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Chapter 3

China's Outward Direct Investment

Following its success in opening the economy and attracting inward FDI, China has been rapidly becoming an important source of outward foreign direct investment (OFDI) in recent years. Starting from virtually no OFDI in 1979, China had accumulated USD 90.6 billion of OFDI stock overseas by the end of 2006. China's OFDI flow and stock now stand the 4th largest and the 6th largest, respectively, among developing countries. This chapter provides a unique account of the motivations for and development of China's OFDI in the light of government policy encouraging companies to "go global", focusing in particular on Chinese investment in Africa.

Overview

Following its success in opening the economy and attracting inward FDI, China has been rapidly becoming an important source of outward foreign direct investment (OFDI) in recent years. Starting from virtually no OFDI in 1979, the initial year of China's open door policy, China had accumulated USD 90.6 billion of OFDI stock overseas by the end of 2006, realised through the remarkable surge of outward investment flows from China during 2000-2006, when its OFDI flow in 2006 rose to the level more than 19 times as large as the 2000 flow level. China's OFDI flow and stock now stand the 4th largest and the 6th largest, respectively, among developing countries.

- As a late comer as a global investor, however, China's OFDI stock still accounts for only 0.6% of total OFDI stocks in the world, and, in terms of ratio to GDP, it lags far behind the world average.
- China's OFDI has been flowing into developing countries at a higher rate than developed countries with about 95% of outward flows directed to the developing world over 2003-2006. On the other hand, mergers and acquisitions (M&As), which are emerging as a dominant vehicle for Chinese enterprises' outward operations, are targeted more at industrialised countries.
- The services sector has attracted the largest sectoral share of China's OFDI, followed by the primary sector and the manufacturing sector.
- China's OFDI volumes have been dominated by large state-owned enterprises (SOEs) as their average investment size is much larger than that of Chinese enterprises in the private sector. All ten largest Chinese multinational enterprises by OFDI stock are SOEs and more than half are operating in the natural resources sector.
- China's official OFDI statistics may continue to underestimate the actual volume of outward flows, although measurement procedures have improved in recent years. In comparison to China's FDI stocks reported by the OECD Member countries in their respective inward FDI statistics, China's official stock figures are 40% smaller on average.

In China's highly controlled economic system, the government's policy and strategy have been always among the most significant determinants in explaining the development of China's OFDI. In 2000, China officially initiated a "go global" strategy to promote its OFDI, signifying the change in the government's approach from one of tightly restricting capital outflows to one of encouraging Chinese enterprises to invest abroad. Consistent with its "go global" policy, the government has been streamlining its OFDI administration system as well as relaxing its control on outward capital flows. However, China's OFDI administration system has still remained rather restrictive and complex, requiring prior approvals from different government bodies.

Along with the gradual relaxation of government control, China's OFDI projects have been more and more driven by commercial motivations rather than the government's political agenda. The extent of the government's intervention varies, depending on the motivations of OFDI projects with resource-seeking projects receiving a disproportionate share of the government's direct and indirect support.

China's contemporary relationship with Africa has been driven by a strong commercial impulse and an economic rationale. China now considers Africa as not only an important source of energy and other crucial natural resources required for its fast growing economy but also a rapidly expanding market for Chinese products.

- While its direct investment flows into Africa have accelerated in recent years, registering a sevenfold increase over 2003-06, China's investment position in Africa has remained far from matching those of traditional investor countries from Europe and North America, accounting for less than 1% of total FDI stock found in Africa. Among developing countries, however, China has become a leading source of FDI in Africa.
- China's OFDI in Africa is highly diversified, reaching 48 countries in the continent. The top five countries hosting the largest China's OFDI stocks are all resource-rich countries, including Algeria, Nigeria, South Africa, Sudan and Zambia.
- The average size of Chinese enterprises' investment projects in Africa has been relatively small. Large OFDI deals, mostly in the natural resources sector, have been executed by only a few giant Chinese SOEs, and the majority of projects have been carried out by numerous small and medium-sized enterprises, mostly in the manufacturing sector and the services sector.
- While natural resources-seeking is clearly a primary motivation for Chinese investors, China's OFDI in Africa has not been particularly skewed towards the natural resources sector in international comparison. Market-seeking is also a prominent motivation for Chinese enterprises investing in Africa, especially in the manufacturing sector and the construction sector.
- The size of China's official development aid (ODA) flows to Africa is more than twice as large as that of China's total FDI flows to Africa, and China has strategically aligned its ODA resources with OFDI policy to support Chinese enterprises investing in Africa.

