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Going Out: An Overview of China's Outward Foreign Direct Investment

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Cover Photo:

Opening ceremony of the Chinese Overseas Investment Fair in Beijing, Nov. 3, 2009.
Source: "COFAIR 2009 – Onsite Photos," Chinese Overseas Investment Fair Homepage.
http://www.coifair.org/2010/hg_5_en.asp.

ABBREVIATIONS AND ACRONYMS

ASEAN	Association of Southeast Asian Nations
CIC	China Investment Corporation
CNOOC	China National Offshore Oil Corporation
EIBC	Export-Import Bank of China
FDI	foreign direct investment
FIE	foreign-invested enterprise
M&A	merger and acquisition
MOFCOM	Ministry of Commerce (China)
MOFTEC	Ministry of Foreign Trade and Economic Cooperation (China)
NDRC	National Development and Reform Commission
ODI	outward foreign direct investment
R&D	research and development
RMB	renminbi
SAFE	State Administration for Foreign Exchange
SASAC	State-Owned Assets Supervision and Administration Commission
Sinopec	China Petroleum & Chemical Corporation
SOE	state-owned enterprise
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

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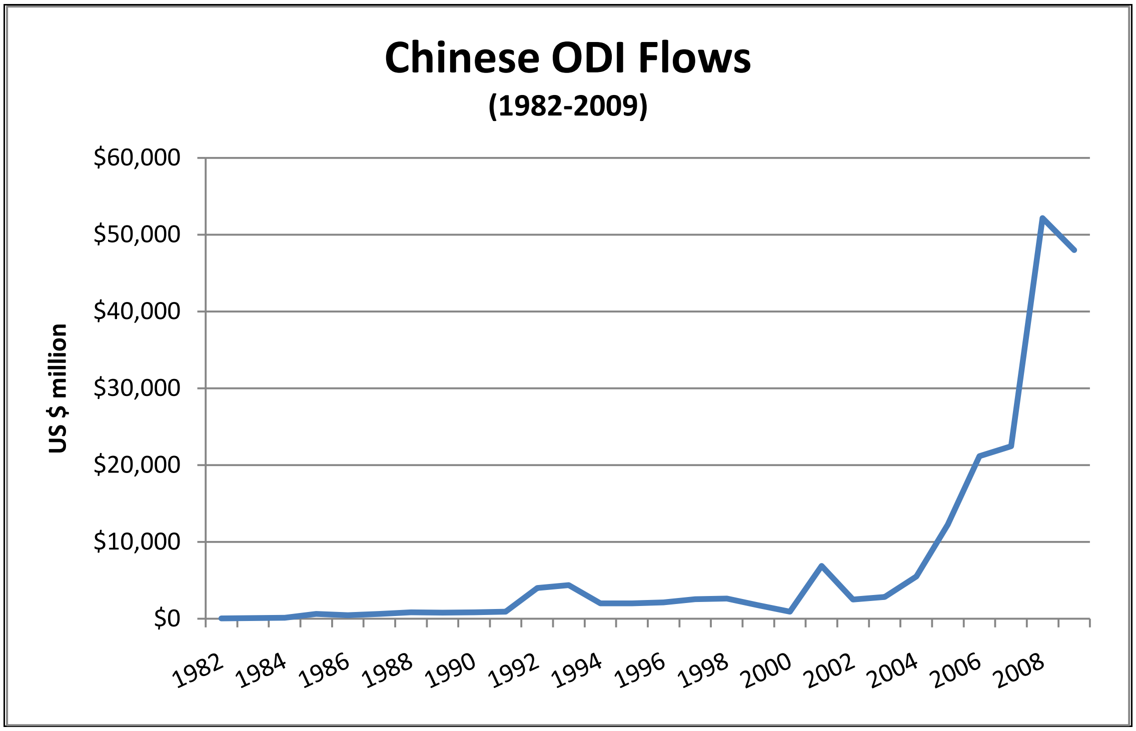
China's investments abroad are growing despite an overall decline globally in foreign direct investment (FDI) following the 2008 financial crisis. That trend in Chinese investments abroad is likely to continue, since China's huge foreign exchange reserves are an increasing source of mobile capital and is a key part of China's official government policy. The receipts from China's existing global investments, combined with mounting trade surpluses, have made China the world's largest capital-surplus economy.[1]

Although China's outward direct investment (ODI) is still small relative to its massive inward FDI, China's overseas companies have been gaining momentum in moving international capital, investing across a broad spectrum of sectors ranging from natural resources to manufacturing to telecommunications and many others. As China's economy continues to grow, China faces shortages in almost all raw materials, particularly in oil, iron ore, aluminum, and uranium, and it must therefore build trade linkages with Australia, Russia, Brazil, and other resource-rich countries to secure supplies.[2]

A significant jump in outflows happened when China's ODI went from $26.51 billion in 2007 to $55.91 billion in 2008, an increase of over 110 percent.[3] By the end of 2009, China's cumulative FDI abroad (stock)[4] reached $245.75 billion.[5] Growth in China's ODI flows has become very significant in recent years, going from less than $100 million in flows in the 1980s to $56.53 billion in 2009 (the latest comprehensive figures available), making China the fifth largest originator of ODI, by volume, from the 12th position.[6] Despite the impressive growth trends, however, Chinese ODI remains relatively small: China, including Hong Kong and Macau, accounts for just 6 percent of global ODI stock today.[7]



Source: United Nations Conference on Trade and Development (UNCTAD), "Inward and Outward Foreign Direct Investment Flows, Annual," *UNCTADStat Database. http://unctadstat.unctad.org.*[8]

The rapid development of China's ODI activities reflects not only its economic maturation and integration into the global marketplace but also its need to expand overseas to supply China with natural resources, new markets, and advanced technology. In 2010, investors looking for overseas deals and based in China and Hong Kong accounted for a tenth of global deals by value, including investment in oil and iconic industry takeovers, such as Zhejiang Geely Holding Group's purchase of Ford Motor's Volvo unit.[9]

Accurately describing the nature of China's investments abroad is a challenge. A significant share of Chinese investments is directed through tax havens, making it difficult to discern the ultimate destination of those funds. Different countries also employ different definitions of foreign direct investment, creating comparability problems. In addition, statistics released by the Chinese Ministry of Commerce (MOFCOM) and the State Administration for Foreign Exchange (SAFE) reflect government-approved investment projects rather than actual money transfers. Projects that do not receive official approval therefore do not show up in Chinese statistics or in international ones, since most international statistical compilations, such as the

World Investment Directory compiled by the United Nations Conference on Trade and Development (UNCTAD), rely on MOFCOM statistics. Year-to-year changes in FDI definitions or in reporting practices in some countries also make it difficult to look for trends even in Chinese FDI practices in a single country.

With these caveats in mind, it is possible to draw several broad conclusions about Chinese outward FDI practices. First, recent years have seen a dramatic increase in Chinese outward FDI and an even larger potential for growth. China has a surplus of savings, which today are mostly recycled into rich countries. So far, China's sovereign wealth funds and its central bank act as portfolio investors, buying bonds, such as U.S. Treasury securities[10] and the debt of Fannie Mae and Freddie Mac.[11] These investments, however, bear low interest rates, and so China has been seeking alternatives to diversify its investments and realize higher returns.

Second, Chinese outward direct investment is widely dispersed and spread in relatively small amounts. Ministry of Commerce statistics show that as of 2009, there were Chinese overseas investments in 177 countries or territories (including Hong Kong and Macau).[12] Many of these equity investments are less than $10 million. The Association of Southeast Asian Nations (ASEAN) shows that within receiving countries, Chinese FDI is often subdivided among different sectors, with each of several sectors receiving small amounts of FDI (less than U.S. $1 million per sector, and sometimes as little as U.S. $10,000).[13]

China has significant investments in the developed world, in contrast to the historical pattern of developing countries running large trade deficits and carefully husbanding hard currencies. The Chinese style of overseas investment also bucks international trends in another way. Rather than simply establishing wholly owned subsidiaries abroad, China is increasingly engaging in mergers and acquisitions (M&A).[14] This trend has been masked by high-profile Chinese overseas investments that have generated media attention and public alarm. China National Offshore Oil Corp.'s (CNOOC) failed bid to buy Unocal in 2005, for instance, was atypical both in the size of the investment that it would have represented, and in the attention that it attracted.

Finally, Chinese outward investment activities are often directed by the Chinese government, especially for firms in deals involving oil and minerals or telecommunications, which are required by the government to remain under government oversight or control.[15] Chinese governments at various levels often appoint executives in such Chinese firms and finance the deals through state banks.[16] The Chinese government's support for these industries includes a variety of subsidies as well as access to low-cost financing from the largest banks, all of which are state owned.[17] In 2008, even as global ODI fell by 15 percent as a consequence of the financial crisis, Chinese ODI flows more than doubled.[18] In 2009, when global ODI plummeted by 43 percent, Chinese ODI, buoyed by Chinese government financial support, still managed to grow by 1 percent.[19] (See Appendix I for a list of China's recent outward investment deals.)

