CHINA GOES GLOBAL

2013

SURVEY OF OUTWARD DIRECT INVESTMENT INTENTIONS OF CHINESE COMPANIES

Prepared by the

Asia Pacific Foundation of Canada,

Jack Austin Centre
for Asia Pacific Business Studies
at Simon Fraser University and

China Council for the Promotion
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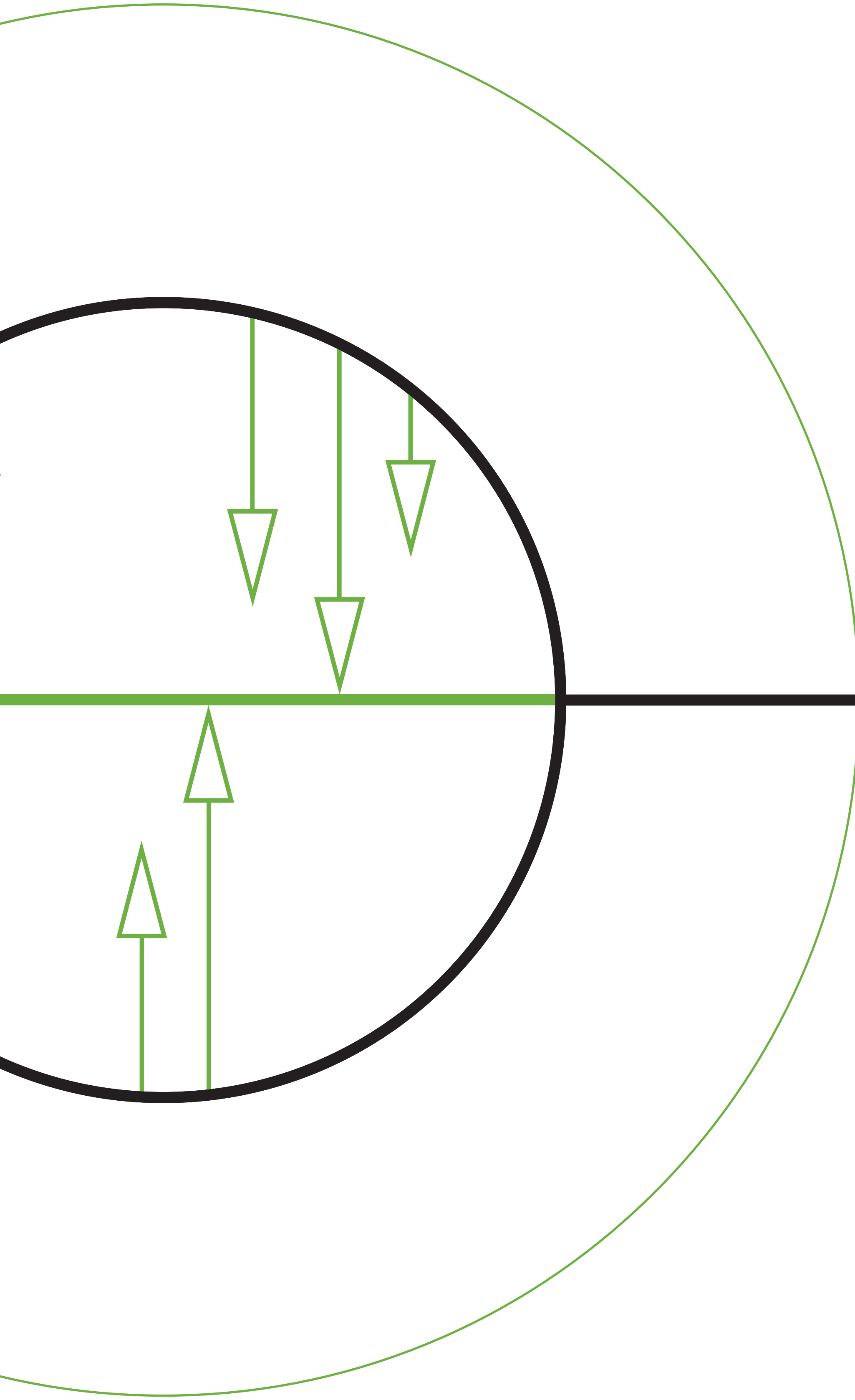

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FOREWORD

THE LARGEST-EVER CHINESE ACQUISITION of a foreign company was concluded earlier this year when the China National Offshore Oil Company (CNOOC) bought Nexen Inc. of Calgary for US $15.1 billion. The public debate leading up to the deal exposed many Canadians for the first time to the overseas investment ambitions of Chinese companies. It raised important questions about Canada's rules on investment in the country by foreign entities, especially state-owned enterprises (SOEs).

Nearly a year after the deal was approved by Ottawa, policymakers are still wrestling with the regulation of foreign investment in general and SOE investment in particular. In this still-fluid policy environment, the *China Goes Global 2013* report is a timely reminder of the potential scale of Chinese capital that is looking for investment opportunities abroad, and the diversity of investment destinations that are being considered.

Since 2005, APF Canada has, in partnership with the China Council for Promotion of International Trade (CCPIT), produced surveys of the outward investment intentions of Chinese enterprises. In that time, Chinese outward investment has grown massively, from a meager US $12 billion in 2005 to US $88 billion in 2012. Given that structural change in the Chinese economy is likely to stimulate even more outward investment, the salience of this survey is greater than ever. We hope that it will serve not only as a window on the outlook for Chinese investment abroad, but also as a reality check on the attractiveness of Canada as an investment destination.

We were pleased to partner with the Jack Austin Centre for Asia Pacific Business Studies at Simon Fraser University's Beedie Business School in the production of this year's report. We are working with Simon Fraser University scholars to further mine the rich data that we have collected from more than 900 Chinese enterprises who responded to the survey.

I would like to congratulate Kenny Zhang, APF Canada's Senior Policy Analyst, for his leadership on this research, and thank Dr. Jing Li of the Beedie School for her advice and assistance.

Yuen Pau Woo
President and CEO
Asia Pacific Foundation of Canada

EXECUTIVE SUMMARY

THE ASIA PACIFIC FOUNDATION OF CANADA, the China Council for the Promotion of International Trade and the Jack Austin Centre for Asia Pacific Business Studies at the Beedie School of Business at Simon Fraser University jointly present the 2013 survey report on Chinese companies' outward investment intentions. The survey was conducted between February and June 2013, and 962 Chinese firms answered most or part of the questionnaire.

This survey provides a snapshot of Chinese firms' outward investment intentions and assesses the performance of their investments abroad. The results also provide timely information to promote a better understanding of China-Canada investment issues in order to strengthen mutually-beneficial investment ties between the two countries. The authors of this report pay special attention to the comparison between Chinese state-owned enterprises (SOEs) and non-SOEs, and discuss the extent to which SOEs differ from non-SOEs when they go global.

The key findings of the 2013 survey about Chinese firms, regardless of whether or not they are SOEs, are:

- Canada came in ninth position on the popular destination list for Chinese Outward Foreign Direct Investment (OFDI) at the end of 2012. The US, Hong Kong SAR and Japan were the top three destinations.
- Only 6% of respondents considered Canada as a preferred destination for intended OFDI. The US and Germany were the top choices at 35% and 16%, respectively.
- 22% of respondents indicated OFDI exceeded 10% of their total investment made in 2013 and 47% projected offshore revenue would surpass 10% of the total company's revenue.
- Respondents listed upgrading their brand in international markets, making use of "going global" policy-related incentives and taking advantage of preferential investment policies in the host country as the top three drivers for their OFDI decisions.
- Respondent cited the sudden deterioration of macroeconomic conditions, sudden policy changes and labour disputes in the host country as the top risks facing their recent OFDI.
- Respondents ranked political unrest and war, breach of contract, and sudden policy changes as their top three worries when they considered intended OFDI.
- The perceived risk level is higher for investing in developing countries than in developed ones.

- Chinese firms' offshore business represents only a small fraction of their overall operations.
- Chinese firms are more comfortable with establishing a wholly-owned new business when investing abroad.
- Respondents were more optimistic about the global economy in 2014 than they were in 2013.
- Seeking assistance from the Chinese government or its agencies, including embassies, consulates and business promotion organizations, is the most valuable approach that respondents cited in managing their OFDI risks.
- Respondents listed East and Southeast Asia as the most important region for their internationalization, followed by the EU and North America.
- Respondents considered sales activities more important than investment activities in their internationalization.
- 53% of respondents cited low level of international cooperation as the major obstacle facing their international businesses. Among other listed challenges, those related to skill shortages are commonly cited.
- 73% of respondents claimed their company's development strategy included a clear statement of Corporate Social Responsibility (CSR).
- Respondents thought it was more important to have CSR in the EU, North America and Hong Kong, SAR than in other regions.
- Two-thirds of respondents indicated the most needed service was the availability of international market information while the same percentage cited high quality customer referrals.

The survey identified the following ways in which Chinese SOEs differ from non-SOEs when they go global:

- SOEs are more likely than non-SOEs to invest in overseas markets. By the end of 2012, 45% of SOE respondents reported having invested abroad while only 33% of non-SOEs indicated having done so.
- SOEs are also likely to make larger investments than their non-SOE counterparts when they go global.
- SOEs consider the sudden deterioration of macroeconomic conditions the riskiest factor while non-SOEs consider nationalization of assets by local government the greatest risk.
- 67.9% of SOE respondents indicated that making use of "going global" policy-related incentives is an important driver, while only 58.0% of non-SOEs agreed.
- More SOE respondents than non-SOE counterparts consider expanding upstream and downstream industry chains; expanding sales in international markets; upgrading their brand in international markets; and acquiring first-rate brand management experience as important motivations.