The successful expansion of China's exports has been increasingly causing a protectionist reaction in many host countries, which has prompted China to substitute direct investment for exports. The large accumulation of foreign exchange reserves has given rise to pressures on China to achieve equilibrium in its international financial flows by revaluing the currency. Encouraging capital outflows including OFDI is one way of mitigating this revaluation pressure. Given these prevailing economic conditions, the upward trend in outward investment flows from China is likely to continue not only in Africa but also in other regions of the world. It will be supported by further liberalisation of administrative procedures and capital controls on outward investment as the government's "go global" policy matures.

1. Overview of China's outward foreign direct investment

During the last quarter of a century, China impressed the world with its sustained economic growth accompanied by vigorous investment demand, massive capital inflow and rapid export expansion.

With a growing confidence in participating in the global economy, many Chinese enterprises already engaged in international business have started significant investment abroad and the government's strong support for Chinese enterprises' "go global" strategy has turned China into an emerging source of capital in the world while at the same time it remains a favourite destination of foreign capital. As of end-2006, China's cumulative stock of outward foreign direct investment (OFDI) reached USD 90.6 billion,[1] more than three times the level recorded in 2000. It was realised through the remarkable surge of OFDI flows from China during 2000-06 with an average flow of USD 7 billion per annum and an average growth rate of 116% per annum.

While the recent rapid expansion of Chinese investment abroad has drawn wide attention, the presence of China's OFDI in the world still remains small in relation to that of the industrialised countries' OFDI. Moreover, the amount of OFDI stock owned by China is only about one quarter of the FDI stock owned by foreign countries in China. Nonetheless, the emergence of China as a source of FDI in the world may be considered as a logical step in the country's economic development and there is every indication that China will continue to search for investment opportunities abroad in the foreseeable future. Thus it is likely that China's OFDI will accelerate.

China's OFDI has evolved not only in size but also in terms of geographical and sectoral distribution over time, responding to the government's strategy, the conditions of Chinese economy, and bilateral economic relationships with foreign countries. This chapter presents an overview of China's OFDI, making use of the available official data.

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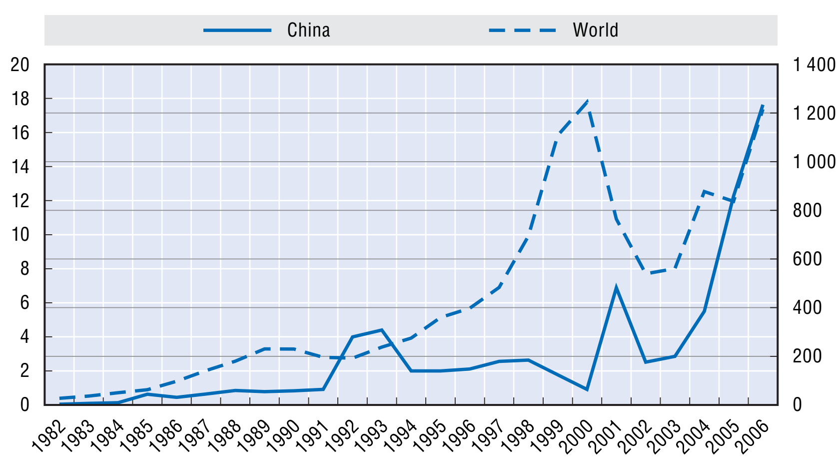
China's OFDI flows have recently recorded a steep rise, though from a low base

China's overseas investment is a recent phenomenon. Starting from virtually no OFDI in 1979, the starting year of China's open door policy, China's OFDI remained negligible around an average amount of USD 450 million per annum during the 1980s.[2] In these early years of China's economic transition, most Chinese firms did not have sufficient knowledge and competitiveness to carry out outward investment projects, and the country's overall capital outflow was strictly restricted by the government, given the severe scarcity of foreign exchange. In 1992, OFDI flows from China briefly shot up to USD 4 billion, more than three times the figure of the previous year. However the momentum did not last for more than a few years and China's OFDI stagnated around an average flow of USD 2.3 billion per annum over the whole of the 1990s.