I. Evolution of China's Outbound Investment and Organizational Background

Since its inception, Chinese ODI has been initiated or approved by the state, which still retains a great measure of control. The government has selected certain strategic industries for overseas expansion and has chosen the markets where this expansion should take place. This heavy government involvement, largely through state-owned companies, ensured that foreign investments would align with the country's long-term development strategies.[20] The government's push for the development of national industry champions and the procurement of overseas natural resources underpins a broader agenda of economic nationalism focused on energy security, geopolitics, and competitiveness.[21]

China's ODI has gone through four stages of development.[22] During the first stage (1979-85), China was just opening up to the world, and foreign trade was still in the mighty grip of government control. Only state-owned companies, as well as provincial and municipal economic enterprises, could invest overseas. There were only 189 approved investment projects, with total investment amounting to about $197 million.[23]

During the second stage (1986-91), the Chinese government began gradual liberalization to allow more enterprises, including nonstate-owned firms, to establish investment in other countries, provided they had sufficient capital and a suitable foreign partner. Following liberalization, 891 projects, amounting to $1.2 billion, were approved.

The third stage (1992-98) proved to be one of great success and disappointment. As liberalization reforms progressed and companies began aggressively engaging in real estate and stock speculation, mostly across Asia, the Asian financial crisis struck. Many unprepared countries suffered heavy losses due to institutional weakness, corruption, and lack of management expertise. Alarmed by the hemorrhage of precious foreign exchange assets, China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) tightened approval procedures, setting up rigorous screening and monitoring processes for any overseas venture of over $1 million.[24] As a result, ODI activities leveled off but still increased $1.2 billion in total investment.[25]

Starting in 1999, China entered its current stage of ODI development. China's "going global" strategy was consolidated, and important legislation was enacted to aid foreign investment. The essence of the "going global" strategy is to promote "the international operations of capable Chinese firms with a view to improving resource allocation and enhancing their international competitiveness."[26] In October 2004, for instance, the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) jointly issued a circular to encourage overseas investment in specific areas: "(1) resource exploration projects to mitigate the domestic shortage of natural resources; (2) projects that promote the export of domestic technologies, products, equipment and labor; (3) overseas R&D [research and development] centers to utilize internationally advanced technologies, managerial skills and professionals; and (4) [mergers and acquisitions] that could enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets." [27] The State Council started to grant export tax rebates, financial assistance and foreign exchange assistance, and other incentives to Chinese enterprises wishing to tap overseas markets.[28]

Partly as a result of these preferential policies and partly due to China's continued growth, Chinese ODI flows soared dramatically. However, the effectiveness of the strategy may have been hampered by certain government regulations. For example, in a 2005 survey of Chinese companies, the approval process was found to be unnecessarily complicated, while restrictions on the use of foreign exchange were considered too stringent.[29] The decision by the State Administration of Foreign Exchange to abolish quotas on the purchase of foreign exchange for overseas investment on July 1, 2006 has helped to ease the barriers.[30] The Chinese government has been taking further steps to simplify and encourage foreign investment by Chinese firms. For example, since December 2008, China Banking Regulatory Commission has been allowing commercial banks to make loans for cross-border M&A.[31] In 2009, MOFCOM reduced approval time, lifted value thresholds, and transferred authority to local MOFCOM branches.[32]

Until further liberalization reforms take place, the bulk of China's ODI remains the province of state-owned enterprises. In 2009, centrally-controlled state-owned enterprises (SOEs) provided about $38.2 billion (67.6 percent) of the total Chinese ODI.[33] Private enterprises accounted for $345 million (or 0.6 percent) of the total ODI flows.[34] The *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*, compiled by MOFCOM, does not provide statics on the ownership breakdown for companies responsible for the rest of the capital (about 30 percent). They may include state enterprises that are governed by local (provincial or municipal) governments, and companies partially owned or controlled by the state. For example, Lenovo, TCL, and Beida Jade Bird (all companies listed on stock-exchanges) are owned by the regional governments of Beijing, Shanghai and Guandong.[35] This SOE bias is explained in part by China's continuing control over nearly every aspect of its economy, but is also due to the sectoral distribution of investment, discussed below.

Rationale for China's ODI

Realized and planned foreign direct investment deals indicate that government encourages Chinese enterprises to invest overseas in order to gain access to raw materials and advanced technology from abroad, increase foreign exchange earnings, and promote China's exports. Chinese FIEs, though predominantly state owned, are often also expected to make profits.

Access to Raw Materials and Energy: The need to secure access to overseas energy resources and raw materials to support China's high economic growth rate continues to be a key strategic driving force. Over the past 20 years, China has moved from being East Asia's largest oil exporter to becoming the world's third largest importer of oil in 2008, behind the United States and Japan.[36] A similar picture of explosive growth in demand on the part of China has also been forming in the case of aluminum, copper, nickel, iron ore, and other key commodity products. The natural resource-seeking ODI of the Chinese energy majors is intimately connected with the government's pursuit of a national energy security agenda to secure overseas assets and supply agreements. Meanwhile, the Chinese authorities have been courting the governments of host states aggressively by strengthening bilateral trade relations, awarding aid, and providing much-needed transport and communications infrastructure, a process sometimes called "dollar diplomacy."[37] Another example of the government's close involvement with and support of overseas-directed energy acquisitions is the current conditions stipulated by the influential policy-setting National Development and Reform Commission (NDRC), requiring China's energy firms to purchase equity in upstream energy suppliers, principally through overseas acquisitions.[38]

Although in 2009, investment in the form of M&A comprised only 30 percent of the total ODI, evidence shows that M&As in oil, gas, and mining are playing a growing role in Chinese outward direct investment.[39] Most M&A deals in 2007-2009 were in the energy and minerals sectors, although the largest transactions tended to be purchases of minority stakes in global financial institutions.[40] For example, Shanghai Baosteel, one of China's largest steel producers, acquired a 15 percent ($240.5 million) stake in Aquila Resources in Australia in 2009 as part of a strategic cooperation agreement to expand Aquila's steel raw materials projects, including iron ore, coal, and manganese.[41] Also in 2009, Yanzhou Coal Mining, China's fourth-biggest producer of the fuel, agreed to buy Australia's Felix Resources Ltd. for about $2.9 billion to secure supplies, while China Petroleum & Chemical Corp. (Sinopec), the largest Chinese oil refiner, bought the Swiss oil explorer Addax for $7.24 billion to secure high-potential oil blocks in West Africa and Iraq.[42]

There were other deals, but the largest was the one that did not happen: In 2009, the Chinese state-owned aluminum producer Chinalco abandoned a $19.5 billion bid to double its stake in Rio Tinto, an Anglo-Australian iron ore producer. Chinalco already owned 9 percent of Rio Tinto shares, acquired for $14 billion in 2008, making it the largest overseas purchase by a Chinese company ever. The 2008 purchase was made in an attempt to head off a takeover bid for Rio Tinto by BHP-Billiton, the largest mining company in the world, to protect China's supply of ores.[43] The bid to double its shareholding in Rio Tinto, made to further consolidate its hold on mining assets, collapsed, despite the backing of the Chinese state. Chinalco faced embarrassment abroad and intense criticism at home.[44]

Acquisition of Technology, Brands, and Know-How: While the attempted deals that have garnered the most attention have generally involved natural resources, other mergers have been designed to help Chinese firms acquire advanced technology, manufacturing processes, and managerial know-how. FIEs are encouraged to enter joint ventures or to purchase foreign companies through which they can absorb state-of-the-art technologies and thus "leapfrog" several stages of development and upgrades. For instance, in 1988, the Shougang (Capital) Iron and Steel Corp. purchased 70 percent of the California-based Mesta Engineering and Design Inc. and thus obtained access to the company's high-tech design capability in steel-rolling and casting equipment.[45] Another example is Lenovo's purchase of IBM's personal computer division in 2005. Lenovo was able to gain managerial and commercial experience in international marketing and advertising, particularly within the United States, as it also acquired a world-class brand.

Mergers and acquisitions may comprise only a small percentage of Chinese outward investments, but they more frequently serve as the vehicle for Chinese investment in developed markets. Chinese firms typically look for "bargains" in the American or European markets—firms that have good brand recognition but are in dire financial straits—and purchase those firms as a way to gain a foothold in developed markets and learn marketing skills.[46] China has capital available to invest in any business if it believes that it is in China's national interest.

Moreover, China does not have to spend decades building up brand names because it can simply acquire existing well-known brands through government funded firms. For example, Nanjing Automotive acquired British car manufacturer MG Rover's brand in 2005. Geely Automotive, one of China's biggest automotive companies, acquired Ford Motor's Volvo unit in 2010 in a $1.8 billion deal.[47] As in the natural resource sector (attempted acquisitions of Unocal and Rio Tinto are good examples), concerns over the involvement of the Chinese government in commercial deals can lead to failed transactions: In 2010, Sprint Nextel Corp. excluded Chinese telecommunications-equipment makers Huawei and ZTE from a contract worth billions of dollars largely because of national security concerns about the two companies' ties to the Chinese government and military, and the security implications of integrating their equipment into critical U.S. telecommunications infrastructure.[48]

The trend toward expansion in Chinese cross-border M&A purchases is driven by the same factor as ODI growth in general—the intensified level of domestic and international competition faced by Chinese companies. Since foreign companies initially control virtually all intellectual property in China and account for 85 percent of China's technology exports, Chinese firms have realized that they cannot compete on low cost alone and have targeted overseas acquisitions as a route to enhanced research, development, and brand recognition.[49]

Competition in the Domestic Market: One motivation for investing abroad that gets less attention is the search for new markets. This effort has grown in importance as domestic Chinese markets have become more competitive. As Wong and Chan argue in "China's Outward Direct Investment: Expanding Worldwide," "though predominantly state owned, [firms that 'go global'] are still motivated by profit maximization." [50] These firms' efforts at overseas expansion are thus responses to saturated domestic markets or attempts to gain first-mover advantage in untapped markets overseas rather than attempts to further Chinese strategic interests.