报告摘要

加拿大亚太基金会、中国国际贸易促进委员会和西蒙菲莎大学比迪商学院的杰克·奥斯汀亚太商务研究中心联合推出2013年中国企业对外投资意向调查报告。本次调查于2013年2月至6月进行，共有962家中国企业就问卷进行了回答。

此项调查概述了中国企业对外投资意向，并且对其海外投资表现进行了评估。报告结果提供了即时资讯，有利于促进对中加两国投资问题的理解，以此加强两国间互惠互利投资纽带。报告作者尤其关注中国国有企业（SOE）和非国有企业的对比，并探讨了国企和非国企海外投资的不同之处。

2013年调查报告关于中国企业（不管是否是国企）对外投资方面的主要发现：

- 截止2012年底，在中国企业对外直接投资最受欢迎目的地排名中，加拿大名列第九。前三名为美国、香港特区和日本。
- 只有6%的受访企业认为加拿大是未来对外直接投资的首选地。名列前茅的国家为美国和德国，所占比例分别为35%和16%。
- 22%的受访企业指出其对外投资超过了2013年总投资的10%，而且47%的企业预计海外收入会超过今年企业总收入的10%。
- 受访企业认为做出海外直接投资决策的三个最主要驱动力分别是：在国际市场提升品牌；利用与中国“走出去”政策相关的激励措施；利用投资目的国的优惠投资政策。
- 受访企业认为近期对外投资面临的最大风险为投资目的国的宏观经济状况突然恶化，政策突然变化以及劳动纠纷。
- 受访企业认为在考虑进行海外直接投资时，最担忧的三个问题为政治动荡和战争、违反合约以及政策突然发生变化。
- 受访企业普遍认为投资于发展中国家的风险要高于发达国家。
- 中国企业的海外业务只占其总业务的一小部分。
- 在海外投资时，中国企业更倾向于建立一个新的全资子公司。
- 受访企业对2014年全球经济走向与2013年相比更乐观。
- 受访企业表示在处理对外投资风险方

面，从中国政府部门及其下设机构如大使馆、领事馆，以及从商业促进组织那里寻求帮助是最有效的途径。

- 受访企业认为东亚和东南亚是其国际化战略最重要的地区，其次为欧盟和北美地区。
- 受访企业认为在国际化进程中销售活动比投资活动更重要。
- 53%的受访企业认为国际合作程度不高是其国际业务的主要障碍。在其它列出的诸多挑战当中，各种技术、管理、经营等方面的人才短缺也是中国企业在走出去时遇到的一个普遍问题。
- 73%的受访企业声称其企业发展战略中有明确的关于企业社会责任的表述。
- 受访企业认为欧盟、北美和香港与其它地区相比更注重企业社会责任
- 三分之二的受访企业指出他们最需要的服务是获取国际市场信息，同样比例的受访企业则认为是高质量的客户推荐。

调查同时也指出了中国国企和非国企在走出去时以下方面的不同点：

- 国企比非国企更倾向于海外市场投资。2012年底，接受调研的45%的国企有海外投资，而非国企之一比例只有33%。
- 在海外投资时，国企的投资规模往往大于非国企。
- 国企认为最大的风险因素在于宏观经济状况突然恶化，然而非国企认为最大的风险为当地政府进行资产国有化。
- 67.9%的国企受访者认为利用“走出去”政策相关的激励措施是走出国门的重要推动力，然而只有58%的非国企受访者持此观点。
- 与非国企相比，国企认为海外投资的下列主要动机更加重要，包括扩张上游和下游产业链、扩大国际市场销售、提升国际市场品牌以及获取一流的品牌管理经验。

1 BACKGROUND: CHINESE OFDI IN CONTEXT

IN RECENT YEARS, CHINA HAS BEEN transforming itself from the world's manufacturing powerhouse to a global investment powerhouse, both as a recipient of inward foreign direct investment (FDI) and as a growing source of outward FDI (OFDI) to developing and developed markets. This section provides a brief background on China's recent OFDI performance globally, and in particular in Canada.

CHINESE OFDI GLOBAL PERFORMANCE

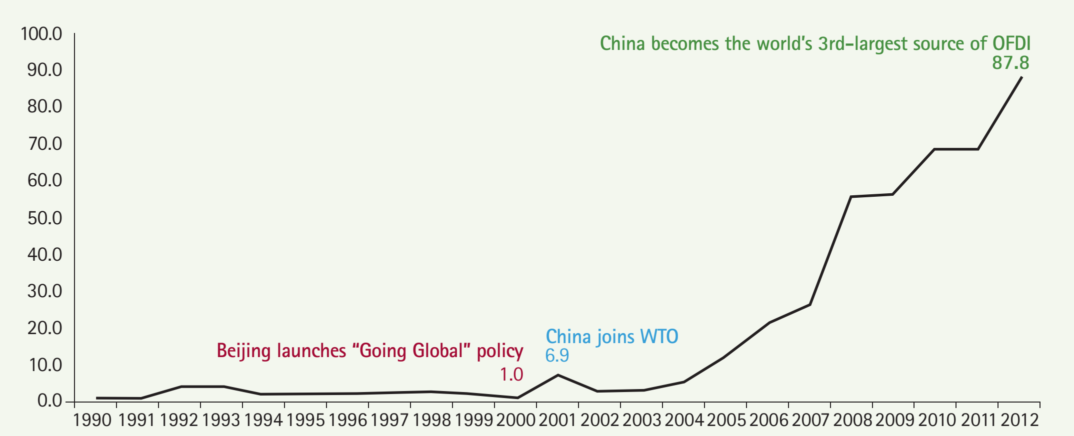
Since the launch of China's "Going Global" policy in 2000 and the country's admission to the World Trade Organization (WTO) in 2001, China's OFDI has grown at an accelerated pace. In 2012, China became the third largest source of OFDI in the world. The total annual investment out-flow reached US $87.8 billion, an increase of 17.6% over the previous year[1] (See Figure 1). By the end of 2012, the stock of China's OFDI had grown to US $531.94 billion, the thirteenth largest in the world. Over 16,000 Chinese companies had created nearly 220,000 subsidiaries or other types of corporate structures in 179 countries or regions in the world.

Chinese OFDI covers a wide range of industry sectors, and this coverage reflects their diversified business interests. However, more than 92% of China's OFDI stock is in seven industry sectors: leasing and business services, financial services, mining, wholesale and retail trade, manufacturing, transportation/logistics, postal services and construction.

Mergers and acquisitions (M&A) have increasingly become an important strategy for Chinese OFDI. A total of 457 overseas M&As by Chinese firms were completed in 2012, with a total transaction value of US $43.4 billion. The average transaction value of M&As was US $95 million.

[1] MOFCOM website, http://fec.mofcom.gov.cn/article/xwdt/gn/201309/1774963_1.html Accessed September 30, 2013.

FIGURE 1: CHINESE OFDI ANNUAL FLOWS: 1990–2012 (US$B)



Source: MOFCOM, NBS, and SAFE: Statistical Bulletin of China's Outward Foreign Direct Investment, various years

Chinese OFDI is highly concentrated in some destinations. Among the OFDI stock of US $531.9 billion, nearly 90% has gone to the top 20 destinations. In 2011, 89% went to developing countries, and 70% went to Asian countries.[2] In 2012, the destination with the fastest growing Chinese FDI was the United States. The total investment from China reached more than US $4 billion—an increase of 123.5% over the previous year. In 2012, the US was the second largest destination for Chinese OFDI, while Hong Kong SAR remained the top destination. Kazakhstan was the third most popular one, with investments totaling US $3 billion. Canada, similar to countries such as Brazil and Australia, has consistently remained a popular FDI destination. From 2005 to 2012, Canada was one of the top five recipients of Chinese FDI.[3]

CHINESE OFDI IN CANADA

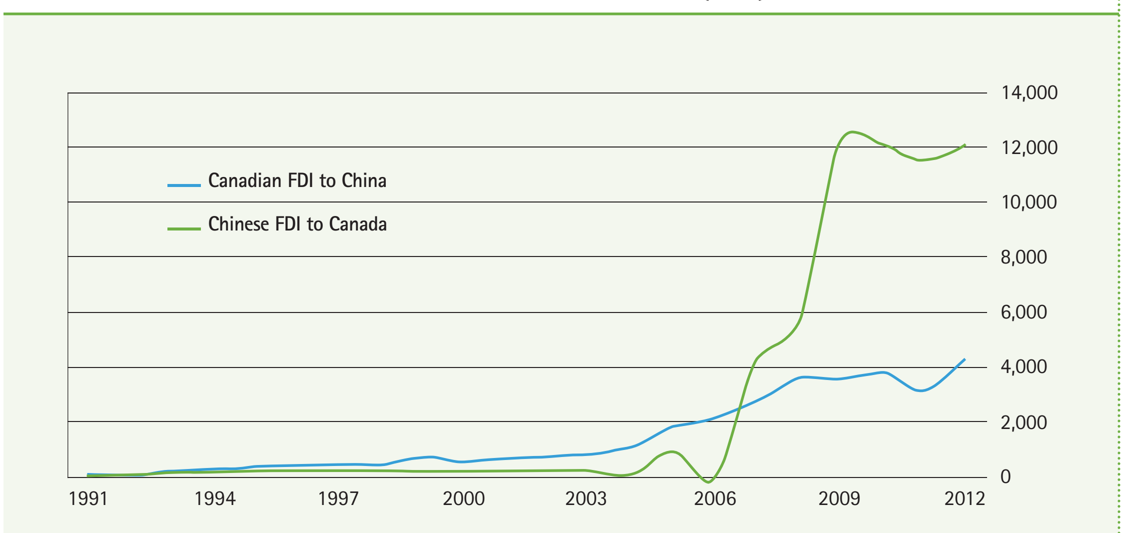
Similar trends and patterns of Chinese OFDI can be observed in Canada. Chinese OFDI in Canada has grown dramatically since 2006, surpassing Canadian FDI to China in 2007 and reaching C $12 billion in 2012[4] (See Figure 2).

While the growth of China's OFDI in Canada has been rapid, the investment amount remains relatively small compared to the investment in Canada from other major players. In 2012, Canada received C $633.9 billion FDI from all over the world. The United States is the dominant source of FDI in Canada, with investments valued at C $326 billion or 51.5% of the total. Other major investor countries include the Netherlands, the United Kingdom, and Luxembourg. China's investment of C $12 billion represented less than 2% of total FDI in Canada making China the ninth-largest investor of FDI in Canada, and the second largest after Japan from the Asia Pacific region (See Figure 3).

Chinese investment is focused on Canadian energy and resource projects (See Appendix A). CNOOC's acquisition of Nexen for C $15.1 billion, which was approved by the Canadian government in 2012 and closed in February 2013, has become the largest ever OFDI by a Chinese firm. Chinese investors have also shown interest in a wide range of other business sectors, such as services and agri-foods.

China's state-owned enterprises (SOEs) dominate the country's presence in Canada.[5] On September 25, 2012, a group of Chinese companies formed their own business association in Canada—the Canada China Chamber of Commerce (CCCC).[6] With its head office in Toronto and regional offices in B.C., Alberta and Quebec, this business association includes members of Chinese enterprises established in Canada. Most of its members are SOEs covering sectors such as finance, ICT, transportation, import and export, energy, minerals, pharmacy, health food, real estate, and equipments and machinery. According to the CCCC, a total of 183 Chinese companies had

FIGURE 2 CANADA CHINA TWO-WAY INVESTMENT: 1991-2013, (C$M)



Source: Statistics Canada, Table 376-0051. Accessed September 30, 2013

[2] Eve Cary, Understanding China's Efforts to Invest Overseas. The Diplomat, April 18, 2013, http://thediplomat.com/china-power/understanding-chinas-efforts-to-invest-overseas/#. Accessed on October 10, 2013.

[3] The Economist: Odi-lay hee-ho: The Expanding Scale and Scope of China's Outward Direct Investment. http://www.economist.com/news/china/21569775-expanding-scale-and-scope-chinas-outward-direct-investment-odi-lay-hee-ho. Accessed on October 10, 2013.