In 2001, China's OFDI flows took off, posting a big jump with an outflow of USD 6.9 billion – more than six times the figure recorded in the previous year. This coincides with China's accession to the WTO, in advance of which China made great progress in liberalising its trade, investment and financial regimes and China's official announcement of the "go global" policy within its 10th five-year plan (2001-05). This time the momentum seems to be sustained into a robust upward trend with a steep acceleration in 2005-06 after the government substantially relaxed OFDI regulations in 2004[3] (see Figure 3.1). The average annual growth rate of China's OFDI registered 116% for the period

Figure 3.1. **China's OFDI – flow: 1982-2006**

USD billions



Note: The left vertical axis measures China's OFDI and the right axis measures the world's OFDI.
Source: MOFCOM and UNCTAD.

from 2000 to 2006, which is among the fastest in the world and is particularly impressive compared with the average growth rate of only 6% for total OFDI flows from the whole world for the same period. The latest figure from the Ministry of Commerce (MOFCOM) showed USD 17.6 billion[4] of OFDI flow for 2006, accounting for 1.5% of total OFDI flows from the world. China's OFDI flow stands at the 18th largest in the world and at the 4th among the developing and transitional countries after Hong Kong, China; Brazil; and Russia (see Table 3.A1.1).

China's emergence as a source of OFDI is part of the growing trend of emerging economies' outward investment, which recorded an average growth rate of 31% over 2000-06 and reached USD 174 billion in outward flow for 2006, accounting for 14.3% of total OFDI flows from the world. China's performance in accelerating its OFDI over the same period is remarkable even among emerging economies. However, caveats are that statistics in emerging economies tend to be patchy and relatively unreliable as omissions and under- or over-estimations are prevalent (see Box 3.1).

China's OFDI stock has steadily accumulated, though remained relatively small in the world

Through the expansion of OFDI flows, China has been gradually accumulating FDI stock overseas. By end-2006, cumulative OFDI owned by China climbed to USD 75 billion.[5] However, being a late comer as an FDI source country, China's presence in the world as a global investor has remained relatively small. China's OFDI stock as of 2006 still accounted for only 0.6% of total OFDI stocks in the world. This figure put China at the 23rd largest in the world and at the 6th largest among the developing countries after Hong Kong, China; Russia; the British Virgin Islands; Singapore; and Chinese Taipei. Furthermore, in terms of a ratio to GDP, China's OFDI stock is equivalent to 2.9% of its GDP in 2006, lagging far behind the global average of 26.1% as well as the proportions for developed (30.7%) and developing countries (13.9%)[6] (see Figure 3.2 and Table 3.A1.3).

In comparison with the 30 OECD member countries, China's OFDI stock ranked in 2006 at the 19th largest, behind Austria but ahead of Portugal. While in terms of the recent outward flows China moved ahead of a few more OECD member countries, China's share, at 1% of world total outward direct investment flows over the last four years (2003-06), is dwarfed by 82.3% share accounted for by all the OECD member countries. Furthermore, in terms of a per capita value, China's OFDI stock of USD 57 per capita is far below the OECD average of USD 9 111 per capita (see Table 3.A1.4).

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Box 3.1. **Measurement of China's OFDI**

The data for 2003-06 used in this chapter are obtained from MOFCOM's Statistical Bulletin of China's Outward Foreign Direct Investment which started its annual publication of OFDI statistics in accordance with international standards in 2003. Before 2003, the method used by MOFCOM to collect OFDI statistics was inconsistent with international standards, and it is believed that the official statistics seriously underestimated the actual OFDI volumes from China. For example, MOFCOM's OFDI statistics did not include investments made after initial approval, and only equity investments were captured.[1] Through extensive consultation, however, MOFCOM and the National Bureau of Statistics formulated *the Statistics System of Chinese Foreign Direct Investment* in 2002[2] to incorporate the definitions, statistical principles and methodology based on *OECD Benchmark Definition of Foreign Direct Investment (Third Edition)* and *IMF Balance of Payment Manual (Fifth Edition)*.

While the government's efforts to adopt and implement international standards in collecting and publishing OFDI statistics have substantially improved the reliability of data, underestimation of the actual OFDI volumes may still be the case in current official statistics. Since MOFCOM collects data based on its approval and registration record of OFDI projects, investment projects undertaken by enterprises which have escaped the formal approval and registration procedures through MOFCOM may have been omitted. A field interview conducted by FIAS/IFS/MIGA,[3] indeed, found that most private firms interviewed did not apply for their investment projects abroad. In comparison to China's FDI stocks reported by the OECD member countries in their respective inward FDI statistics, China's OFDI stocks reported by MOFCOM are on average 40% lower with a few exceptions such as the United States and Japan (see Table 3.A1.2).

