

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

Executive Summary

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

In order to collect more precise information about the overseas investments made by Chinese enterprises in 2009 and their future investment plans, China Council for the Promotion of International Trade (CCPIT) has carried out the fourth "Survey on Current Conditions of and Intention for Outbound Investment by Chinese Enterprises" between December 2009 and March 2010. The survey was conducted in collaboration with the European Commission's Directorate-General for Trade and UNCTAD, who jointly designed the questionnaire and contributed to the final report. Compared to previous surveys, the current study is based on an enlarged sample and a more comprehensive questionnaire.

The objective of the survey is to collect in-depth information about the intentions and problems concerning the overseas investments of Chinese enterprises, and their response to the Chinese government's "Going Global" policy. The survey also aims to inform CCPIT and other agencies about sectors and areas where investors require enhanced government assistance in their overseas investment activities and to help formulate future policies. In addition, the survey also explores the impact of the financial crisis on Chinese firms' overseas investment decisions.

The survey was conducted mainly by way of questionnaires, which included questions on firms' overall economic situation, existing overseas investments, intended future overseas investment and the effects of financial crisis. In total 3,000 small & medium-sized Chinese firms (including CCPIT member firms) with experience in import and export activities were contacted for the survey. 1,377 firms returned the filled-in questionnaires (a 46% response rate). In particular the following findings emerge from the survey:

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

Most Chinese outbound investors are active in manufacturing sectors, although the industry profile is becoming increasingly diversified. Within the manufacturing industry, the textile and machinery & equipment sectors figure most prominently, reflecting China's strong export performance in these industries. Whereas most outbound investment in Europe has been aimed at enhancing market access through distribution and sales offices, manufacturing investment has been more significant for investment in developing economies. Apart from the

manufacturing industries, companies active in construction and wholesales & retail operations are among the most active foreign investors. Overall, the investment profile of the companies covered by the survey would seem to reflect China's presence in its export markets.

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

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

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

When Chinese companies invest in the EU, they mainly locate in Germany, France, Italy and the United Kingdom. Respondents' future investment plans show the same geographic profile. Chinese enterprises consider the fact that the EU is an integrated market, has a single currency and a good regulatory environment as the main advantages of investing in the region. The most promising sectors for investing in the EU are considered to be manufacturing and wholesale and retail trade. Meanwhile, the United States remains a very important destination for Chinese FDI. Setting up distribution centres is the most important investment method, while the number of companies who invest through M&A is small at present.

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