Investment in tax havens is a major component of Chinese outward direct investment and one that makes the ultimate destination of Chinese overseas investment especially difficult to track. In 2009, Hong Kong, the Cayman Islands, and the British Virgin Islands collectively received 79 percent of China's net, nonfinancial FDI outflows.[51] Round-tripping—the practice of taking money out of China and then "investing" it back as new investment in order to qualify for special tax breaks reserved for foreign investment—especially via Hong Kong, means that these numbers probably yield inflated estimates of the size of Chinese investments abroad, as much of this money is reinvested in domestic Chinese enterprises (a more detailed overview of round-tripping follows in a separate section). A more serious accounting problem is the lack of transparency created by China's heavy reliance on tax havens. The Chinese government has tried to diminish global anxiety about its principal sovereign wealth fund, the $332 billion China Investment Corporation (CIC), by promising fund transparency.[52] But the government's overall commitment to transparency is diminished by the extensive investments by state-owned firms through secretive tax havens.

Chinese firms also invest overseas in order to aid their exports to the receiving country. Between 1999 and 2001, firms (especially in light industry) were encouraged through subsidies and other incentives to set up plants abroad that could process Chinese raw materials or assemble Chinese-made components.[53]

International Barriers to Trade: A final motivation for Chinese investment abroad is a desire to avoid foreign quotas, tariffs, and other barriers to Chinese-made goods. This was a more compelling motivation for overseas investment before China's World Trade Organization (WTO) accession; as Wong and Chan describe, "before China became a member of the WTO, its textiles, clothing and footwear (TCF) products had limited access to the U.S. market. TCF firms consequently invested in Australia and then exported 'Made-in-Australia' products to the U.S." in order to avoid American textiles quotas for non-WTO producers.[54] Although WTO accession has lowered the tariffs and quotas on Chinese exports, Chinese firms have continued to build factories in countries that have relatively unfettered access to the American and European markets. For instance, the BBC reported in early 2002 that a Chinese company planned to build a large cotton spinning mill in Mauritius to take advantage of the African Growth and Opportunities Act, which gives African goods duty-free access to the U.S. market.[55]

Furthermore, buying German television brand Schneider and keeping production in Europe was a way for Chinese television manufacturer TCL to avoid European quotas on Chinese television imports.[56]

The Role of the State in China's Outward FDI

Behind much of the concern over Chinese investments abroad lies the fear of the Chinese state—acting through its large state-owned enterprises—acquiring increasing power and influence abroad, and potentially engaging in other actions to promote the interests of the state and the Chinese Communist Party. Such state-owned companies can be fearsome international competitors, especially since they receive high levels of state support and are allowed by their government owners to forgo profit in favor of aggressively seizing market share. State support for the overseas expansion of Chinese enterprises takes a number of different forms. These include direct and indirect subsidies and favorable financing in the form of credit lines and low interest rate loans from state-owned banks. A more indirect avenue of governmental support to Chinese enterprises seeking expansion abroad is the opportunity for partaking commercially (through the preferential awarding of construction contracts, etc.) in Chinese foreign aid programs in developing economies throughout Africa, Asia, and elsewhere.[57]

A top priority for the Chinese government under its "going global" strategy is the creation of a number of "global champions," large multinational firms with globally recognized brands able to compete in the international marketplace. Political and financial support for such state-owned or state-affiliated enterprises often gives them an advantage over more market-oriented western companies, as the former may not be subject to the same fiscal discipline by their owners or investors, thus significantly reducing their cost of capital.[58]

A variation of the state-owned national champion is a hybrid that is at least partially owned by the government, or retains strong government ties but that has some flexibility: Examples include Haier (appliances) and Lenovo (computers). Huawei (telecommunications) has tried for years, with limited success, to counter perceptions that it is also government-controlled. These hybrid government-private firms aggressively promote themselves as private companies, in part because their attempts to acquire foreign companies or joint venture partners sometimes meet with objections because of their Chinese government connections.

As overseas investment has expanded and as the central government has relaxed controls on investment abroad, the number of state actors involved in approval and management of ODI projects has multiplied, making an already difficult process more so. But the Chinese government has altered the governance structure of some SOEs not only to make them more flexible and internationally competitive but also more profitable. The State-owned Assets Supervision and Administration Commission (SASAC), created in 2003 to manage the large, central-level SOEs, is required to reform the SOEs under its control to create profitable "national champion" firms. In 2007, SASAC finally succeeded in establishing a system of after-tax profit distributions, with SASAC receiving a share of the profits of the SOEs under its supervision.

By giving SASAC a stake in the financial success of the firms it oversees, the central government has made SASAC, like the large SOEs, more likely to prioritize profitability over strategic interests, as unprofitable strategic investments will yield no benefits to SASAC. SASAC's mandate to streamline central-level SOEs by forcing the least profitable ones to close or to merge with other firms (Li Rongrong, the then-head of SASAC, has declared his intention to decrease the number of SASAC firms to fewer than 100 within the next few years) also encourages firms to prioritize short-term growth over strategic and other concerns if they wish to survive.[59]

Even if SASAC wished to prioritize strategic concerns over economic ones, it is unlikely that the agency has the power to force the firms nominally under its supervision to follow its mandate. As Barry Naughton argues,

> Over the past few years, while the power of SASAC has arguably grown somewhat, the power of the large central government enterprises has grown even more dramatically. That was obvious during the past few months in the saga of China Eastern Airlines, Singapore Airlines, and SASAC, where economic interests thoroughly trumped the effort of SASAC, an administrative agency that clearly ought to have had the bureaucratic power to impose its solution, but in the end, did not.[60]

The picture is further complicated by the fact that the state-owned firms that defy their state owners also have state-appointed managers; all the firms under SASAC control have top managers appointed either by the Communist Party Organization Department or by SASAC.[61]

SASAC is not the only state bureaucratic agency involved in fostering overseas investments. At the central level, SAFE and MOFCOM are also involved. State banks, including the government's China Export-Import Bank, play a role in the outward direct investment process by providing loans to enterprises that wish to "go global." The China Development Bank and the China Export & Credit Insurance Corporation have also played a role in fostering overseas investment, signing an agreement to provide firms that "go global" with risk assessment, insurance, and protection against currency fluctuations in the host country.[62] According to the China Center for Economic Research, Chinese embassies provide additional support to foreign-investing firms by conducting feasibility studies to evaluate the chances of success of proposed Chinese investment projects in the host country.[63]

Provincial officials are involved as well; beginning in 2003, SAFE and MOFCOM allowed foreign investments of less than U.S. $3 million to be approved at the provincial level (prior to 2003, investments of more than U.S. $1 million had to be approved at the central level).[64] The result is an alphabet soup of agencies, bureaucrats, and businesses looking to regulate or profit from Chinese firms' overseas investments.

China's Sovereign Wealth Funds and Outward Direct Investment

Over the last 30 years, policies aimed at promoting export growth have allowed China to accumulate vast foreign exchange reserves, nearly $2.65 trillion by the end of 2010 and growing by as much as $500 billion a year.[65] These holdings are managed by an arm of the central bank, the State Administration for Foreign Exchange, and most are invested in highly liquid and secure U.S. Treasury bonds. Unhappy with the low interest rates, China's government has started taking small steps to diversify away from the Treasuries and into higher-yielding assets. China's official sovereign wealth fund, the China Investment Corporation, was created in September 2007, in part to move into foreign equities and direct investments in investment banks and hedge funds. CIC is not the only investment arm of the Chinese government, but it is the most prominent, and its investments have been scrutinized for emerging trends. (For a detailed look at SAFE, CIC, and China's other investment vehicles, refer to chap. 1, sec. 2, of the U.S.-China Commission's *2008 Report to Congress*.[66])

The first few investments made by CIC, including a stake in U.S. investment firm Blackstone and investment bank Morgan Stanley, resulted in major paper losses, partially as a consequence of the 2008 global financial crisis. The harsh criticism faced by CIC from the Chinese public and government let to a reassessment of its investment strategy. In 2009, CIC made several smaller purchases, mainly in the commodities industry, and made a return on investment of 11.7 percent.[67]