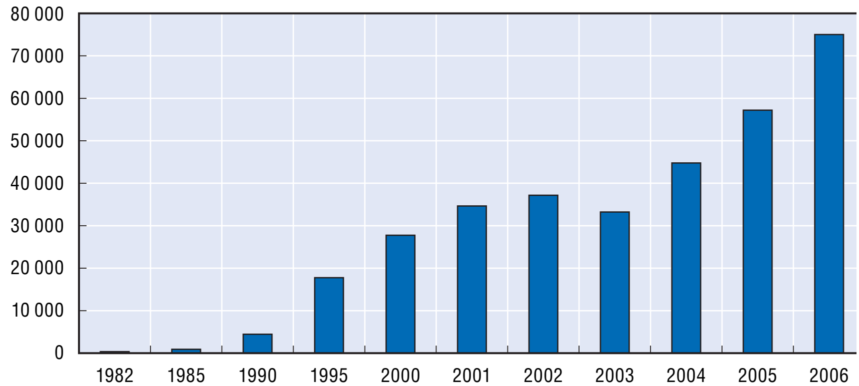
1. The international practice also considers re-investment with overseas earnings as well as loans from parent companies to overseas subsidiaries as OFDI flows.
2. It was further revised in 2004 and 2006.
3. Yao, Y. and He, Y. (2005).

China's OFDI has a high concentration in a few offshore financial centres

According to MOFCOM, at the end of 2006, more than 5 000 Chinese investment entities have established nearly 10 000 overseas enterprises through direct investment across 172 countries and/or economies. While the list of countries receiving China's OFDI has been getting longer, indicating diversification of outward investment, China's OFDI flows have been highly concentrated in a few host countries. The top five destinations for China's OFDI accounted for 85.5% of total OFDI flows from China over 2003-06 and 84.5% of total OFDI stocks owned by China as of end-2006 (see Tables 3.A1.6 and 3.A1.7).

Figure 3.2. **China's OFDI – stock: 1982-2006**

USD millions



Source: MOFCOM (data for 2003-06) and UNCTAD (data for 1982-2002).

The largest share of stock was found in Hong Kong, China, absorbing more than half of the country's total stock. It is easily understood from Hong Kong, China's special role as China's offshore platform from which Chinese enterprises can raise funds for their domestic business activities as well as for their investment projects in third countries. In addition to Hong Kong, China, popular tax havens or offshore financial centres of the British Virgin Islands and the Cayman Islands have been favourite locations for Chinese investors. Indeed, 80% of China's OFDI flows headed towards one of the three economies (Hong Kong, China, the British Virgin Islands and the Cayman Islands) over 2003-2006. The other destinations favoured by Chinese enterprises include Australia, Denmark, Korea, Macao, China, Russia, Singapore, Sudan and the United States.

Part of the attraction of offshore financial centres as OFDI destinations may result from the fact that the Chinese government's long-term capital controls have hampered the deepening of China's domestic capital market. In the face of domestic financial constraints, these financial offshore centres can be effectively used as locations of regional headquarters, holding companies or special vehicle enterprises for which efficient financial services and unconstrained financial flows are crucial. By transferring capital to these offshore financial centres, large Chinese enterprises may also diversify domestic risks and gain flexibility in corporate financing and intra-corporate restructuring.

However, a significant portion of the funds invested in these offshore financial centres are likely to be channelled subsequently to ultimate host countries and/or to flow back to China later as FDI inflows, a phenomenon commonly known as round-tripping. The three most popular offshore financial centres are also the major sources of inward FDI in China. While Hong Kong, China is the single largest source of China's inward FDI, accounting for nearly 30% of total FDI inflows to China, the British Virgin Islands and the Cayman Islands contributed to 15% and 3%, respectively, of total FDI inflows to China in 2005 (see Table 3.A1.8). Typical estimates for round tripping flows are in the range of 20-30% of total FDI inflow to China,[7] though it is very difficult to prove the link between foreign direct outflow and inflow on a dollar-for-dollar basis. Therefore, all such estimates of the size of round-tripping are bound to be mere guesswork. Since the bulk of China's OFDI flows into offshore financial centres from which further investments are made in the ultimate host countries, the true distribution of China's OFDI is hard to assess.