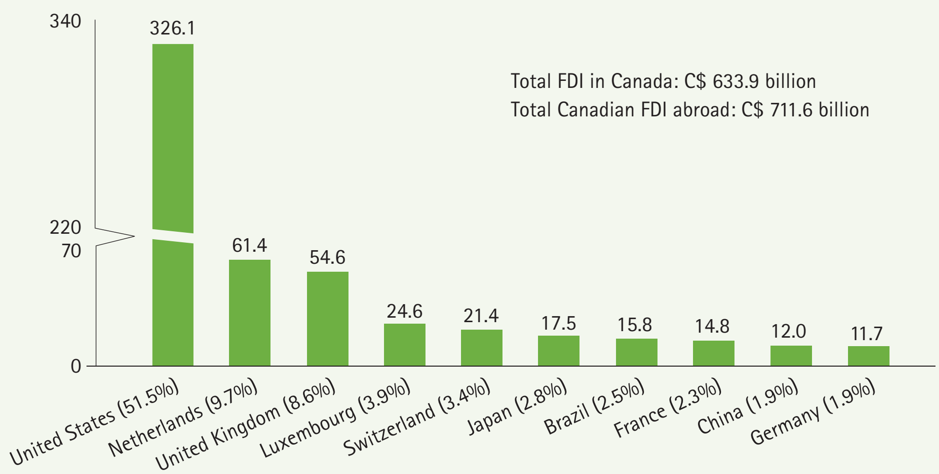
[3] There is a discrepancy between Canadian and Chinese sources on the Chinese FDI in Canada due to different data collecting systems. For purposes of consistency, this report uses the data from Statistics Canada to illustrate the historical trend.

[5] Kenny Zhang and Victor Chen, 2011, "Growing and Diversifying Chinese Investment in Canada: 2000-2010," *Asia Pacific and Globalization Review*, Vol. 1, No. 1, page 37-54, https://journals.macewan.ca/index.php/apgr/article/view/33. Accessed on September 30, 2013.

[6] Canada China Chamber of Commerce (CCCC) website: www.chinachamber.ca. Accessed on September 30, 2013.

invested in Canada by the end of 2012, with investments amounting to US $43.8 billion.[7] Increasingly, Chinese non-SOEs are appearing on the investment horizon, including Shenzhen-based Huawei which opened its first Canadian office in Markham, Ontario in 2008. Since then, Huawei Canada has grown to over 450 employees. In addition to the corporate headquarters in Markham, Huawei operates a major Research & Development (R&D) Centre in Ottawa, Ontario, and has offices in Montreal and Edmonton.[8]

FIGURE 3: TOP 10 SOURCE COUNTRIES IN CANADA BY STOCK OF FDI, 2012 (C$B)



Source: Statistics Canada, Table 376-0051. Accessed September 30, 2013 (Share of each country's FDI in parentheses)

7 The StarPhoenix, July 31, 2013, website, http://www.thestarphoenix.com/business/Chinese+Canadian+business+leaders+sign+memo/8729640/story.html,. Accessed on September 30, 2013. Please refer to Footnote 4 for the difference between Canadian and Chinese sources on Chinese FDI in Canada.

8 Huawei Canada Website, http://www.huawei.com/ca-en/about-huawei/corporate-info/index.htm. Accessed on October 17, 2013.

2 SURVEY OVERVIEW

THIS REPORT PRESENTS THE major findings of the 2013 survey of Chinese companies' OFDI intentions. Since 2005, it has been an annual publication resulting from a collaboration between the Asia Pacific Foundation of Canada (APF Canada) and the China Council for the Promotion of International Trade (CCPIT). The Jack Austin Centre for Asia Pacific Business Studies (JAC) at the Beedie School of Business at Simon Fraser University joined this partnership in 2010. The previous survey reports are available on APF Canada's website at http://www.asiapacific.ca/surveys/chinese-investment-intentions-surveys.

OBJECTIVES AND APPROACHES

The goal of this report is to provide timely information to promote a better understanding of China-Canada investment issues in order to strengthen mutually-beneficial investment ties between the two countries. Another purpose of this year's survey is to develop a better understanding of Chinese firms' OFDI intentions, as well as to assess the performance of their investments abroad.

While Canada is open to foreign investments, it has a rules-based regulatory regime, the aim of which is to provide a welcoming environment. This investment regime seeks to maximize the benefits of FDI for Canadians, while preserving other public policy interests (see Appendix B). However, there are growing debates in Canada as to whether it should restrict SOEs' investments, particularly those from China.[9] Polling by APF Canada has shown that the Canadian public is wary of allowing foreign SOEs to take control of Canadian companies (see Appendix C).

Do Chinese SOEs behave differently from non-SOEs when they go global? Comparisons were done between the two groups in the survey samples to explore the extent to which SOEs differ from non-SOEs, if indeed they do.

METHODOLOGY

The survey was conducted by the CCPIT with a jointly designed questionnaire containing 39 questions.

The survey was conducted between February and June 2013. The survey questionnaire was sent to 3,000 Chinese firms with or without experience in international business. In total, 1,056 firms answered most or part of the questionnaire—a response rate of 35%. After dropping respondents that are foreign-owned companies in China, 962 Chinese firms were included in the analysis of this report.

RESPONDENTS' PROFILE

Of the 962 respondents, a solid majority (77%) of companies have businesses in the manufacturing sector, followed by those in wholesale and retail trade (24%). The respondents represented a variety of sectors including agriculture, mining, construction and real estate.

Nearly half of the respondents belonged to companies established within the past 10 years. Less than 8% of respondents had a history of more than 30 years.

Of all respondents, 135 companies (14%) identified themselves as SOEs[10] and 86% as non-SOEs, a category which includes private firms, joint ventures, and collectives.

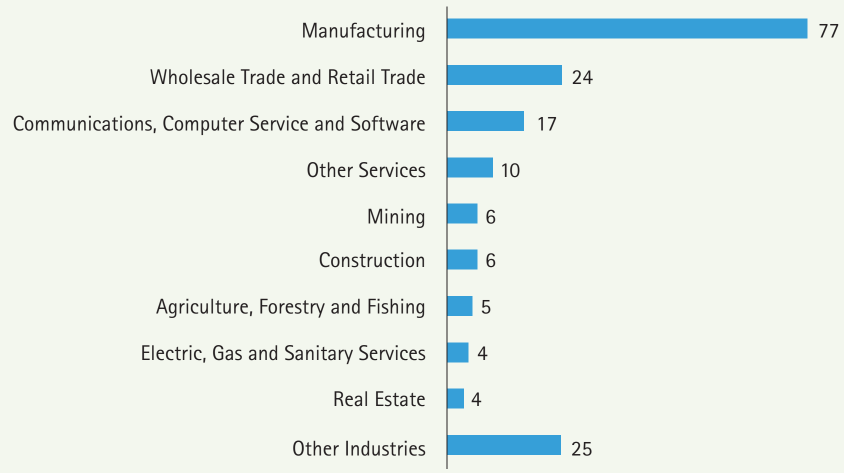
The majority of respondents represent small and medium-sized enterprise (SMEs).[11] Some 57% of respondents reported that their total revenue in 2012 was less than RMB 100 million (approximately C $16.7 million). Nearly one-third of respondents had fewer than 100 employees; one-third had 100 to 500 employees; and another third had more than 500 employees.

[9] Yuen Pau Woo, June 12, 2013, "State-Owned Enterprise Investment in Canada: The Next Chapter," http://www.asiapacific.ca/editorials/presidents-view/39355, accessed on October 10, 2013; Yuen Pau Woo, "Chinese lessons: State owned enterprises and the regulation of foreign investment in Canada," paper presented to the Roundtable on China's Global Investment and Its Regulations, Australian National University, Canberra, Australia, July 10, 2013 and forthcoming 2014, *China Economic Journal.*

[10] State Owned Enterprise (SOE) is a legal entity created by a government to undertake commercial activities on behalf of an owner government. In China, SOEs are governed by both local governments and the central government. In this survey, SOE is the corporate form self-defined by respondents.

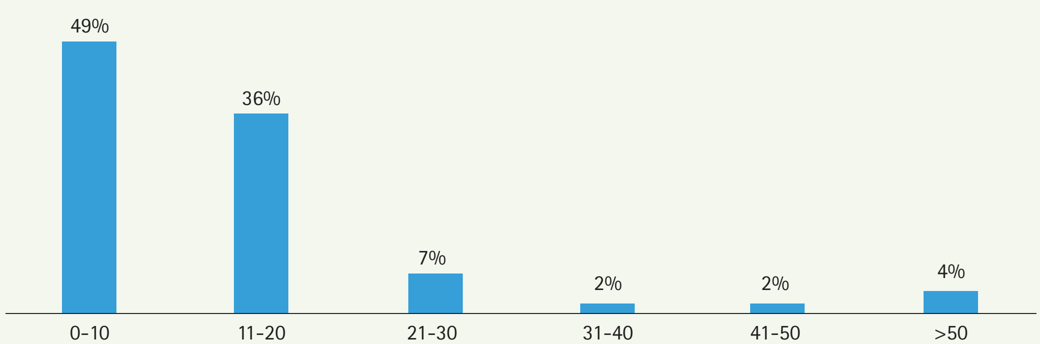
[11] Companies with gross revenue of greater than RMB 300 million are classified as large scale while all others are considered SMEs.

FIGURE 4: RESPONDENTS BY SECTOR



% of respondents selected one or more options; N=962

FIGURE 5: AGE OF RESPONDENT COMPANY



Years since the company was established; N=962

FIGURE 6: RESPONDENTS BY OWNERSHIP

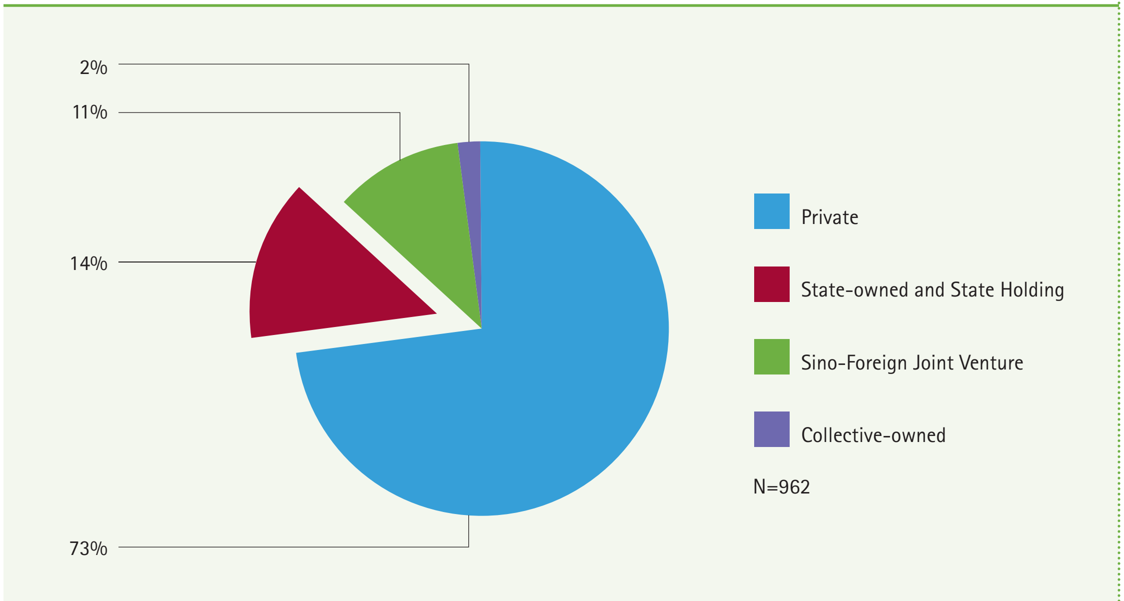


FIGURE 7: TOTAL REVENUE IN 2012 (RMB, MILLION)