II. Distribution of China's ODI by Destination and Type

Geographical Distribution of Chinese ODI

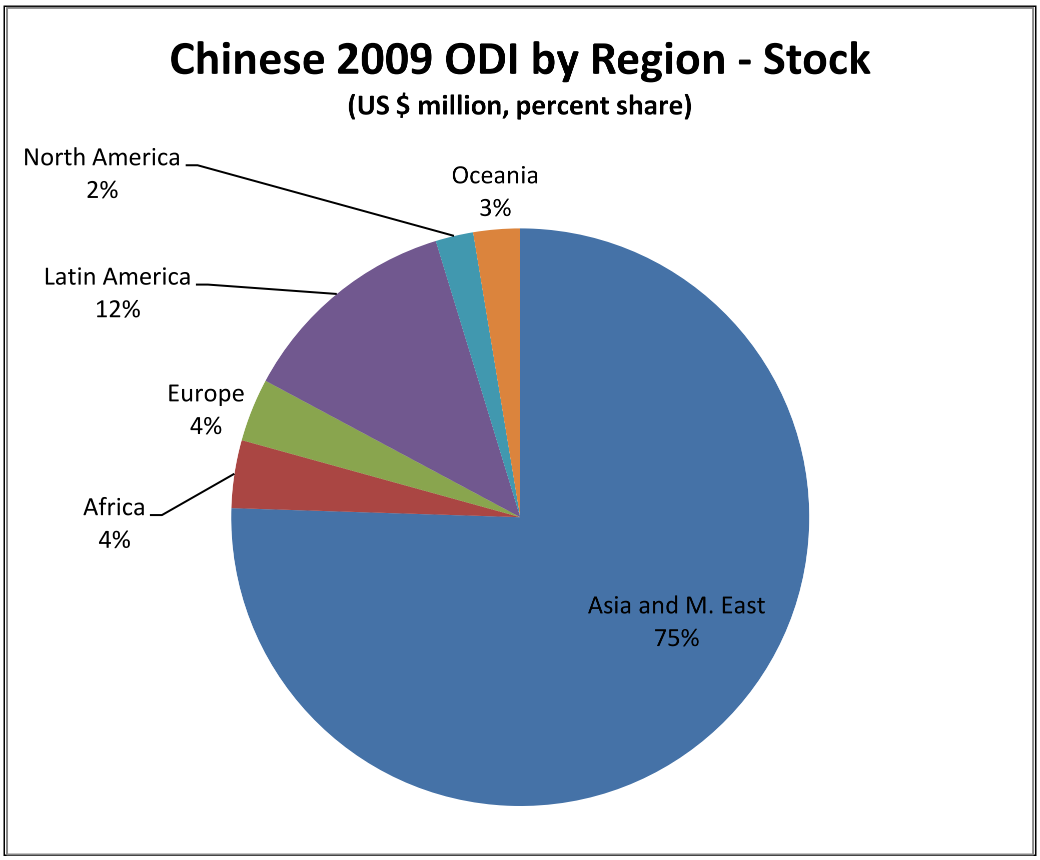
The internationalization of Chinese ODI has intensified, driven by resource-, asset-, and efficiency-seeking, as well as by the "going global" strategy. According to the 2009 MOFCOM *Statistical Bulletin of China's Outward Foreign Direct Investment*, China's ODI flows were $56.5 billion in 2009, but the true breakdown of the destination of China's ODI is unknown because a large share of it was made in the world's tax havens (in 2009, 12 percent went to the Cayman Islands and the British Virgin Islands alone) or in Hong Kong (67 percent in 2009), from where the money can be directed to projects around the world.[68] Also complicating matters is the practice of round-tripping, which many Chinese enterprises use to park a large proportion of their foreign exchange holdings in Hong Kong, with some later funneled into foreign countries as FDI and some subsequently recycled back into China as "new FDI."

Table 1 – Top 20 Destinations for China's ODI in 2009
(stock; U.S. $ millions)

	Destination	**Amount**
1	Hong Kong	$164,498.94
2	British Virgin Islands	$ 15,060.69
3	Cayman Islands	$ 13,577.07
4	Australia	$ 5,863.10
5	Singapore	$ 4,857.32
6	United States	$ 3,338.42
7	South Africa	$ 2,306.86
8	Luxembourg	$ 2,484.38
9	Russia	$ 2,220.37
10	Macau	$ 1,837.23
11	Canada	$ 1,670.34
12	Kazakhstan	$ 1,516.21
13	Pakistan	$ 1,458.09
14	Mongolia	$ 1,241.66
15	South Korea	$ 1,217.80
16	Germany	$ 1,082.24
17	UK	$ 1,028.28
18	Nigeria	$ 1,025.96
19	Myanmar	$ 929.88
20	Zambia	$ 843.97
	Other	$ 17,696.57
	World Total	**$245,755.38**

Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010).

As Table 1 indicates, although geographically dispersed, a significant portion of China's ODI (stock) is concentrated in a few countries. In 2009, Hong Kong and tax havens[69] alone received 79 percent of total Chinese outbound investment, which is perhaps explained in part by their role as round-tripping hubs. At 75.5 percent of ODI flows, Asia and the Middle East surpass all other regions combined as the top regional recipient of Chinese investment, despite inclusion of the tax havens under Latin American regional designation and China's growing interest in Australian mineral wealth.[70] The regional bias in favor of Asia is explained by the inclusion of Hong Kong, the top destination for Chinese ODI. But there are other factors. For example, it may also be partially explained by Chinese companies setting up their production facilities in the region, Southeast Asia in particular, with the aim of expanding their market share in the host countries and reducing production costs.[71] (See Appendix II for select countries, by region.)



Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010).

For the United States, flows of Chinese ODI increased from $462.03 million in 2008 to $908.74 million in 2009, a jump of 49 percent.[72] The *2009 Statistical Bulletin on China's Outward Foreign*

Direct Investment also said that there were over 1,300 Chinese companies with investment in the United States.[73] According to the Ministry of Commerce, China's U.S.-bound investment for the first nine months of 2010 grew by 530 percent from a year earlier, which contrasted with 10.4 percent during the same period for China's total ODI. [74] The sectoral distribution of Chinese ODI to the United States is represented in Table 2.

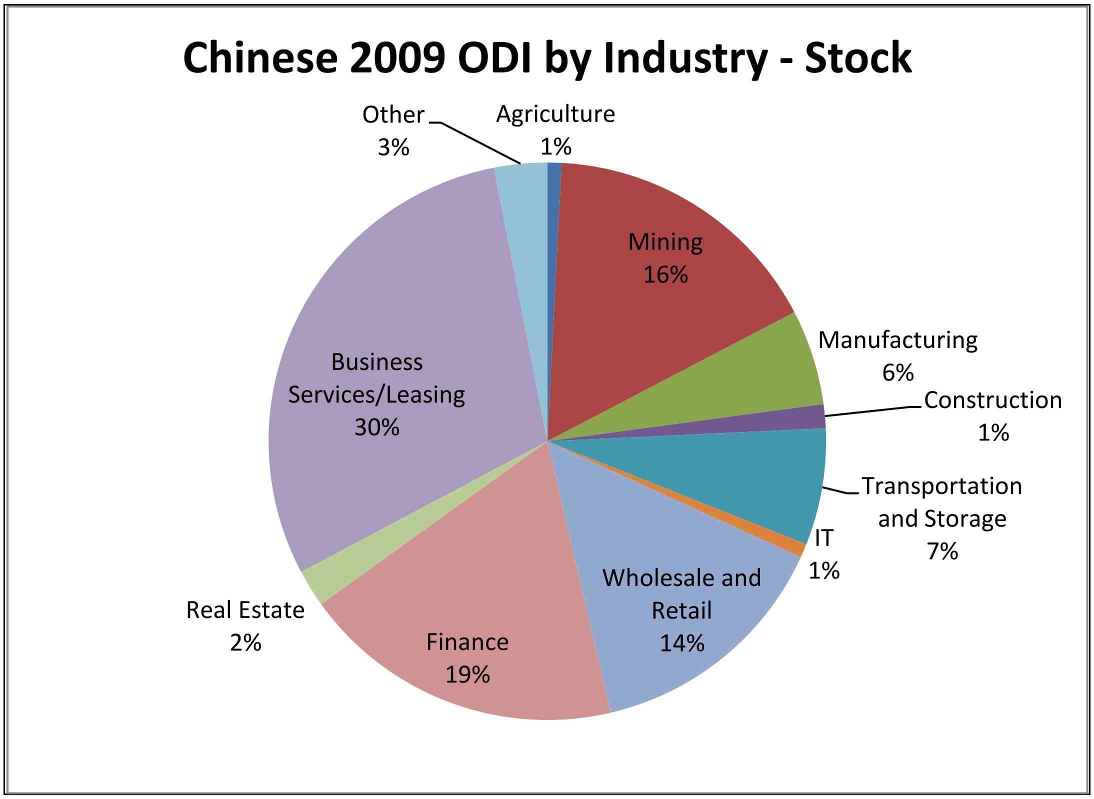
Table 2 – Chinese ODI to the United States, by Industry, 2009
(U.S. $10,000)

	2009 Flow		**2009 Stock**	
Industry	**Amount**	**Share of Total**	**Amount**	**Share of Total**
Wholesale and Retail	$12,484	13.74%	$95,265	28.54%
Manufacturing	37,873	41.68%	94,097	28.19%
Finance	14,064	15.48%	48,573	14.55%
Transportation, storage, and postal	396	0.44%	22,323	6.69%
Scientific research, technology services, and geological surveys	12,528	13.79%	22,217	6.65%
Rental and business services	4,013	4.42%	18,422	5.52%
Information transfer, computer services, and software	2,037	2.24%	11,534	3.45%
Construction	1,047	1.15%	5,141	1.54%
Real estate	1,218	1.34%	4,592	1.38%
Agriculture, forestry, cattle, and fish	1,615	1.78%	3,006	0.90%
Residential services and other services	1,041	1.15%	2,812	0.84%
Mining	794	0.87%	2,761	0.83%
Housing and food	1,598	1.76%	1,717	0.51%
Other Industries	166	0.18%	1,382	0.41%
Total	**$90,874**	**100%**	**$333,842**	**100%**

Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010), p. 22.