Asia has been the favourite region for China's OFDI in recent years

Regional distribution of China's OFDI has undergone gradual shifts over the years. In the initial phase of China's OFDI (1979-91), China's OFDI flow was concentrated in North America and Oceania, accounting for close to 80% of total outflow from China. During this period, China's outflow had never exceeded USD 1 billion per annum and major investment projects in these two regions were in the natural resources sector and were undertaken by the large state-owned enterprises (SOEs), including mining, an aluminum smelter, a sawmill and oil extraction in Australia and Canada.

Since then, China's OFDI has increasingly shifted its focus away from developed countries in North America and Oceania to developing countries in Asia with Hong Kong, China being by far the largest recipient. By end-2006, 64% of China's OFDI stock was found in Asia. Out of this stock in Asia, about 88% is invested in Hong Kong, China, followed by Korea (2%), Macao, China (1.3%) and Singapore (1%).

While Asia on average received the biggest portion of China's OFDI, accounting for 47% of the country's total flows over the last four years (2003-06), diversification of China's OFDI flows to other regions, particularly offshore financial centres, is being observed. In 2005 and 2006, Latin America and the Caribbean overtook Asia as the top regional destination of China's OFDI flows: the share of China's OFDI flows to Latin America and the Caribbean recorded 53% in 2005 and 48% in 2006, compared with 37% and 42%, respectively, received by Asia. These investment flows into Latin America have been totally dominated by a few offshore financial centres (the Bahamas, the British Virgin Islands and the Cayman Islands) which accounted for 97% of the regional flows over 2003-06. As of end-2006, Latin America hosted 26.3% of China's total OFDI stock, out of which 96.4% was found in one of the three sunny offshore financial centres.

China's investment in Africa experienced a breakthrough in 2004 when its OFDI flow into Africa surged by more than four times from the level of the previous year. Over 2003-2006 Africa received 3.6% of total outflows from

China, which is slightly lower than Europe. As investment projects in Africa predominantly focus on natural resources sectors, the major African recipient countries of China's OFDI are all rich in natural resources, including Algeria, Nigeria, Sudan and Zambia. As of end-2006, 3.4% of China's total OFDI stock was found in Africa, ranking Africa at the third most attractive region by stock for China after Asia and Latin America. More detailed analyses of China's OFDI in Africa are found in Section 4.

Europe received 3.6% of total OFDI flows from China over the last four years (2003-2006). While investment flows to Western Europe stagnated around USD 120 million annually, investment to Central and Eastern Europe increased from USD 38 million in 2003 to nearly USD 500 million in 2006. Russia became the most popular destination in Europe for Chinese investors, accounting for 58.9% of outflows to Europe, followed by Germany (19.9%) and the United Kingdom (7.1%). As of end-2006, 3% of the country's total OFDI stock has accumulated in Europe, 53.7% of this in Central and Eastern Europe and 46.3% in Western Europe.

North America and Oceania, two regions which used to receive the majority of China's OFDI in the early years, accounted for only 2.1% and 1.4% of total outflows from China, respectively, over the last four years (2003-2006). The United States received 81% of regional flows to North America, and Australia captured 90% of regional flows to Oceania (see Tables 3.A1.9 and 3.A1.10).

China's OFDI is increasingly channelled towards developing countries

There is a clear trend that China's OFDI is flowing into developing countries at a higher rate than developed countries. Since the proportion of China's OFDI stock found in developing countries surpassed the proportion found in developed countries in 1999, a larger and larger share of investment outflows from China is directed towards developing countries.[8] During 2003-2006, the developing countries received 94.7% of total investment outflows from China, and by end-2006, hosted 95.3% of total China's OFDI stocks. Hence China is increasingly an important source of capital for economic development in developing countries. At the same time, Chinese investors' preference for developing countries explains why China's outward investors are seen less risk-averse by many analysts than international investors from other countries.[9]