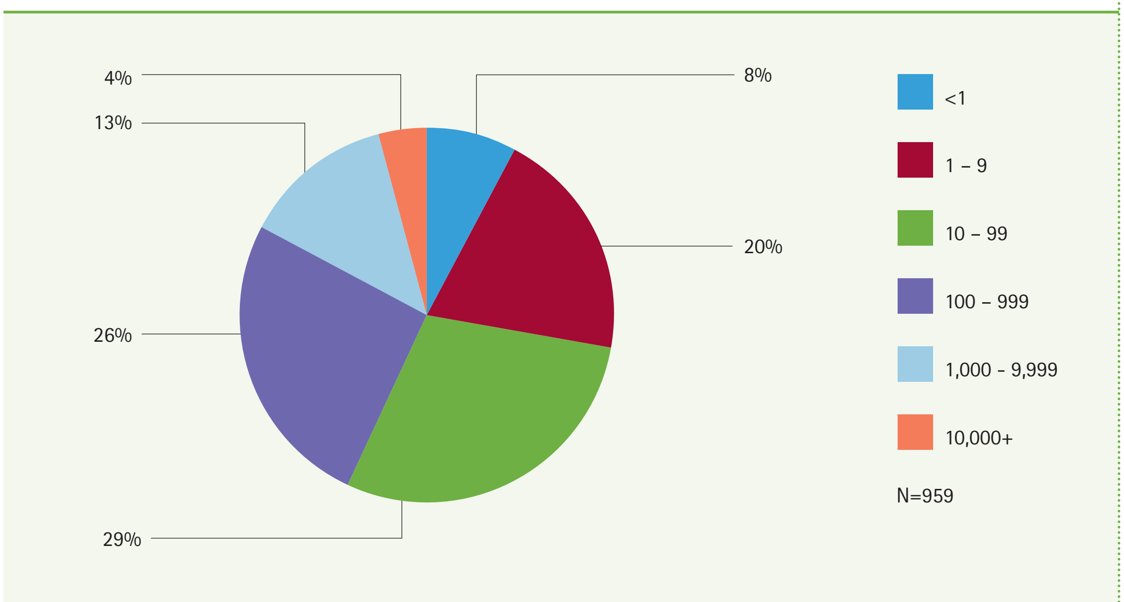
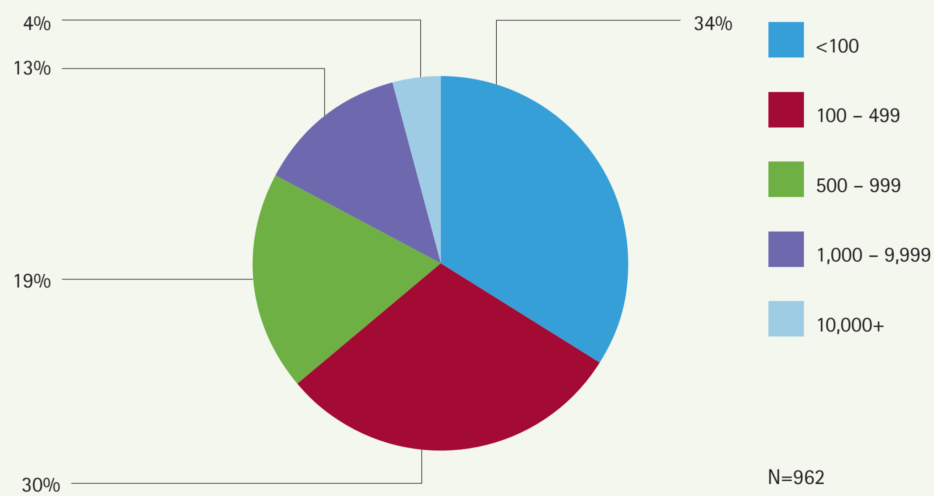


FIGURE 8: NUMBER OF EMPLOYEES IN 2012



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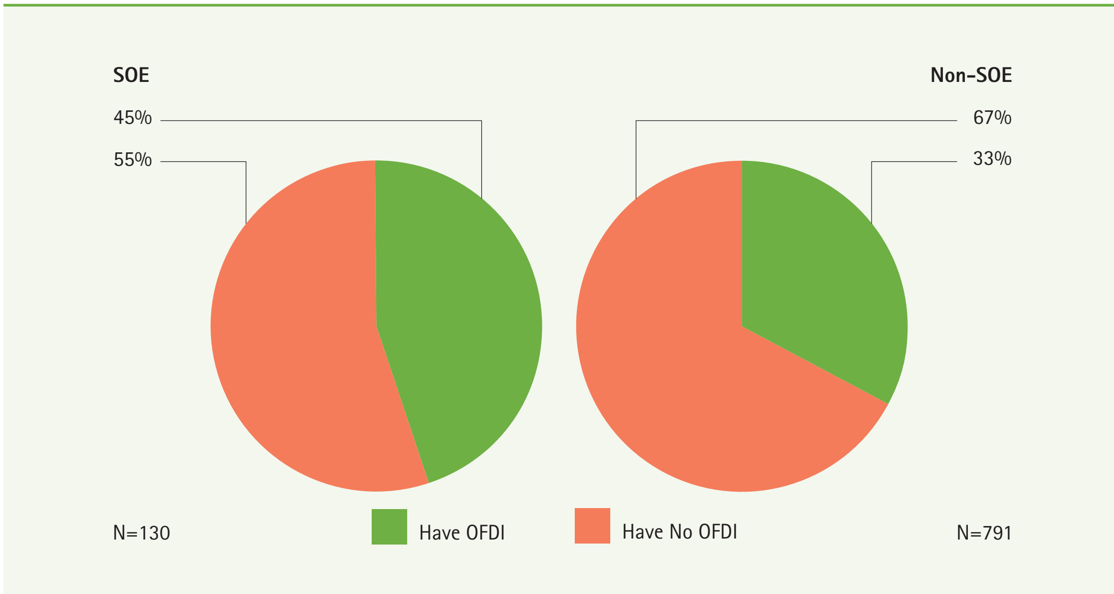
This report is produced thanks to the partnership between CCPIT, APF Canada and JAC. APF Canada would like to acknowledge and thank China Gold International Resources, McMillan LLP, the Canada China Business Council (CCBC) and CCCC for their support of the Symposium on *China Goes Global* that was held on November 4, 2013 in Vancouver, B.C., when this report was released. Special thanks also goes to Air China (Canada) for its support over the course of the project.

3 MAJOR FINDINGS

OFDI EXPERIENCE

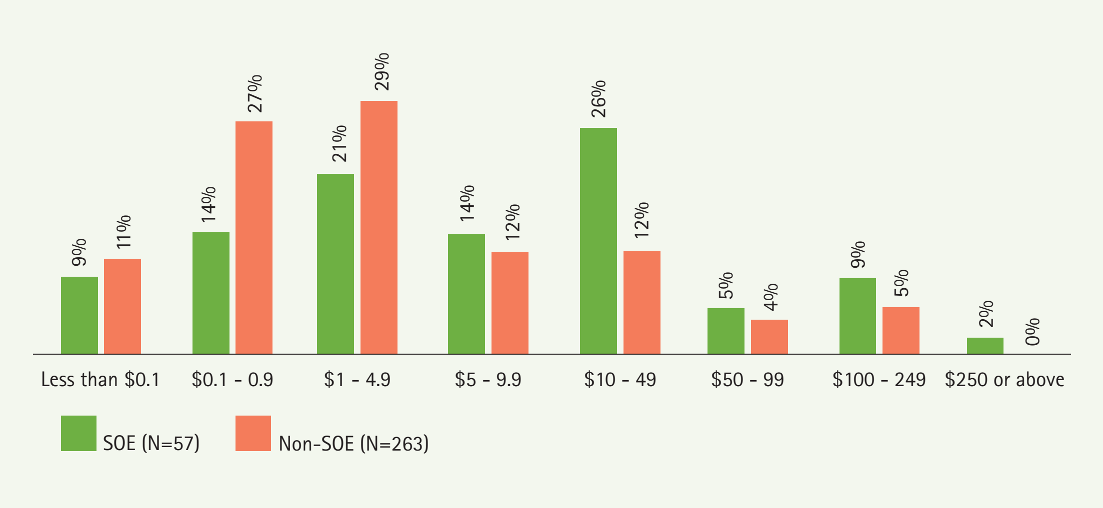
Of a total of 934 respondents, 320 companies (or 34%) reported having invested overseas by the end of 2012. Of these 320 companies, 18% are SOEs. By the end of 2012, 45% of SOE respondents reported having invested abroad while only 33% of non-SOEs indicated having done so. The T-test results show that Chinese SOEs are more likely than non-SOEs to invest in overseas markets (P=0.008).

FIGURE 9



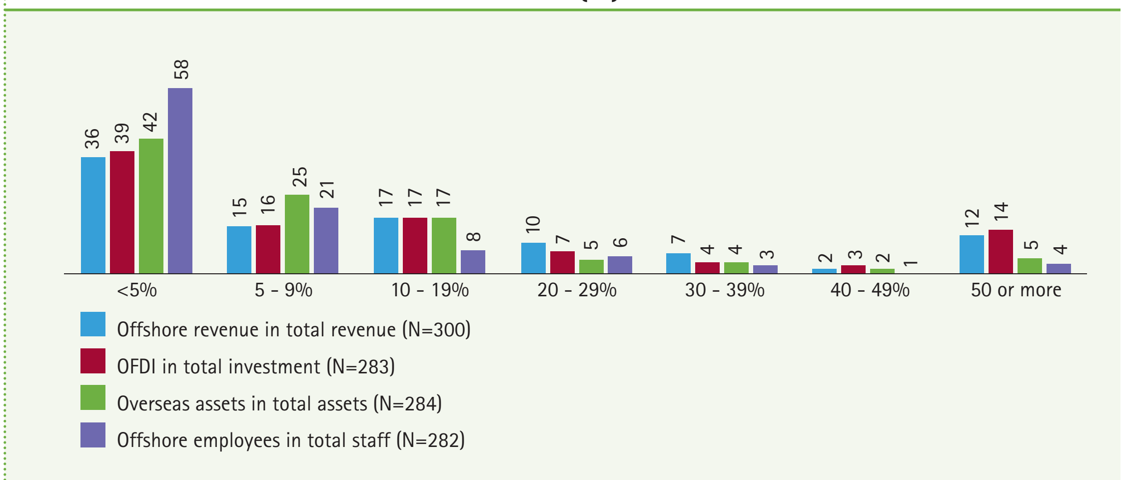
Chinese SOEs are also likely to invest more than their non-SOE counterparts when they go global (P=0.001). As of the end of 2012, 42% of SOE respondents reported that their OFDI exceeded US $10 million, double the percentage of non-SOEs.