Sectoral Composition

Chinese ODI targets a wide variety of business areas, reflecting the diversified nature of the country's domestic industries and the Chinese government's considerations. The consistently high percentage of investment flow in the service sector (30 percent in business services and 19 percent in finance in 2009) reflects the fact that the ODI is largely used to serve and promote the export of Chinese commodities. In contrast, the flow of investment in natural resource extraction accounted for nearly half of the total in 2003, one third in 2004, and about 40 percent in 2006 but dropped to less than 16 percent in 2009.



Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010).

The natural resource sector, though small relative to services, is the third biggest and has far-reaching impacts. Oil, gas, and mineral extraction in particular are important areas for the Chinese. Examples of ODI projects in this sector include massive acquisitions by the state-owned CNOOC, which in January 2002 made a $593 million deal to buy the Indonesian assets of Spain's Repsol YPF, followed by the purchase in March of a 5 percent stake in the Northwest Shelf natural gas field off the coast of Australia for $320 million and a $275 million purchase of a 12.5 percent stake in the Indonesian offshore Tangguh Gas field from British Petroleum Co. in October.[75] In October of the same year, Sinopec, also state-owned, bought a 75 percent stake in an oil field in North Africa for $394 million.[76] And most recently in 2007, China Metallurgical

Group bought the right to extract high-quality copper from an Afghan mine for $3 billion.[77] China's increased M&A activity has not gone unnoticed. There are concerns that natural resource firms, once acquired by Chinese state-controlled investors, can become "captive suppliers" to China instead of selling in the open market.[78] National security concerns are also a factor. For example, they helped derail the bid by CNOOC to purchase Unocal (United States) in 2005 (Chevron ultimately outbid CNOOC, but only after Congress hinted that the deal might be derailed by opposition from the Committee on Foreign Investment in the United States).

Mainland companies are aggressively snapping up overseas assets in other strategic sectors. In June 2002, for example, Shanghai Baosteel paid $30 million for a 46 percent stake in an Australian iron ore mining joint venture with Rio Tinto PLC's Hamersley Iron unit, while in September, television maker TCL International Holdings Ltd. paid $8 million for Germany's bankrupt Schneider Electronics to sell its products under the brand name in order to break into the European market. [79] Huayi Group of Shanghai paid $20 million for the battery-making assets of Moltech Power Systems, a bankrupt outfit in Gainesville, Florida, and Holley Group, a Hangzhou maker of electricity meters, gained a foothold in China's booming wireless business when it spent $3 million for the mobile-phone design and software operations of Philips Semiconductor in 2001.[80] It is worth noting that many acquisitions by Chinese firms, especially in the developed world, have involved a company that was ailing or insolvent but had advantageous endowments.[81] By and large, to date Chinese FIEs are yet to make an impact in global markets with recognizable names or brand loyalties, but promotion of domestic brand names in the international markets is a government-designated national priority. In fact, the United States has successfully challenged in WTO consultations China's subsidization and support for its "famous brands," to the detriment of foreign competitors.[82]

III. There and Back Again: Round-Tripping

The success of investment in China continues to attract large volumes of capital. However, market reforms and generous incentives for FDI, including tax concessions, preferential terms for leasing of land and property, and guarantees for repatriation of foreign exchange, have also encouraged Chinese investors to move money offshore and then bring it back to China disguised as foreign investment or "round-tripping."[83] This is an issue of great concern for China's MOFCOM, the State Administration of Foreign Exchange, and the State Administration of Taxation, since even by conservative estimates as much as a quarter of China's official FDI is actually masked as Chinese funds coming home to take advantage of preferential tax and other government policies.[84] Estimation of actual volumes of round-tripping is very difficult, largely because investors who recycle their funds in this manner are unlikely to report their activities to the authorities.

Prior to China's WTO accession, many international firms allied with Hong Kong companies to gain access to the China market.[85] Partly as a result of this activity, Hong Kong remains the largest "foreign" investor in mainland China. In the past few decades, Hong Kong has consistently contributed from 40 percent to 60 percent of total FDI inflows to the Peoples' Republic of China. Hong Kong, however, is not the sole facilitator for round-tripping capital that fled the mainland. Hong Kong's share has been supplemented by steady increases in FDI flows through vehicles registered in the tax havens. Until 2009, this phenomenon was easily extrapolated from the statistics on the top 10 origins of inbound FDI in China (see Table 3). In 2009, however, the Chinese Ministry of Commerce, which compiles the data, changed its calculation, showing investments sourced in the given countries, including those made through Barbados, the British Virgin Islands, the Cayman Islands, Mauritius, and Western Samoa, which previously occupied top spots as origins of FDI in China (see Table 4).

Table 3 – Top 10 Origins of FDI in China, 2005-2008
(U.S. $ billion)

Country/Region of Origin	Amount Invested 2005	Amount Invested 2006	Amount Invested 2007	Amount Invested 2008	2007-2008 y-o-y Growth (%)
Hong Kong	$17.95	$20.23	$27.7	$41.0	48.1
Virgin Islands (UK)	9.02	11.25	16.6	16.0	-3.6
Singapore	2.20	2.26	3.2	4.4	39.3
Japan	6.53	4.60	3.6	3.7	1.8

Cayman Islands	1.95	2.1	2.6	3.2	22.3
South Korea	5.17	3.89	3.7	3.1	-14.8
United States	3.06	2.87	2.6	2.9	12.5
Western Samoa	1.36	1.54	2.2	2.6	17.5
Taiwan	2.15	2.14	1.8	1.9	7.0
Mauritius			1.3	1.5	12.1
Germany	1.53	1.98			

Source: MOFCOM; compiled by U.S.-China Business Council 2007, 2009 (USCBC).

Table 4 – Top 10 Origins of FDI in China, 2008-2009
(U.S. $ billion)

Country/Region of Origin	Amount Invested 2008	Amount Invested 2009	Year-on-Year Growth (%)
Hong Kong	$41.0	$54.0	31.6
Taiwan	1.9	6.6	245.7
Japan	3.7	4.1	12.7
Singapore	4.4	3.9	-12.4
United States	2.9	3.6	21.5
South Korea	3.1	2.7	-13.8
United Kingdom	0.9	1.5	60.7
Germany	0.9	1.2	36.3
Macau	0.6	1.0	71.9
Canada	0.5	1.0	76.5

Source: MOFCOM; compiled by U.S.-China Business Council 2010 (USCBC).[86]
Note: 2009 data includes investments sourced in these countries but made through Barbados, the British Virgin Islands, the Cayman Islands, Mauritius, and Western Samoa.

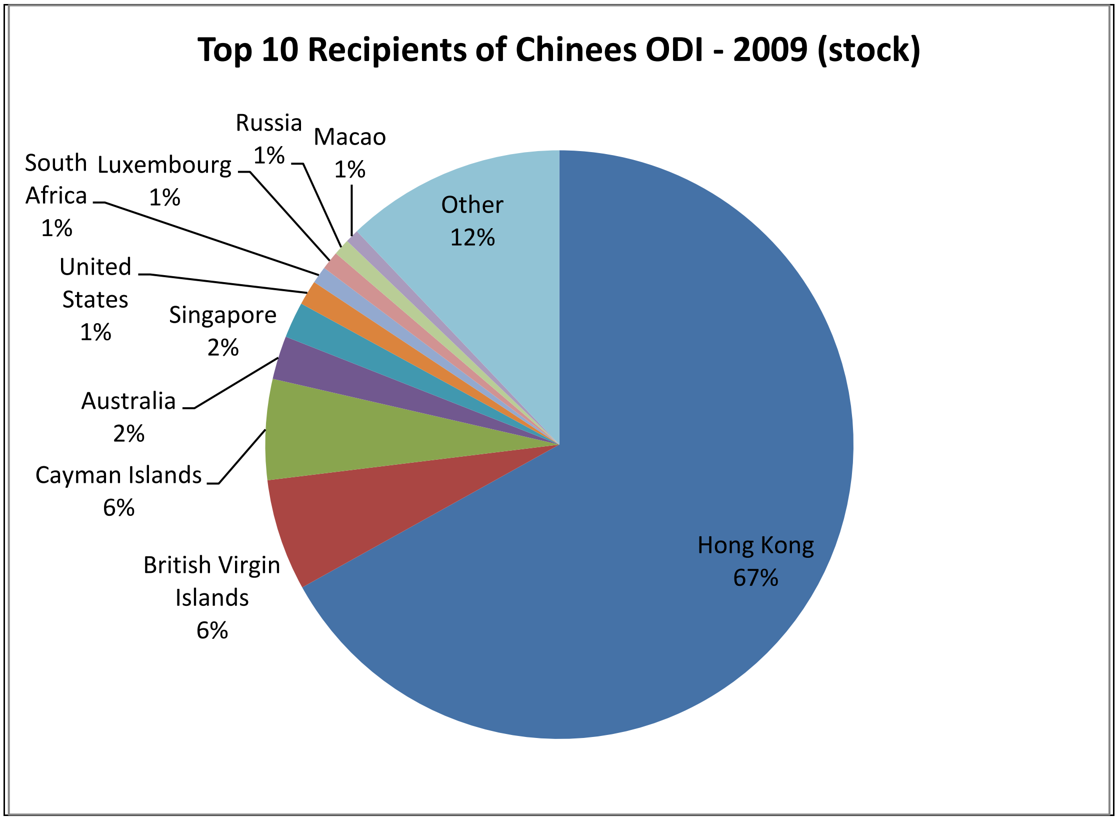
The Ministry of Commerce reported that in 2009, the top 10 countries and regions accounted for 88.3 percent of utilized foreign capital (of the $90 billion total), and Hong Kong alone accounted for around 60 percent.[87]

While the nominal origin of these recycled investments has been concentrated in Hong Kong and various tax havens, the actual origin remains unclear. According to the U.S. Department of State's China Investment Climate survey, anecdotal evidence suggests that it includes investments from corporations headquartered in Organization for Economic Cooperation and Development (OECD) economies, Taiwan, and, largely, China itself.[88] Despite the magnitude of the phenomenon and its significant impact on the Chinese economy, surprisingly little research has been conducted by international organizations, research institutions, and scholars. The World Bank, for example, manages to address the issue in its entirety in a one-page box (see World Bank 2002), while the UNCTAD *World Investment Report 2006* encapsulates the problem in one paragraph.

