of the following members:
 - Yuen Pau Woo, *Project Co-Leader (APFC)*
 - Zhao Xiao Di, *Project Co-Leader (CCPIT)*
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- For further information please contact Kenny Zhang (Kenny.zhang@asiapacificca) or Yu Haiyan (yuhaiyan@ccpit.org).



OPEN (Hands pushing up the latch on the gate)

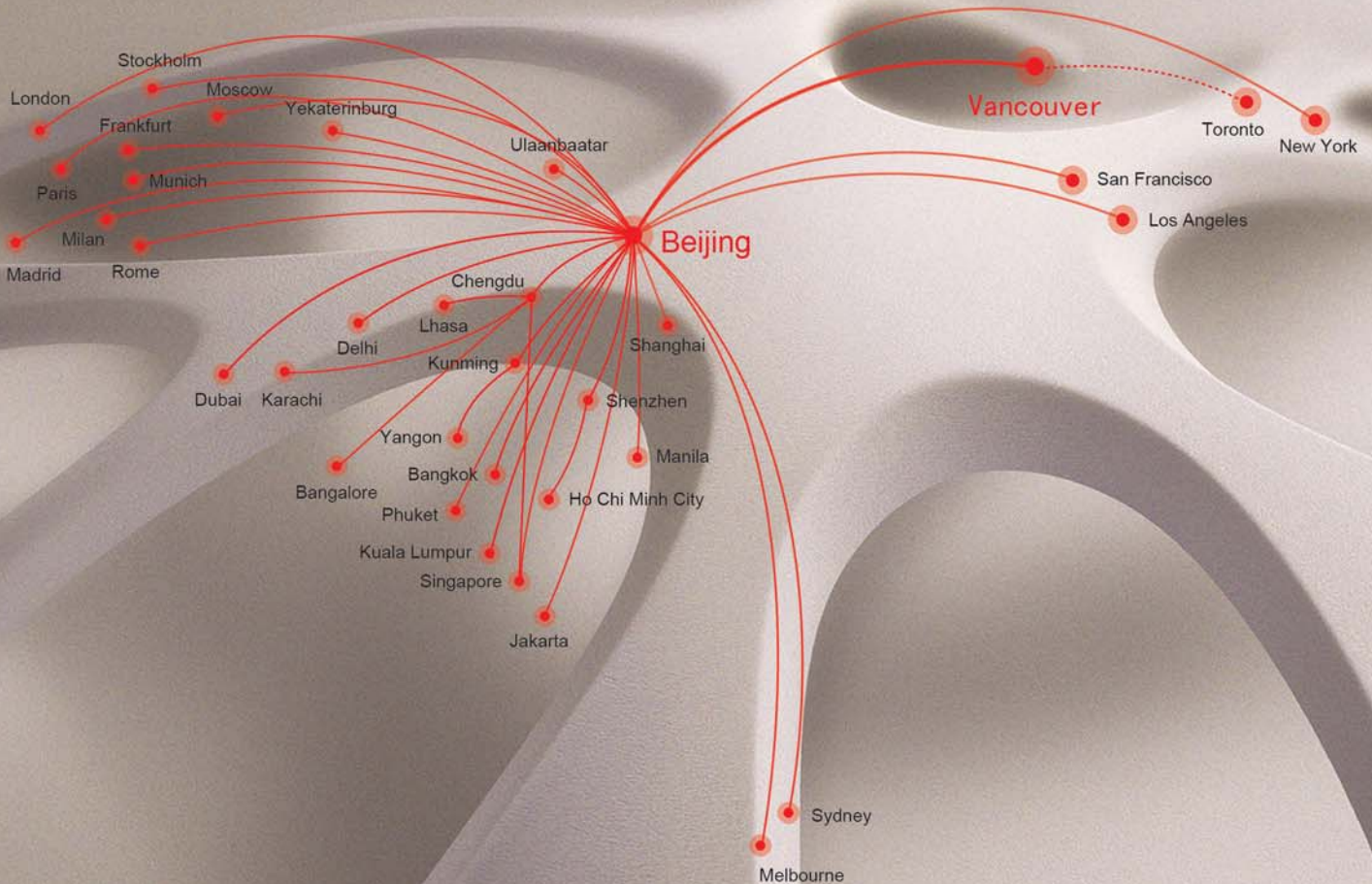
Opening the gate allows for the two-way flow of information, goods, capital and people across the Pacific.