FIGURE 10: SCALE OF EXISTING OFDI 2012 (US$M)



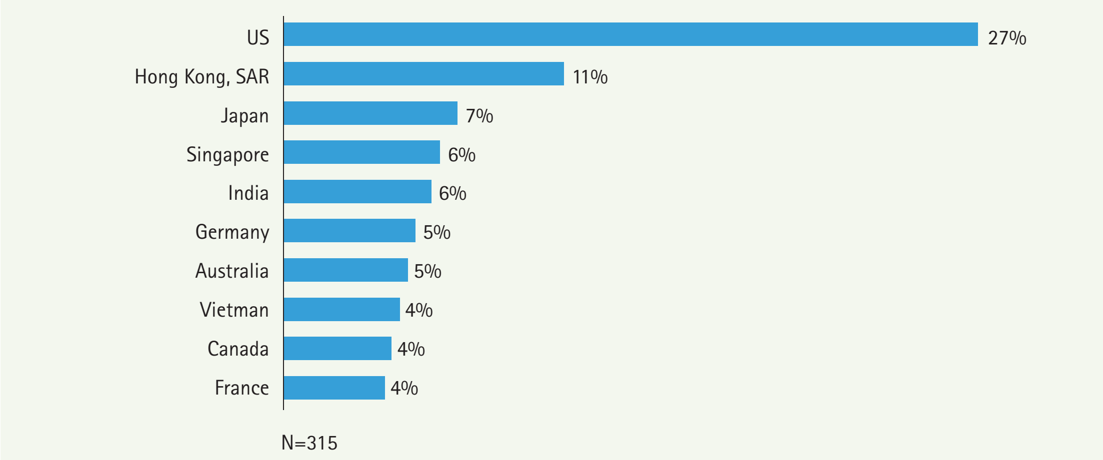
Chinese firms' offshore business represents only a small fraction of their overall operations. Nearly 36% of respondents indicated that their offshore incomes are less than 5% of their corporate totals. Some 39% reported that the OFDI amounts are less than 5% of the corporate's total investments. Another 42% said their overseas assets are less than 5% of their corporate totals, and 58% specified their offshore employees are less than 5% of the total staff in the company. The T-test shows no statistical difference between SOEs and non-SOEs in responses to this question.

FIGURE 11: SHARE OF OFFSHORE BUSINESS 2012 (%)



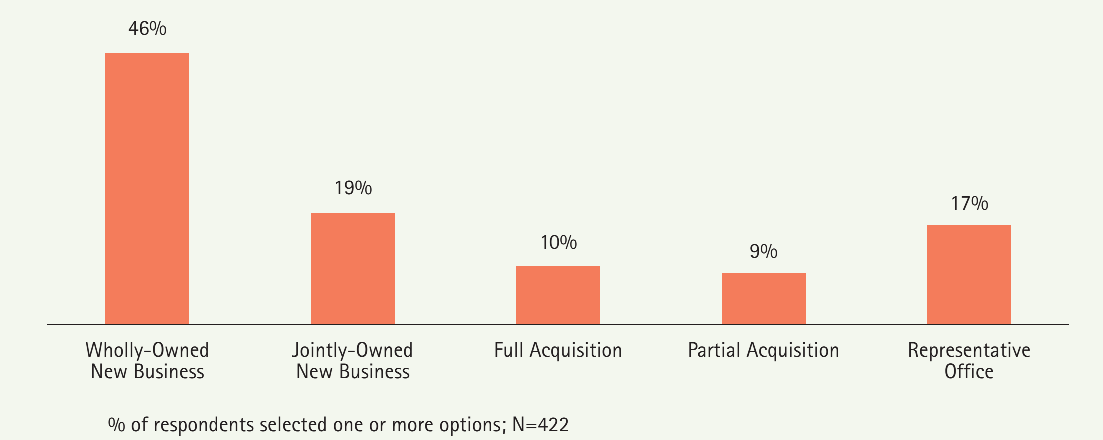
The respondents who had made overseas investments (N=320) were asked to provide their top three investment destinations, and 315 companies responded. The US, Hong Kong SAR, and Japan were the three most popular destinations for Chinese OFDI at the end of 2012. More than a quarter of respondents indicated that the US was their top destination. Eleven percent cited Hong Kong SAR while 7% said Japan. Canada came in ninth position on the list, with 4%. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

FIGURE 12: POPULAR DESTINATIONS FOR CHINESE OFDI



In general, Chinese firms are more comfortable with establishing a wholly-owned new business when investing abroad. The respondents were asked to list the three main entry modes they used in their overseas investment. Of all respondents who reported their entry mode for existing OFDI, 46% indictated setting up a wholly-owned new business, followed by establishing a jointly-owned new business (19%). Some 10% of respondents cited full acqusition, while another 9% said they proceeded with partial acquisition. Establishing a representative office and was cited by 17% of respondents. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

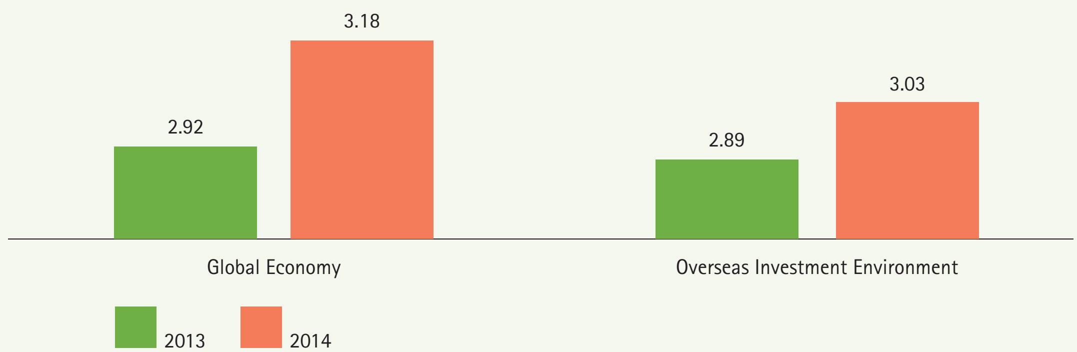
FIGURE 13: ENTRY MODE OF EXISTING OFDI



OUTLOOK FOR THE OFDI ENVIRONMENT

Respondents were more optimistic about the global economy in 2014 than they were in 2013. On a scale of 1 (pessimistic) to 5 (optimistic), respondents rated a mean of 3.18 for 2014, an increase from 2.92 for 2013. They also foresaw a better overseas investment environment in 2014. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

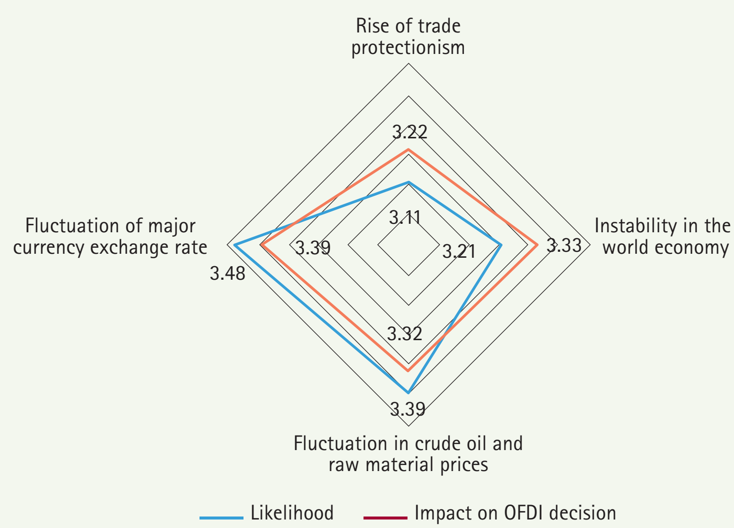
FIGURE 14: OUTLOOK OF BUSINESS AND OFDI ENVIRONMENT



Mean of 1 (pessimistic) to 5 (optimistic); N=881

Respondents also believed that the major risk to overseas investment was the fluctuation of exchange rate of major currencies, followed by the fluctuation in crude oil and raw material prices. On a scale of 1 (least likely) to 5 (most likely), a mean of 3.48 and 3.39, respectively, was rated for these risks. Should these risks become reality, the impact on their OFDI decisions would likely be significant. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

FIGURE 15: PERCEIVED RISKS AND IMPACT ON OFDI

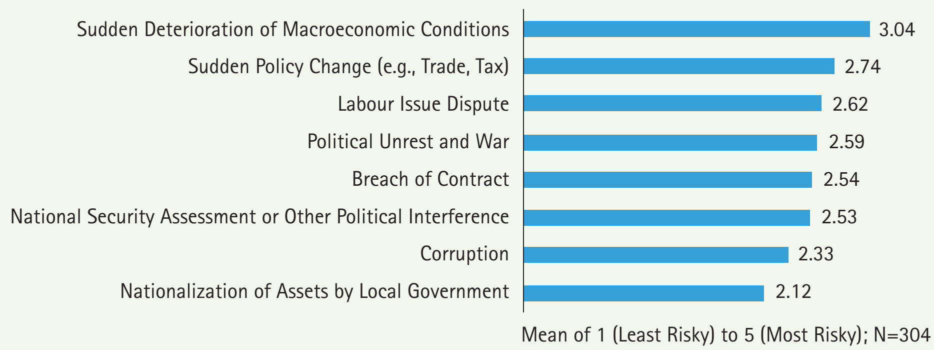


Mean of 1 (least likely/minor) to 5 (most likely/major); N=881

RISK ASSESSMENT

When asked to evaluate the risk level facing its most recent OFDI, respondents cited the sudden deterioration of macroeconomic conditions (the highest at 3.04), sudden policy changes (second highest at 2.74) and labour disputes in the host country (third highest at 2.62) as the top risks facing their recent OFDI. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

FIGURE 16: MAJOR RISK FACING RECENT OFDI

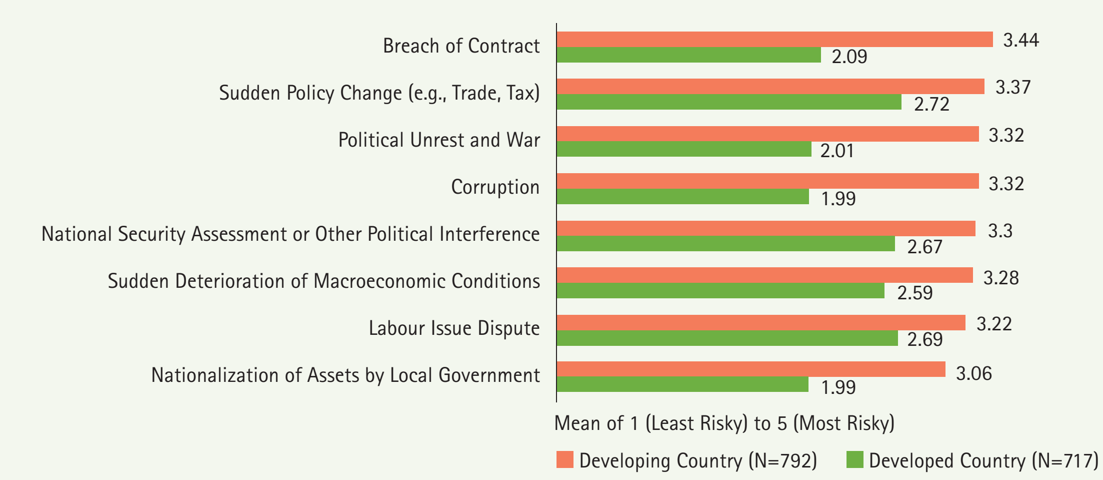


Respondents were asked to evaluate their perceived risk level in any two countries among the following eight countries: developed (the US and Germany), and developing (Vietnam, India, Brazil, Venezuela, Zambia, and Zimbabwe). In developing countries, the top ranked risks were breach of contract, sudden policy changes, political unrest and war, and corruption. In developed countries, the top risks were sudden policy change, labour issue disputes, national security assessment or other types of political interference, and sudden deterioration of macroeconomic conditions. Only sudden policy change was an important concern of respondents in both developing and developed countries.