Patterns of China's FDI and Incentives for Round-tripping

While incentives for foreign investment are the primary reason behind FDI round-tripping in China, repatriation of capital previously removed from China is another. Prior to China's WTO entry, large portions of the capital created in China was moved abroad, and stayed abroad, waiting for further opportunities elsewhere; however, as economic conditions improved in China, that capital flowed to China under more favorable terms. Even after WTO-compliant reforms, the remaining weakness of China's financial and legal systems and the lack of enforcement of property rights and contracts contributed to a sustained capital flight. [89] Some scholars estimate that on average, about 20 percent to 30 percent of the round-tripping FDI in China is actually capital returning postflight.[90]

Several incentives exist for investors to take their capital out the country and recycle it through Hong Kong or tax havens before bringing it back to China. These incentives can be grouped largely around issues of profit-making, risk management, and safety of capital. [91]



Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010).

***Tax Advantages and Incentives*:** China has provided many tax advantages (such as tax holidays, exemptions, or reduced rates), concessional land lease terms, and other favorable incentives to attract foreign investment. It was very advantageous to be a foreign-invested enterprise, and many Chinese investors noticed this. Consequently, taking capital out of the country, registering it abroad, and then bringing it back became a very common, though not easy, method for taking advantage of China's preferential policies for FIEs. However, China's administration has become aware of this phenomenon and has taken steps to gradually phase out tax advantages and other concessional terms. The Enterprise Income Tax Law, which took effect in January 2008, unified the corporate tax rate for FIEs and domestic firms at 25 percent. Prior to the new law, the effective income tax rate for FIEs was 11 percent, while domestic firms were taxed at 23 percent.[92] The passage of this law and a subsequent circular addressing other related issues such as tax breaks for companies with high-tech status, coupled with tighter regulations on off-shore investment vehicles, could lead to a contraction of round-tripping, although, as with all grey-market operations, the full effect would be hard to estimate.

Property Rights Protection**:** China's basic legal framework is still in flux, and enforcement is spotty at best. Many Chinese capital holders see, therefore, that it is to their advantage to reinvent themselves as foreign capital holders and enter China in this way, taking advantage of the more stringent, though still insufficient, protection frequently afforded to foreign investors.

Competitiveness of Hong Kong and Other Overseas Financial Sectors**:** A significant portion of China's round-tripping is connected to Hong Kong. In addition to being a regional and international financial hub, Hong Kong serves the majority of China's business. Despite many reforms, China's banking services remain underdeveloped and weak; therefore, many Chinese investors choose to house their capital in Hong Kong or elsewhere in the developed world.

The weakness of China's markets means that companies preparing to make a public offering will usually go to Hong Kong in lieu of domestic alternatives like Shanghai or Shenzhen. This is particularly true for big entities, like PetroChina. However, when a mainland company is preparing to list in Hong Kong, it would register as a new local company there, with an injection of capital from the mainland, which would then be counted by China as a very large portfolio investment. While the ownership of a company remains essentially the same, legally it becomes a Hong Kong entity that then may transfer some of its capital back to the mainland, thus completing the investment's round trip.[93]

IV. The Future of Chinese Direct Investment and U.S. Interests

With the growth in Chinese overseas direct investment comes the possibility that these investments will play an increasingly significant role in the U.S. economy. What might this increased role mean for U.S. interests?

On the one hand, there is broad agreement on the economic benefits to the receiving country of foreign direct investment as long as that country's economy is transparent and competitive. Compared to portfolio investments, FDI tends to stay in the host country for a relatively long period.[94] FDI can create jobs in the host country or prevent jobs there from going overseas. Furthermore, since overseas investors must abide by host country environmental, labor, and transparency requirements, some argue that investments in developed countries with well-developed legal environments are good for both the receiving countries and foreign firms; receiving countries ensure that they receive safe products and learn more about the operations of foreign firms through disclosure/transparency requirements, and foreign firms learn better business practices. However, FDI is not problem-free. In Germany, one of the European countries most successful at wooing Chinese investors, almost half of Chinese investments folded within their first year or moved production to China. And even those that remained tended to be small businesses with only a few local employees, implying minimal job creation.[95]

Some suggest that Chinese overseas investments are cause for concern for security reasons as well. The lack of transparency in Chinese investments is one problem. The fact that the majority of Chinese enterprises that invest abroad are state-owned or state-controlled, and that many of them are firms in strategic sectors such as natural resources, is another. This trend is not unique to China; the most powerful firms in many developing countries are often partially or totally state-owned. The rise in overseas investments by firms from the developing world and the rise in overseas investments by state-owned enterprises are thus inextricably linked.

As a consequence of the global financial crisis, China has taken advantage of lowered prices on overseas investment opportunities to extend its global reach, especially in the natural resource sector.[96] Conversely, having already been burned by the loss of money in its first major investments in financial firms in 2008, China has also been focusing mainly on small stakes in foreign companies rather than on outright acquisitions. China also conducts an active investment diplomacy: It has signed 120 bilateral investment treaties, and it has pursued free trade agreements, including the ASEAN-China Free Trade Agreement, which came into effect in

January 2010.[97] The Chinese government has been taking steps to ease and decentralize the regulatory procedure to encourage more overseas deals.[98]

The small scale and distribution of China's ODI may not be a good guide for the future, since the patterns of capital outflows are likely to change as China becomes more assertive in the use of its vast capital reserves. China has become a capital-surplus economy, and its overseas investment has grown apace. China's ODI is now globally diversified and involved in a wide variety of sectors, including banking, manufacturing, and natural resource exploitation. There are challenges ahead, however, for Chinese overseas investors, since they appear to have no clear strategy for the operation and development of their overseas branches, nor have the most prominent Chinese overseas investments been successful (as the grassroots backlash against money-losing investments in U.S. financial companies by China's sovereign wealth fund indicates). Restrictions remain on the use of foreign exchange. Since the renminbi (RMB) is not convertible, this places constraints on Chinese investors who do not have government support and access to hard currency.

The current economic climate is too turbulent to make long-term conclusions about the future of China's economy, but it is safe to assume that Chinese ODI will continue to grow. One of the fundamental drivers of the continued growth in Chinese ODI will be the shortage of energy and raw materials to support the country's economic expansion. Other motivations include access to natural resources and advanced technology, acquisition of internationally established brands, and avoidance of trade barriers.

Dim Sums: A Note on the Data

This paper makes extensive use of MOFCOM's *2009 Statistical Bulletin of China's Outward Foreign Direct Investment* (the latest release available) for data and analysis of Chinese ODI. Unfortunately, data most readily available from Chinese statistical sources generally have a reputation for inaccuracy and opacity. All values must, therefore, be taken with some reservations.[99] For the purposes of this paper, however, these statistics help to illustrate the major trends in China's acquisition of foreign direct investment.

In February 2006, MOFCOM announced that it would no longer report the value of contracted FDI deals, which were used to estimate future commitments. This was in response, according to the U.S.-China Business Council, to local officials' exaggeration of these figures, because local officials are evaluated on their ability to attract foreign investment.