M&A is becoming a common modality of OFDI from China

Mergers and acquisitions (M&As) have gradually emerged as a dominant vehicle for China's OFDI, while joint-ventures and establishment of overseas subsidiaries were two investment modalities typically used by Chinese enterprises in the earlier years. China's OFDI through cross-border M&As increased from a mere USD 60 million in 1990 to USD 5.3 billion in 2005, further to USD 15 billion in 2006 (see Table 3.1). Cross-border M&As by Chinese enterprises are especially popular in technology and communications and in natural resources sectors, and are used as a quick option to acquire advanced technology, sales networks, brand names and other strategic assets overseas. Different from the overall patterns of regional distribution of China's OFDI, M&A deals are targeted more at industrialised countries such as North America: 67% of M&As in terms of bid value were executed in North America and the EU.[10]

Table 3.1. **M&As *vs.* China's OFDI**

	1988-89 (average)	1990-19 (average)	2000-20 (average)	2003	2004	2005	2006
China's deals	109	430	3 561	1 647	1 125	5 279	14 904
As a ratio in total OFDI flow (%)	13.9	16.7	43.6	57.7	20.5	43.1	84.5

Source: MOFCOM (for China's OFDI flows) and UNCTAD (for China's purchase in M&As).

M&As, which now account for a significant share of China's OFDI, are an option mainly used by large Chinese multinational enterprises (MNEs). Most smaller investors still use establishment of sales offices as a primary mode for outward investments as many of them are engaged in trading and manufacturing Chinese products.

Further appreciation of the Chinese currency may encourage more Chinese enterprises to search for M&A deals abroad as they strive to enhance their positions in the international market. One survey has also revealed that more Chinese enterprises are willing to use M&As than in the past.[11] In the meantime, Chinese enterprises are gaining knowledge on how to evaluate M&A deals better and how to integrate an acquired business effectively and enhance its corporate value on a long-term basis. In particular, to improve the performance of a merged business, Chinese enterprises often have to overcome deep cultural gaps and familiarise themselves with the social, environmental and legal/regulatory systems of the host countries.

Sectoral composition of China's OFDI reveals motivations of Chinese enterprises

Sectoral distribution of China's OFDI shows that China's OFDI is mostly directed to two sectors: the natural resources sector to provide supply to satisfy expanding domestic demand of energy and mineral products, and the services sectors such as finance, transport and wholesale and retail to support China's export and import activities. It is noteworthy that the manufacturing sector has never gained prominence in the country's OFDI activities to the extent comparable to its status in exporting and attracting foreign direct investments. Up to the mid-1990s, 60% of China's OFDI was found in the services sectors, typically to facilitate trade. The remaining OFDI was divided between the natural resources sectors (25%) and the manufacturing sector (15%).

During the last four years for which OFDI statistics are available (2003-2006), the sectoral composition of China's OFDI flows fluctuated, being sensitive to execution of a few large investment deals. On average, the services sectors attracted the largest proportion of total outflows accounting for 47%, followed by the primary sector (38%), consisting of agriculture, forestry, animal husbandry, fishery, mining, quarrying and petroleum, and the manufacturing sector (15%). While the share of the mining, quarrying and petroleum subsector is affected by a few large natural resource development projects and/or M&A deals, it is worth mentioning that nearly half (48.4%) of foreign investment went to this subsector alone in 2006 (see Table 3.A1.11).

As of end-2006, the share of the services sector in China's total OFDI stock remained the largest, accounting for 65% of stock, followed by the primary sector (25%), almost all going to the mining, quarrying and petroleum subsectors, and the manufacturing sector (10%) (see Table 3.A1.12). Within the services sector, the most popular subsector was "leasing and business services", which includes investments in holding companies, regional headquarters and/or special-purpose entities, often established in popular offshore financial centres. Since these holding companies own diversified business activities across the world, making investments further to third countries, it is hard to classify their true investment portfolios by industry and sector. The services sector also includes sub-sectors, such as "wholesale and retail trade" and "transport, warehousing, and postal services", closely linked with China's export and import activities which have enjoyed various forms of government support and remain significantly large in terms of share in China's total OFDI stock. Within the manufacturing sector, the main subsectors investing overseas are: telecommunications, computer, and other electronic equipment; textile; pharmaceutical; and iron and steel processing.