Not surprisingly, the perceived risk level is higher in every category in developing countries. The perceived risk level between developed and developing countries differs most in these four areas—breach of contracts, corruption, political unrest and war, and nationalization of assets by local government—with much higher risk levels in developing countries.

A further comparison of SOEs and non-SOEs indicates that SOEs consider sudden deterioration of macroeconomic conditions the riskiest factor ($P = 0.030$), while non-SOEs consider nationalization of assets by local government the greatest risk ($P = 0.040$).

FIGURE 17: RISK ASSESSMENT BY REGION



Seeking assistance from the Chinese government or its agencies, including embassies, consulates and business promotion organizations, is overwhelmingly (90.4%) the most valuable approach that the respondents cited in managing their OFDI risks. Seeking help from Chinese communities in the host country, including overseas Chinese business associations and organizations of Chinese invested companies, was the second most commonly cited source of help.

Chinese executives also rely on the host country to reduce the risks to their investment. Approaches include seeking legal protection, hiring more local staff, improving relationship with local publics and asking host country governments or agencies for help. Seeking joint venture or collaboration with local companies is also an option. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

FIGURE 18: RISK MANAGEMENT AND CONTROL

OFDI INTENTIONS

When respondents were asked to estimate their overseas businesses in 2013, nearly half (46%) did not expect their companies to have OFDI, overseas assets, or offshore employees. Almost a quarter of companies (23.9%) did not expect to report any offshore revenue.

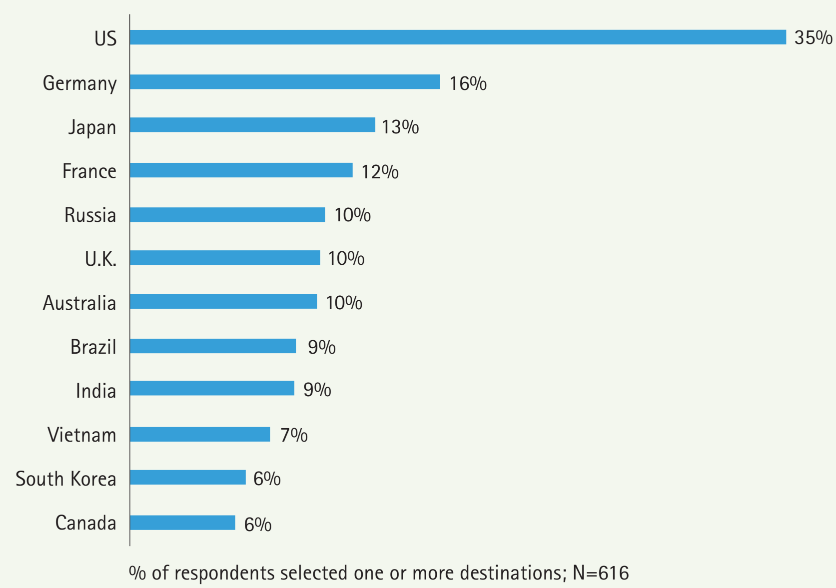
Chinese OFDI intention can be observed in various aspects. Some 22% of respondents indicated OFDI exceeded 10% in their total investment made in 2013; another 21% anticipated that their overseas assets would exceed 10% of their company's total assets; and almost 15% estimated that their offshore employees would surpass 10% of their total corporate staff. Again, nearly half (47%) of respondents projected offshore revenue would surpass 10% of the total company's revenue. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

TABLE 1: PREDICTED OFFSHORE BUSINESS IN CORPORATE TOTALS IN 2013 (N=822)

	0	1-9%	10-19%	20-49%	50% +	Total
Offshore revenue in total revenue	23.9	29.6	18.5	14.9	13.1	100
OFDI in total investment	46.2	31.4	13.3	5.1	4.0	100
Overseas assets in total assets	46.6	32.1	12.9	6.2	2.3	100
Offshore employees in total staff	46.0	39.2	8.5	4.2	2.1	100

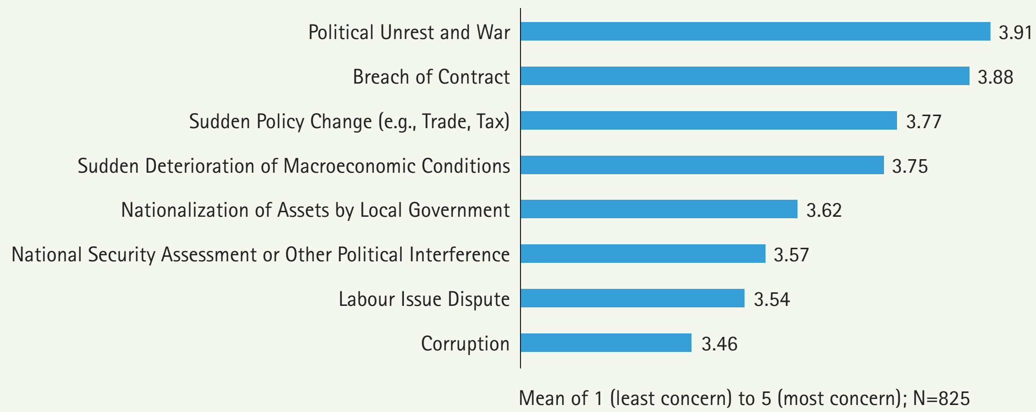
When respondents were asked where to consider their preferred destination for future OFDI, 616 companies replied. The US, Germany and Japan led the list, followed by resources rich countries including Russia, Australia, Brazil and Canada. Only 6% of respondent chose Canada as their favourite destination. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

FIGURE 19: PREFERRED DESTINATIONS OF INTENDED OFDI



The range of preferred destination for intended OFDI reflects major concerns on the part of respondents. On a scale of 1 (least concern) to 5 (most concern), respondents ranked political unrest and war (3.91), breach of contract (3.88), and sudden policy change (3.77) as their top three concerns. These issues may deter Chinese companies from investing in the countries where these problems are most likely to occur. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

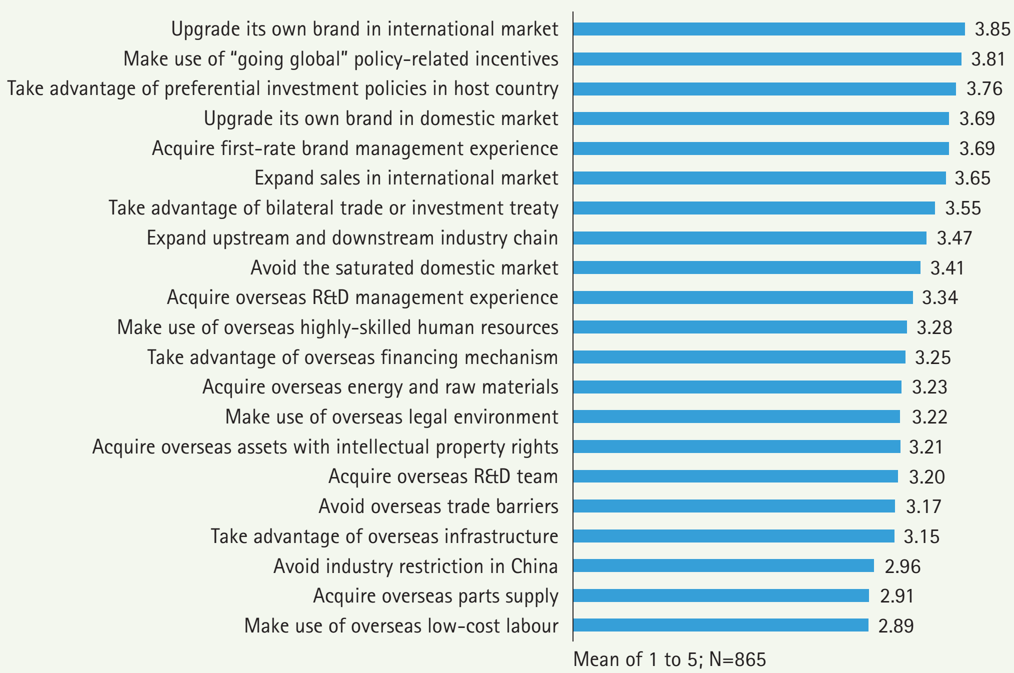
FIGURE 20: MAJOR CONCERNS FOR INTENDED OFDI



MOTIVATIONS OF OFDI

Chinese firms have different motivations for their OFDI. On a scale of 1 (least important) to 5 (most important), respondents listed upgrading its own brand in international market (3.85), making use of "going global" policy-related incentives (3.81), and taking advantage of preferential investment policies in the host country (3.76), as the top three most important drivers for their OFDI decisions. Other motivations include seeking new markets, pursuing efficiencies and seeking strategic assets, as well as seeking higher financial returns.

FIGURE 21: DRIVERS FOR INTENDED OFDI



The T-test results suggest that SOEs are different from non-SOEs in some of their motivations, as shown by the drivers listed in Table 2 below. For example, 67.9% of SOE respondents indicated that making use of "going global" policy-related incentives is an important driver, while only 58% of non-SOEs agreed (P<0.01). Similarly, more SOE respondents than non-SOE counterparts consider expanding their upstream and downstream industry chains; expanding sales in international markets; upgrading their brands in international markets, and acquiring first-rate brand management experience as important motivations. For motivations that are not listed in the table, the T-test shows no statistical difference between SOEs and non-SOEs.