Appendix I:

Chinese Investment Deals, 2008-2010

Year	Acquiring Company	Transaction Value (U.S. $ million)	Shares Acquired (%)	Target Company	Industry	Target Country
2008	SAFE	$180	1%	Australia and New Zealand Banking, Commonwealth Bank of Australia, National Bank of Australia	Banking	Australia
2008	Wuxi PharmaTech	$150		AppTec Lab Services	Pharma	USA
2008	Minmetals (20%), Xingxing Iron's (35%) with Kelachandra and Manasara	$1,200		Kelachandra and Manasara	Steel	India
2008	China Metallurgical	$370			Iron	Australia
2008	Sinochem	$470		Soco	Oil	Yemen
2008	Chalco, with Alcoa	$12,800	12%	Rio Tinto	Aluminum	Australia
2008	CIC	$100		Visa	Finance	USA
2008	China Life	$260	1%	Visa	Finance	USA
2008	Sinopec	$560	60%	AED	Oil	Australia
2008	Huaneng Power	$3,000		Tuas Power	Power	Singapore
2008	CIC	$3,200	80%	JC Flowers	Investment	USA
2008	SAFE	$2,800	1.6%	Total	Energy	France
2008	SAFE	$2,000	1%	BP	Energy	Britain
2008	China Nonferrous	$150			Copper	Zambia
2008	Chinalco	$2,160			Copper	Peru
2008	CNPC	$5,000			Oil	Niger
2008	Zoomlion	$250	60%	Compagnia Italiana Forme Acciaio	Construction	Italy
2008	SAFE	$2,500	20%	TPG	Investment	USA
2008	China National Cereals, Oils, and Foodstuffs	$140	5%	Smithfield Foods	Food	USA
2008	China Railway Engineering and Sinohydro	$1,200	28%		Metals	DRC
2008	CNOOC	$2,500		Awilco Offshore	Oil	Norway
2008	China Nonferrous	$800	50%		Metals	Myanmar
2008	Sinosteel	$1,300		Midwest	Iron	Australia
2008	China Metalurgical	$850	20%		Metals	DRC
2008	Sinohydro	$850	20%		Metals	DRC
2008	Shenhua	$260			Coal	Australia
2008	CNPC	$3,000			Oil	Iraq
2008	Sinopec	$1,900		Canada-based Tanganyika Oil	Oil	Syria
2008	China International Marine Containers	$330	30%	Yantai Raffles Shipyard	Shipping	Singapore
2008	Sany Heavy Industry	$140			Construction	Germany
2008	Jiangsu Shagang	$270	45%	Bulk Minerals and Grange	Iron	Australia
2008	CIC	$200	2.6%	Blackstone	Investment	USA
2008	CNPC	$1,280	51%	Myanmar Oil and Gas Enterprise	Construction	Myanmar

2008	China Metallurgical	$1,000			Copper	Philippines
2008	10 property companies	$520		Pacific Holdings	Property	Japan
2008	China Union	$2,600			Iron	Liberia
2009	CNPC	$1,760		National Iranian Oil Company	Oil	Iran
2009	Hunan Valin Iron & Steel	$770	16.5%	Fortescue Metals	Iron	Australia
2009	Shougang Group	$1,000			Iron	Peru
2009	Wuhan Iron and Steel	$240	19.9%		Iron	Canada
2009	CIC	$800		investment in Morgan Stanley property fund	Property	USA
2009	CNPC	$2,600		KasMunaigas	Gas	Kazakhstan
2009	China Nonferrous	$450	85%		Copper	Zambia
2009	China Metallurgical	$520	10%	Palmer's Mineralogy	Coal	Australia
2009	Guangdong Rising Asset Management	$140	19.9%	PanAust	Metals	Australia
2009	PetroChina	$1,020	46%	Keppel, Singapore Petroleum	Oil	Singapore
2009	AnSteel	$130	24%	Gindalbie Metals	Iron	Australia
2009	Minmetals	$1,350		Oz Minerals	Metals	Australia
2009	CIC	$1,210		Morgan Stanley	Banking	USA
2009	Sinopec	$7,200		Addax Petroleum	Oil	Switzerland
2009	CIC	$160	8%	Goodman Group	Real Estate	Australia
2009	CNPC	$4,700			Gas	Iran
2009	CIC	$500		Blackstone	Investment	USA
2009	CIC	$530		Blackrock	Investment	USA
2009	CIC	$1,500	17%	Teck Resources	Copper	Canada
2009	Zhonghui Mining	$3,600			Copper	Zambia
2009	Xiyang Group	$480			Iron	Russia
2009	Chinalco	$1,500		Rio Tinto	Aluminum	Australia
2009	Shenhua Guohau Power	$330	70%		Power	Indonesia
2009	CIC	$370	1.10%	Diageo	Food	Britain
2009	group of Shanxi companies	$750			Property	Mauritius
2009	CIC	$450	19%	Songbird Estates	Property	Britain
2009	CNPC	$1,740	60%	Athabasca Oil Sands	Oil	Canada
2009	CNOOC	$100		Qatar Petroleum	Gas	Qatar
2009	Sinochem	$880		Emerald Energy	Energy	Britain
2009	Yanzhou Coal	$2,950		Felix Resources	Coal	Australia
2009	CIC	$1,090		Goodman Group	Property	Australia
2009	Sinohydro	$800			Hydro	Cameroon
2009	PetroChina	$1,160		Singapore Petroleum	Oil	Singapore
2009	CIC	$940	11%	JSC KazMunaiGas E&P	Gas	Kazakhstan
2009	CIC	$600		Oaktree Capital Management distressed asset fund	Investment	USA
2009	CIC	$600		Goldman Sachs distressed asset fund	Investment	USA
2009	State Construction Engineering	$100	2.75%	Baha Mar Resort		Bahamas
2009	CNPC	$2,250			Oil	Iran
2009	Hanlong Mining	$200		Moly Mines	Iron	Australia
2009	CIC	$300		Nobel Holdings	Oil	Russia
2009	Baosteel	$240	15%	Aquila Resources	Iron	Australia
2009	CIC	$1,580	15%	AES	Power	USA

2009	Beijing West Industries	$100		Delphi	Autos	USA
2009	Wuhan Iron and Steel	$400	22%	MMX Mineracao	Iron	Brazil
2009	Great Wall Motor	$120		Litex Motors	Autos	Bulgaria
2009	Wuhan Iron and Steel	$250		Centrex Minerals	Iron	Australia
2009	Shunde Rixin	$1,900	70%		Iron	Chile
2009	China Railway Construction and Tongling Nonferrous	$650		Corriente Resources	Copper	Canada
2009	Zijin Mining	$500		Indophil Resources		Australia
2009	CNPC	$190			Oil	Iraq
2009	BAIC	$200		Saab	Autos	USA
2009	Hebei Zhongxin	$400			Autos	Mexico
2009	Shanghai Auto	$330	50%	GM	Autos	India
2009	Jinjiang International Hotels	$150	50%	Thayer Lodging	Tourism	USA
2010	China Metallurgical	$200	5%	Resource House	Metals	Australia
2010	China Nickel Resources	$220			Steel	Indonesia
2010	Baiyin Non-Ferrous, CITIC & Chang Xin	$190	60%	Oxus	Metals	Uzbekistan
2010	Chalco	$350	35%	GIIG	Aluminium	Malaysia
2010	CIC	$960	2.30%	Apax Finance	Investment	Britain
2010	ICBC	$530		ACL Bank	Banking	Thailand
2010	CIC	$1,500		Lexington Partners, Pantheon Ventures, Goldman Sachs	Investment	USA
2010	Sany Heavy Industry	$200			Construction	Brazil
2010	Wanhua Industrial	$190		BorsodChem	Chemicals	Hungary
2010	CNPC	$180	51%	INOVA Geophysical Equipment	Energy	USA
2010	Hudian	$650	51%	Sintez	Gas	Russian Federation
2010	Geely Auto	1,800		Ford	Autos	Sweden
2010	East China Mineral Exploration and Development Bureau (Jiangsu)	1,200		Itaminas	Iron	Brazil
2010	Poly Technologies	$100			Agriculture	Mauritiana
2010	CNOOC	$3,100	50%	Bridas	Oil	Argentina
2010	PetroChina	1,580	50%	Arrow Energy	Gas	Australia
2010	CIC	$250	13%	South Gobi Energy	Coal	Mongolia
2010	First Auto Works	$100			Autos	South Africa
2010	China National Chemical Engineering	$500			Agriculture	Sudan
2010	China Railway Materials	$260	13.00%	African Minerals	Iron	Sierra Leone
2010	Sinopec	4,650	9%	ConocoPhillip	Oil	Canada
2010	CNOOC	$270	5%	BG	Gas	Australia
2010	CNPC	$900			Oil	Venezuela
2010	Tencent	$300	10.00%	Digital Sky Technologies	Technology	Russian Federation
2010	China Mobile	$300			Telecom	Pakistan
2010	Chongqing Food Group	$320			Agriculture	Brazil
2010	Hanlong	$140	55%	Moly Mines	Rare metals	Australia

2010	CNPC	1,500	35%	Shell	Energy	Syria
2010	Hopu	$100	1%	Chesapeake Energy	Gas	USA
2010	CIC	$1,220	5%	Penn West Energy	Oil	Canada
2010	State Grid	$990		Cobra, Elecnor and Isolux	Power	Brazil
2010	Sinochem	$3,070	40%	Peregrino field	Oil	Brazil
2010	Jinchuan Group and China-Africa Development Fund	$230	51%	Wesizwe Platinu,	Metals	South Africa
2010	Tianyu Group	$1,000			Property	South Korea
2010	CNPC	$150			Energy	Indonesia
2010	Yunnan Chihong	$100	50%	Howards Pass	Metals	Canada
2010	Tempo Group and Beijing city	$440		Nexteer Auto	Austos	USA
2010	China Merchants Group	$550		Loscam	Shipping	Australia
2010	Chinalco	1,350	45%	Rio Tinto	Iron	Guinea
2010	China Merchants Group	$450	70%	Aitken Spence	Shipping	Sri Lanka
2010	Chery	$700			Autos	Brazil
2010	Bosai Minerals	$1,200	80%	Ghana Bauxite	Aluminium	Ghana
2010	Jinchuan	$420		Continental Metals	Metals	Canada
2010	Shanda Games	$100		Eyedentity Games	Technology	South Korea
2010	Sinopec	7,100	40%	Repsol	Oil	Brazil
2010	CNOOC	$2,200	33%	Chesapeake Energy	Oil	USA
2010	Sinochem	$1,440	60%	Makhteshim-Agan	Agriculture	Israel
2010	Minmetals	$2,500			Copper	Peru
2010	Huaneng Power	$1,230	50%	InterGen	Power	USA
2010	CNOOC	$2,470	30%	Pan American	Oil	Argentina
2010	CNPC and Sinopec	$610			Oil	Ecuador
2010	SAIC	$500	1%	GM	Autos	USA
2010	Guangdong Rising Asset Management	$400		Caledon	Coal	Australia
2010	Sinopec	$2,450		Occidental	Oil	Argentina
2010	CIC	$200		BTG Pactual	Investment	Brazil
2010	Three Gorges	$170		EuroSibEnergo	Power	Russian Federation
2010	Sinopec	$680		Chevron	Gas	Indonesia

Source: Excerpted from Derek Scissors, "China Global Investment Tracker: 2011" (Washington, DC: The Heritage Foundation, January 10, 2011*). http://www.heritage.org/Research/Reports/2011/01/China-Global-Investment-Tracker-2011*.