This character, meaning "to open," represents two hands pushing up the latch on the closed gate.

It is written using the "regular script," also known as the "standard script," which emerged around the third century AD and matured in the seventh and eighth centuries.

This character comes from the brush-pen of Mr. David Gooderham, a prominent lawyer and practitioner of calligraphic arts. It is taken from the Foundation's Gateway Calligraphy project launched in 2008.

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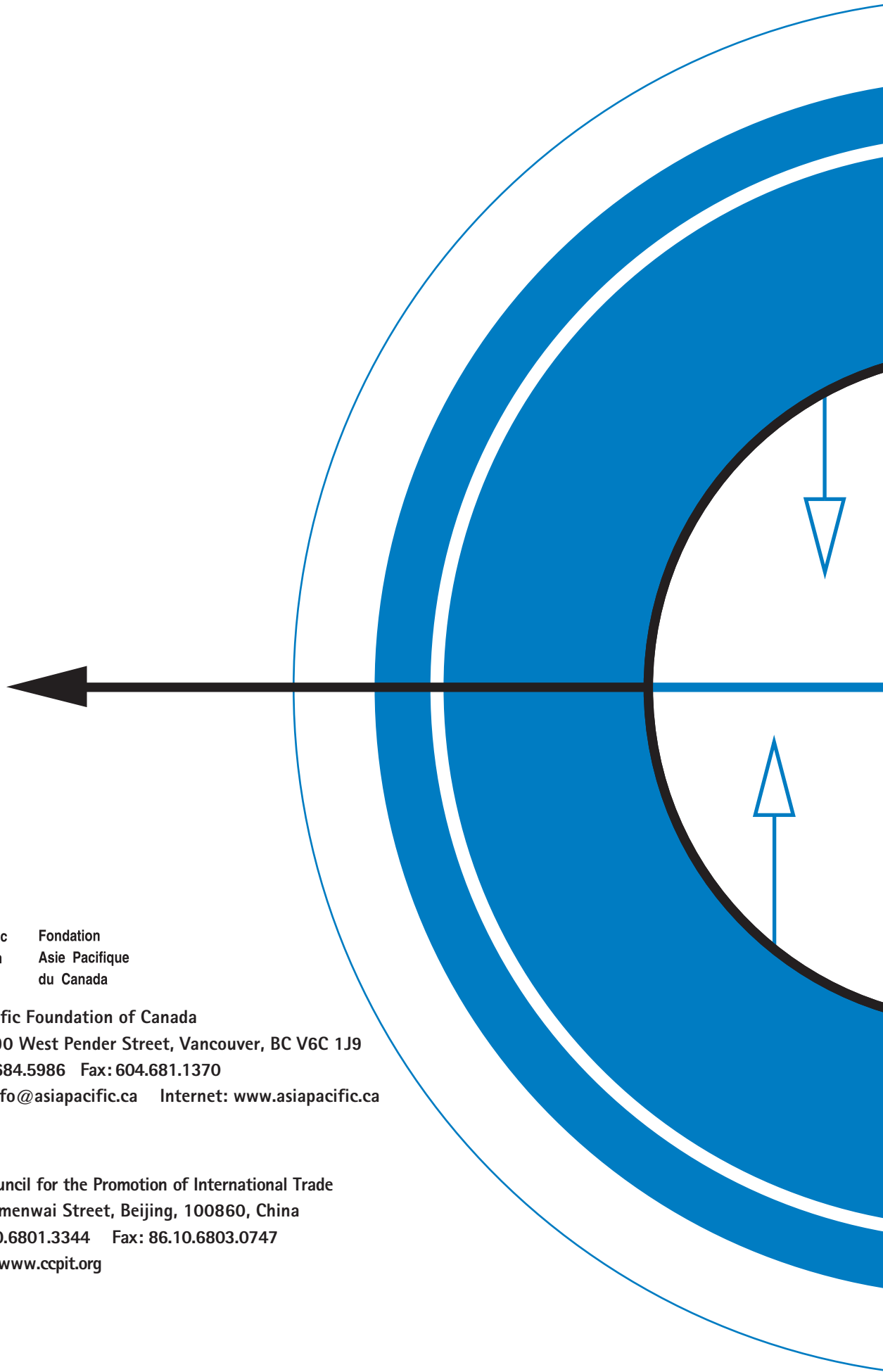
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