TABLE 2: IMPORTANCE OF OFDI DRIVERS: SOE VS NON-SOE

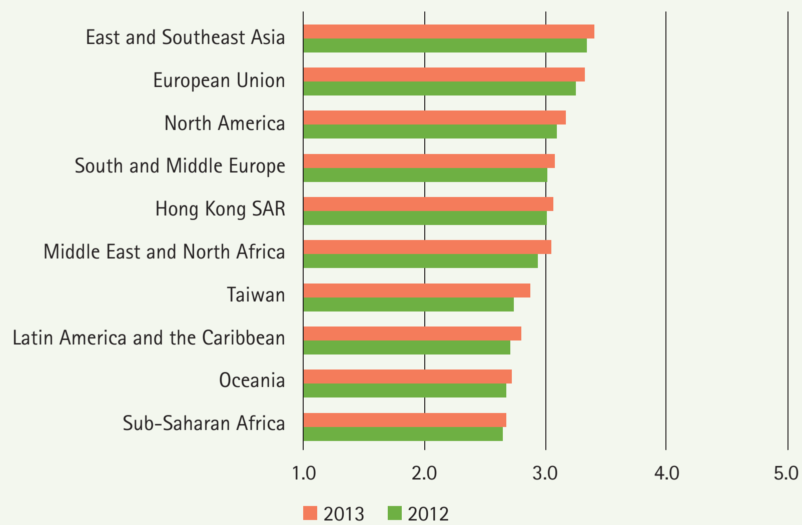
Drivers	SOE	Non-SOE	Difference between SOE and non-SOE
Make use of "going global" policy-related incentives	67.9%	58.0%	0.10**
Expand upstream and downstream industry chain	66.0%	48.8%	0.17**
Expand sales in international market	71.8%	53.5%	0.08***
Upgrade its own brand in international market	77.3%	63.5%	0.14***
Acquire first-rate brand management experience	69.3%	57.1%	0.12**

*Note: percentage of respondents selected important (4) and very important (5); *P<0.05; **P<0.01; ***P<0.001.*

ASPECTS OF INTERNATIONALIZATION

Chinese firms were asked to consider the importance of the region and business mode for their internationalization. Not surprisingly, the responses suggested that Chinese firms considered some regions more important than others. On a scale of 1 (least important) to 5 (most important), respondents listed East and Southeast Asia as the most important region, followed by the European Union and North America. Sub-Saharan Africa was considered the least important. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

FIGURE 22: IMPORTANCE FOR INTERNATIONALIZATION BY REGION



Mean of 1 (least important) to 5 (most important); N=827

In terms of business mode, Chinese firms consider sales activities more important than investment activites (highlighted in Table 3) in their internationalization. On a scale of 1 (least important) to 5 (most important), respondents rated higher for most sales activities, and lower on OFDI related activities. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

TABLE 3: IMPORTANCE FOR INTERNATIONALIZATION BY BUSINESS MODE

Business Mode	2012	2013
Direct export of the company's products to overseas market	3.62	3.75
Take orders of foreign brands and OEM production	2.92	2.98
Authorize foreign chain or franchise to sell the company's products	2.76	2.86
Establish joint ventures abroad	2.73	2.74
Licence to overseas merchants for production and sales of the company's products	2.64	2.80
Establish wholly-owned new subsidiaries abroad	2.64	2.76
Overseas M & A	2.43	2.47

Note: mean of 1 (least important) to 5 (most important); N=855

When companies were asked about major obstacles facing their international businesses, 53% of respondents citied a low level of international cooperation and a lack of international management talent as two factors. One-third of respondents pointed to their weakness in international competition as a major problem. Other challenges included unfamiliarity with host country policy, cultural differences, difficulty in getting financing, and tough competition among Chinese firms in overseas markets. Among all listed challenges, those related to skill shortages were commonly cited by many Chinese companies. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

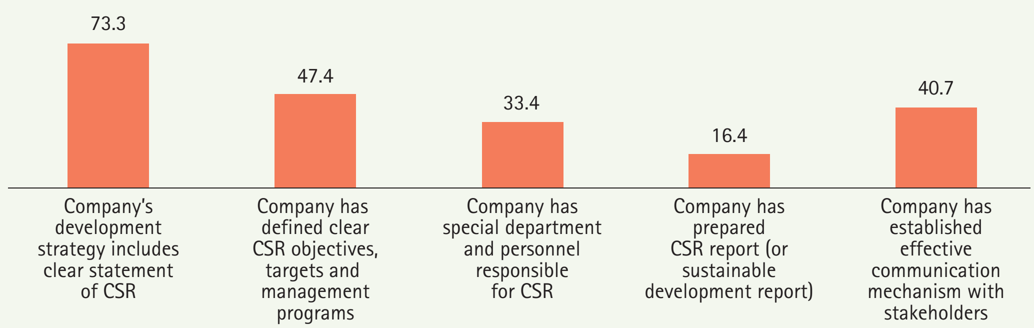
FIGURE 23: MAJOR OBSTACLES TO GOING GLOBAL

% of respondents selected one or more options; N=898

CORPORATE SOCIAL RESPONSIBILITY

Chinese companies have gradually accepted the concept of Corporate Social Responsibility (CSR), and some firms have included certain elements of CSR in their corporate development strategies. Of respondents who selected one or more options, 73% claimed their company's development strategy had included a clear statement of CSR. Some 47% responded that the company had clear CSR objectives, targets and management programs. Another 33% reported that their companies had created a special department and hired staff responsible for their CSR, and 16% had issued a CSR report or sustainable development report. Over 40% of respondents suggested their company had established an effective communication mechanism with stakeholders. The T-test shows no statistically difference between SOEs and non-SOEs in responding to this question.

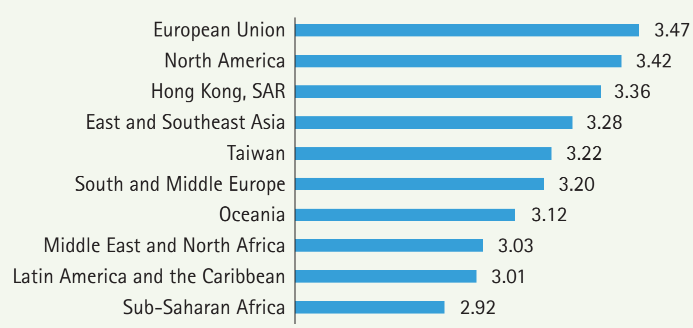
FIGURE 24: ELEMENTS INCLUDED IN CSR STRATEGY



% of respondents selected one or more options; N=914

It is interesting to note that Chinese firms believe the importance of having CSR varies from region to region. Respondents thought it was most important to have CSR in the European Union, North America and Hong Kong, SAR, in that order. The T-test shows no statistical difference between SOEs and non-SOEs in responding to this question.

FIGURE 25: IMPORTANCE OF HAVING CSR BY REGION

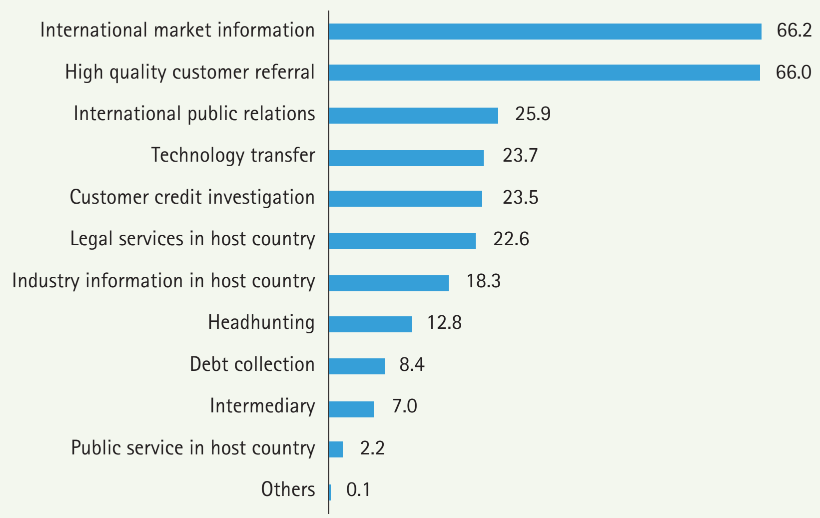


Mean of 1 (least important) to 5 (most important); N=758

SERVICE NEEDS

When Chinese companies go global, they desire a wide range of services to overcome their percieved challenges. Two-thirds of respondents indicated the most needed service was the availability of international market information while the same percentage cited high quality customer referrals. Other desirable services included the provision of public relations overseas, assistance in technology transfer, and the availability of customer credit evaluations, and legal and headhunting service.

FIGURE 26: DESIRED SERVICES WHEN GOING GLOBAL



% of respondents selected one or more options; N=902

CONCLUSION

THE FINDINGS OF THIS YEAR'S SURVEY shed new light on Chinese firms' outward investment intentions, as well as their motivations, risks and challenges, outlooks, and considerations of CSR when they invest abroad. In particular, despite recent large inflows of Chinese investment, we cannot take for granted that Canada is an attractive destination for Chinese companies. By making comparison between Chinese SOEs and non-SOEs, we hope that the results of the survey provide timely information to promote a better understanding of China-Canada investment issues in order to strengthen mutually-beneficial investment ties between the two countries.

APPENDIX A

LIST OF SELECTED CHINESE INVESTMENTS IN CANADA: 2009-PRESENT

INVESTOR	DATE	SIZE	SECTOR	TARGET	LOCATION	NOTES
Chihong Canada Mining Ltd	Mar-13	$50M	Mining	Selwyn Resources	BC	Remaining 50% of Selwyn zinc and lead project in the Yukon Territory
CNOOC Ltd	Feb-13	$15.1B	Oil & gas	Nexen	AB	Acquisition
PetroChina	Feb-12	$1B	Oil & gas	Royal Dutch Shell PLC	BC	20% stake in shale gas project
Yunnan Chihong Zinc & Germanium	Feb-12	$100M	Mining	Selwyn Resources	BC	50/50 joint venture
PetroChina	Jan-12	$680M	Oil & gas	Athabasca Oil Sands Corp	AB	100% controlling position of Mackay River and Dover oil sands
Sinopec	Oct-11	$2.2B	Oil & gas	Daylight Energy	AB	Acquisition
WISCO International Resources	Nov-11	$120M	Mining	Century Iron Mines	QC	40% interest in three projects
Sichuan Bohong Industry	Sep-11	$179M	Auto parts	West Cast Industries	ON	Acquisition
Minmetals	Sep-11	$1.3B	Mining	Anvil Mining	QC	Acquisition
China National Offshore Oil Corporation	Jul-11	$2.1B	Oil & gas	Opti Canada	AB	Acquisition
China Longyuan Power	Jul-11	$260M	Energy	Farm Owned Power	ON	Right to develop 100MW project
Sinopec	Jan-11	$100M	Oil & gas	Enbridge Inc	AB	Investment in pipeline project
China Investment Corp	May-10	$1.23B	Oil & gas	Penn West Exploration	AB	Joint venture for 45% of oil sands properties
State Grid International Development Ltd	May-10	$1.5B	Energy	Quadra Mining Ltd	BC	Purchase 10% in Quadra Mining Ltd. and 50% in Sierra Gorda project
Sinopec	Apr-10	$4.56B	Oil & gas	Syncrude	AB	9% stake
Jilin Jien Nickel and Goldbrook Ventures	Jan-10	$192M	Mining	Canadian Royalties Inc.		Acquisition
Sinopec	Jun-09	$8.3B	Oil & gas	Addax Petroleum Corp	AB	Acquisition
PetroChina	2009	$1.9B	Oil & gas	Athabasca Oil Sands Corp	AB	60% stake in two undeveloped oil sands properties
Sinopec	2009	n/a	Oil & gas	Total S.A.	AB	10% stake (50% total)
China Investment Corp	2009	$1.5B	Extractive	Teck Resources Ltd	BC	17.2% stake

Source: Compiled from the Canada-Asia Investment Monitor © 2013 Asia Pacific Foundation of Canada.