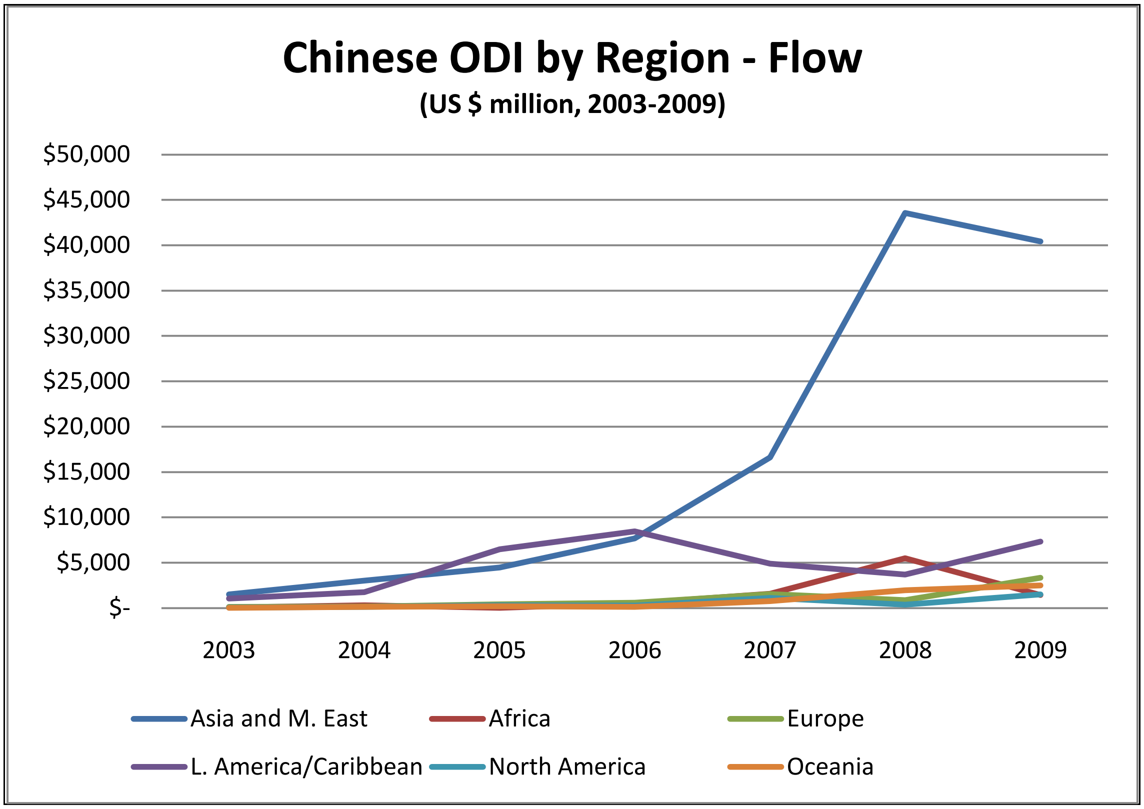
Appendix II:
Regional Distribution of China's ODI

Chinese ODI by Region, Stock

(U.S. $ million)

	2003	2004	2005	2006	2007	2008	2009
Asia & Middle East	**$26,603.46**	**$33,479.55**	**$40,954.31**	**$47,978.05**	**$79,217.93**	**$131,316.99**	**$185,547.20**
Hong Kong	24,632.26	30,392.89	36,507.08	42,269.91	68,781.32	115,845.28	164,498.94
Singapore	164.83	233.09	325.48	468.01	1,443.93	3,334.77	4,857.32
Macau	446.86	624.83	598.70	612.47	910.67	1,560.78	1,837.23
Pakistan	27.48	36.45	188.81	148.24	1,068.19	1,327.99	1,458.09
Kazakhstan	19.71	24.78	245.24	276.24	609.93	1,402.30	1,516.21
Africa	**$491.23**	**$899.55**	**$1,595.25**	**$2,556.82**	**$4,461.83**	**$7,803.83**	**$9,332.27**
Algeria	5.70	34.49	171.21	247.37	393.89	508.82	751.26
Nigeria	31.98	79.61	94.11	215.94	630.32	795.91	1,025.96
South Africa	44.77	58.87	112.28	167.62	702.37	3,048.62	2,306.86
Europe	**$487.45**	**$676.65**	**$1,272.93**	**$2,269.82**	**$4,458.54**	**$5,133.96**	**$8,676.78**
Russia	61.64	123.48	465.57	929.76	1,421.51	1,838.28	2,220.37
Germany	83.61	129.21	268.35	472.03	845.41	845.50	1,082.24
UK	75.15	108.46	107.97	201.87	950.31	837.66	1,028.28
L. America & Caribbean	**$4,619.32**	**$8,268.37**	**$11,469.61**	**$19,694.37**	**$24,700.91**	**$32,240.15**	**$30,595.48**
Cayman Islands	3,690.68	6,659.91	8,935.59	14,209.19	16,810.68	20,327.45	13,577.07
Virgin Islands (UK)	532.64	1,089.38	1,983.58	4,750.40	6,626.54	10,477.33	15,060.69
Brazil	52.19	79.22	81.39	130.41	189.55	217.05	360.89
North America	**$548.50**	**$909.21**	**$1,263.23**	**$1,587.02**	**$3,240.89**	**$3,659.78**	**$5,184.70**
United States	502.32	665.20	822.68	1,237.87	1,880.53	2,389.90	3,338.42
Canada	46.18	58.79	103.29	140.72	1,254.52	1,268.43	1,670.34
Oceania	**$472.26**	**$543.94**	**$650.29**	**$939.48**	**$1,830.40**	**$3,816.00**	**$6,418.95**
Australia	416.49	494.58	587.46	794.35	1,444.01	3,355.29	5,863.10
Total	**$33,222.22**	**$44,777.26**	**$57,205.62**	**$75,025.55**	**$117,910.50**	**$183,970.71**	**$245,755.38**

Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010).



Source: MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010).

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[1] This paper uses the broadest definition of FDI, a catchall term to include all instances where a foreign investor exerts control over domestic assets; portfolio investment is usually not included. However, the Ministry of Commerce of the People's Republic of China (MOFCOM) aggregates nonfinancial and financial ODI in its reports (for example, China's cumulative ODI for 2009 includes $47.8 billion of nonfinancial and $8.73 billion of financial flows; similarly, the stock figures include $199.76 billion of nonfinancial ODI and $45.99 billion of financial ODI). ODI is not functionally different from FDI. It is simply a term used to represent flows of investment that go out of the country—as opposed to those that go in.

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[3] All figures in U.S. dollars, unless otherwise specified. MOFCOM, *2009* 年度中国对外直接投资统计公报 *[2009 Statistical Bulletin of China's Outward Foreign Direct Investment]* (Beijing: 2010), p. 77.

[4] FDI stock is the cumulative value of the capital and reserves attributable to the parent enterprise (the investor). FDI flows comprise capital provided by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor (this data is usually compiled for a given period, usually per annum). For details, see UNCTAD, "Methodological Note," *World Investment Report 2010: Investing in a Low Carbon Economy* (New York and Geneva: United Nations, 2010). *http://www.unctad.org/en/docs/wir2010meth_en.pdf*.

[5] MOFCOM, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: 2010), p. 75.

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[8] Note that the UNCTAD figures include only non-financial FDI.

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[10] China's holdings of U.S. Treasury securities amounted to around $1.2 trillion by January 2011, and far eclipse stock of China's global ODI, which was around $245.75 billion in 2009 (the latest figures available). For the purposes of comparison, Chinese holdings of U.S. Treasury securities as of December 2009 were $894.8 billion. *See* U.S. Department of the Treasury, "Major Foreign Holders of Treasury Securities," March 15, 2011. http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt.

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[15] These so-called "strategic and heavyweight" industries also include coal, civil aviation, machinery, automobiles, IT, construction, iron and steel, armaments, power generation and distribution, and shipping. For more information, *see* U.S.-China Economic and Security Review Commission, *2007 Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2007), pp. 36-47; and U.S.-China Economic and Security Review Commission, *2009 Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2009), pp. 56-79.

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