APPENDIX B

CANADA'S FOREIGN INVESTMENT REGULATORY FRAMEWORK

CANADA IS OPEN FOR FOREIGN INVESTMENTS. The federal, provincial and regional governments and agencies work closely to encourage foreign companies to invest in Canada and to promote an open, rules-based global investment regime. Canada's foreign investment policy framework seeks to provide a welcoming environment in order to maximize the benefits of foreign direct investment for Canadians, while preserving other public policy interests.

Foreign investments in Canada are generally regulated and governerd by the *Investment Canada Act*, the *Competition Act* and bilateral Foreign Investment Promotion and Protection Agreements (FIPAs) where applicable.

INVESTMENT CANADA ACT

Non-Canadians who acquire control of an existing Canadian business or who wish to establish a new unrelated Canadian business are subject to the *Investment Canada Act*, and they must submit either a Notification or an Application for Review.

The basic thresholds for foreign acquisitions subject to review are C $5 million (approximately RMB 30 million) for direct investments and C $50 million (approximately RMB 300 million) for indirect transactions.[12] However, investors from WTO member countries, including China, benefit from higher thresholds. For 2013, the threshold for review for WTO investors or vendors is C $344 million (approximately RMB 2.1 billion). On January 1 of every year, a new threshold for review for WTO member investors is determined and become effective. Indirect acquisitions by WTO member investors are not reviewable, but are nonetheless subject to notification.

The Act gives the Canadian Minister of Industry the power to review inbound investments based on two principles: provision of "net benefit to Canada" and protection of "national security." Between 1985 (when the Investment Canada Act came into force) and June 30, 2013, Industry Canada reviewed 1,681 foreign acquisitions worth almost C$ 663 billion, and approved all but two cases.[13]

In 2008, Richmond, B.C.-based MacDonald Dettwiler and Associates (MDA) tried to sell its information systems, satellite and space mission businesses to Alliant Techsystems of Edina, Minn. This was the part of the company that developed the distinctive Canadarm for the US space shuttle program. That sale was blocked by Ottawa over national security issues related to MDA's Radarsat-2 satellite.

The second rejection took place in November 2010, and then Industry Minister Tony Clement blocked BHP Billiton's proposed US $38.6 billion acquisition of PotashCorp. BHP had 30 days to come up with a proposal that would satisfy Ottawa but instead chose to withdraw its offer.

On October 7, 2013, when this report was being prepared, Industry Minister James Moore blocked the proposed $520 million acquisition of the Allstream division of Manitoba Telecom Services Inc. by Accelero Capital Holdings (Accelero). This becomes the first known rejection of a transaction under the Investment Canada Act's national security review regime which was introduced in 2009.[14]

COMPETITION ACT

Another important law related to the foreign investments in Canada is the *Competition Act*. This Act maintains and encourages competition in Canada to promote the efficiency and adaptability of the Canadian economy, while expanding opportunities for Canadian participation in world markets. At the same time, it recognizes the

[12] An indirect acquisition is a transaction involving the acquisition of the shares of a company incorporated outside of Canada, which owns subsidiaries in Canada.

[13] Industry Canada website, http://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk-51320.html?Open&tpv=1, accessed September 30, 2013.

[14] McCarthy Tétrault LLP, e-Alert, October 11, 2013, http://news.mccarthy.ca/en/news_template.asp?pub_code=6480&news_code=2028&single_page=1, accessed on October 16, 2013.

role of foreign competition in Canada, and aims to ensure that small and medium-sized enterprises have an equal opportunity to participate in the Canadian economy and to provide consumers with competitive prices and product choices.

The *Competition Act* is administrated by the Competition Bureau, which is an independent law enforcement agency, and ensures that Canadian businesses and consumers prosper in a competitive and innovative marketplace. When all or part of one business is acquired by another, the Bureau has the authority to review any merger, regardless of its size. The Bureau must be notified in advance of proposed transactions when the value of the assets or the target firm exceeds C $50 million; the value of the amalgamated company exceeds C $80 million; or when the combined dollar value of the parties and their respective affiliates exceeds C $400 million.[15]

CANADA'S FIPA PROGRAM

A Foreign Investment Promotion and Protection Agreement (FIPA) is a bilateral agreement aimed at protecting and promoting foreign investment through legally-binding rights and obligations. FIPAs accomplish their objectives by setting out the respective rights and obligations of the countries that are signatories to the treaty with respect to the treatment of foreign investment. Typically, there are agreed exceptions to the obligations. FIPAs seek to ensure that foreign investors will not be treated worse than similarly situated domestic investors or other foreign investors; that they will not have their investments expropriated without prompt and adequate compensation; and they will not be subject to treatment lower than the minimum standard established in customary international law. As well, in most circumstances, investors should be free to invest capital and repatriate their investments and returns.

Canada began negotiating FIPAs in 1989 to secure investment liberalization and protection commitments on the basis of a model agreement developed under the auspices of the Organization for Economic Cooperation and Development (OECD). As of September 2013, Canada has FIPAs in force with 24 countries. It has signed but not ratified another 12, incuding one with China, and is negotiating another 13.[16]

On September 9, 2012, Canada's Minister of International Trade and Minister for the Asia-Pacific Gateway, Ed Fast, and China's Minister of Commerce, Chen Deming, signed a FIPA between Canada and China. Prime Minister Harper and President Hu Jintao of China presided over the signing ceremony, which followed the announcement of the conclusion of negotiations for the FIPA in February 2012, during the Prime Minister's visit to China. Both Canada and China are now moving forward with their respective domestic ratification processes to bring this agreement into force.

With the conclusion of negotiations, Canada has secured a high-standard agreement with comprehensive scope and coverage and substantive obligations pertaining to national treatment (post-establishment), most-favoured-nation treatment (pre- and post-establishment), minimum standard of treatment, transparency, performance requirements, transfers and expropriation. Additionally, this agreement will grant Chinese and Canadian investors access to an investor-state dispute settlement that is governed by detailed rules in the agreement on standing, procedural requirement and enforcement. The main purpose of this FIPA is to ensure greater protection to Chinese and Canadian investors against discriminatory and arbitrary practices, to provide adequate and prompt compensation in the event of an expropriation and to enhance predictability of the policy framework affecting foreign investors and their investments. The FIPA will preserve the right of both Canada and China to regulate in the public interest.

[15] Competition Bureau website, http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/h_00125.html, accessed on September 30, 2013.

[16] Foreign Affairs, Trade and Development Canada website, http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/fipa-apie/index.aspx?lang=eng, accessed on September 30, 2013.

APPENDIX C

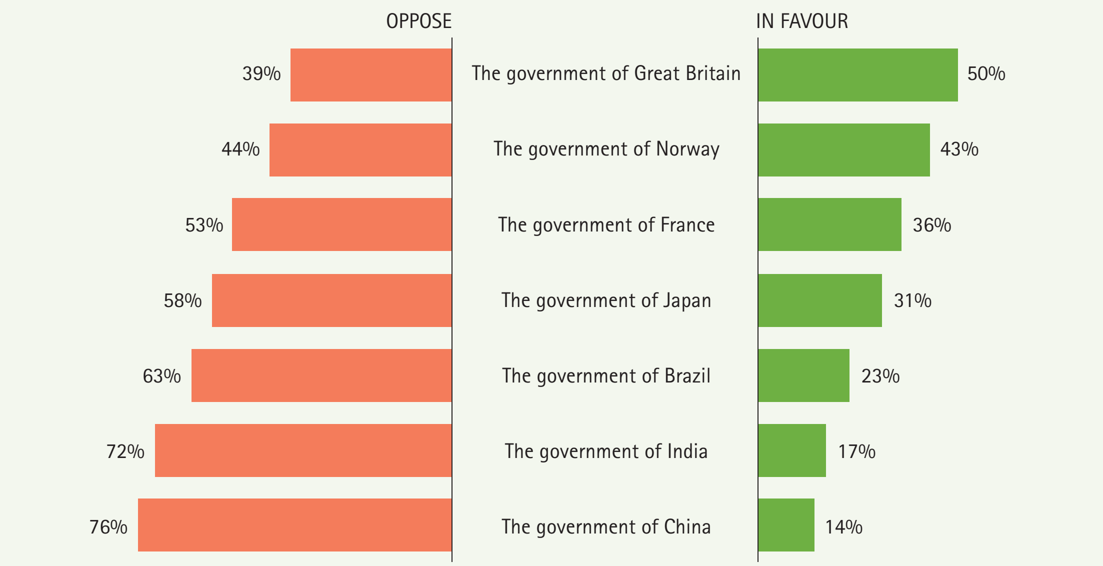
CANADIAN PUBLIC RESPONSES TOWARDS CHINESE INVESTMENT

The Canadian public has mixed feeling towards foreign takeovers in Canada. According to APF Canada's 2013 *National Opinion Poll: Canadian Views on Asia*, a majority of Canadians feel Canada would benefit from more Asian investment in Canada, but support has weakened over the past year. Most Canadians do not support direct investment in Canada by foreign SOEs. In particular, there is strong opposition—6 in 10—to deals in which companies controlled by governments in Japan, India or China would seek to buy a controlling stake in a Canadian company. There is far less resistance to SOEs from Great Britain or Norway. British Columbians and those living in the North are most likely to oppose foreign SOEs' takeovers, while those residing in Quebec are much more likely to support FDI.[17]

Figure 27 below illustrates that Canadians are wary of foreign SOEs taking control of Canadian companies. China is at the bottom of a select list of countries; only 14% of Canadians are in favour of takeovers by Chinese SOEs, while overwhelming 76% oppose them.

[17] Asia Pacific Foundation of Canada, 2013 *National Opinion Poll: Canadian Views on Asia*, http://www.asiapacific.ca/sites/default/files/filefield/national_opinion_poll_2013_-_may_29_-_final.pdf, accessed on September 30, 2013.

FIGURE 27



Q: If a company, bank or investment fund controlled by a foreign government were trying to buy a controlling stake in a major Canadian company, how would you feel if the foreign government were: (in favour, opposed, don't know)

ABBREVIATIONS

APF Canada	Asia Pacific Foundation of Canada
CCBC	Canada China Business Council
CCCC	Canada China Chamber of Commerce
CCPIT	China Council for the Promotion of International Trade
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
FIPA	Foreign Investment Promotion and Protection Agreement
JAC	Jack Austin Centre for Asia Pacific Business Studies at the Beedie School of Business at Simon Fraser University
M&A	Mergers and Acquisitions
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
OFDI	Outward Foreign Direct Investment
POE	Private Owned Enterprise
R&D	Research & Development
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
WTO	World Trade Organization

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