MOFCOM started publishing OFDI statistics for the financial sector for the first time in 2006. According to the 2006 statistics, the financial sector made foreign direct investment of USD 3.5 billion, mainly in the banking industry, amounting to 16.7% of total OFDI flows for the year. As of end-2006, the cumulative OFDI stock in the financial sector reached USD 15.6 billion, equivalent to 17.2% of total OFDI stock. The stock is represented by 47 bank branch offices, 31 bank affiliated institutions, 12 bank representative offices and 12 insurance institutions in 19 countries including the United States, Japan and the United Kingdom. As demonstrated by the recent entry of China Minsheng Bank and China Merchants Bank into the US market,[12] Chinese banks are actively looking for overseas investment opportunities to expand their businesses, tap the savings of the Chinese diaspora,[13] diversify earnings and gain access to more sophisticated financial management techniques and practices in developed countries. As essential business support to other Chinese enterprises investing abroad, Chinese banks are also investing in developing countries, most recently in Africa, where the needs for financial support by Chinese enterprises have been expanding.[14]

Large State-Owned Enterprises (SOEs) have been major players in China's OFDI

China's initial OFDI projects were all carried out by several large SOEs authorised by the government to operate overseas business. Through extensive reform to restructure China's industrial sector, the presence of SOEs has gradually declined, giving way to emerging private-sector operations in many industry sectors. While this overall trend applies to China's OFDI activities, the pace of privatisation in OFDI has been relatively slow. According to one analysis,[15] the share of OFDI stock held by Chinese SOEs under central government administration stood around 84% of the country's entire outstanding OFDI stock as of end-2005[16] and the share of China's OFDI flows made by SOEs accounted for 83.7% of the country's total outflows in 2004-06. The remaining portion of OFDI was undertaken by either SOEs under local government administration or non-SOEs of various ownership structure including limited-liabilities enterprises, privately-owned enterprises and foreign-invested enterprises.

Despite the dominance of SOEs by value of China's OFDI, an increasing number of non-SOEs have been getting involved in overseas investment projects. Since the average size of investment projects by non-SOEs is substantially smaller than that by SOEs, the actual rate of participation by non-SOEs in OFDI activities is generally under-recognised. According to the 2005 MOFCOM statistics, the share of SOEs in number of outward investing entities dropped to 29% in 2005 from 43% in 2003 and 35% in 2004, and the largest number of outward investing entities were limited-liabilities enterprises accounting for 32% of total.[17] Hence, in terms of number, non-SOEs actually lead implementation of overseas investment projects with each making a relatively small-sized investment mostly under USD 5 million.[18] Many of these non-SOEs are found in the manufacturing sector.

Large SOEs have inherent advantages in undertaking large foreign investments since they can enjoy formal as well as informal support from the government in the area of finance, networking, information access and administrative procedures. They can also rely on monopolistic power in their respective subsector in the domestic market which has been protected by the government. For example, the dominance of large Chinese SOEs in the natural resources sectors can be explained easily from their monopolistic status, the government's extensive support for natural resources-seeking investments abroad and their preferential access to financial resources. As a result, all of the ten largest Chinese multinational companies by OFDI stock are SOEs and more than half of them are operating in the natural resources sectors (see Box 3.2). However, as the government has started introducing OFDI friendly policies and measures in a more comprehensive manner and encouraging outward capital flows as a general policy, non-SOEs are expected to be more and more active in exploring overseas investment opportunities.

Box 3.2. **The Largest Chinese MNEs**

China has for a long time been favouring large enterprises in its industrial policy, especially large state-owned enterprises (SOEs). Since 1998,[1] the government has a specific priority of "grasping the large and letting go the small" (zhuâdà fàngxiăo, or 抓大放小) which aims to create strong and competitive large enterprises and develop them into global champions – large multinational firms with global recognition and competitiveness, and at the same time to allow the small and medium-sized SOEs to face market forces. Through consolidation of SOEs, the number of SOEs has been reduced, generating several large enterprises. In 2003, the State-owned Assets Supervision and Administration Council (SASAC) of the State Council was established to supervise the 196 largest central SOEs, with USD 0.9 trillion of combined net assets.[2] China wants to increase the number of Chinese firms listed in Fortune 500 to around 50 by 2015. Political, financial and administrative support was offered to identified SOEs or state-affiliated enterprises which are considered as candidates for would-be global champions.

The 10 largest Chinese enterprises ranked by outward FDI stock in 2006[3] are:

1. China Petrochemical Corporation (Sinopec): Incorporated in 1998, Sinopec Group is a SOE solely invested by the State. Its key business activities are in oil, natural gas, and petrochemicals. It is the country's largest producer and distributer of refined oil products.
2. China National Petroleum Corporation (CNPC): CNPC is an SOE with a broad range of upstream and downstream operations in oil and natural gas.
3. China National Offshore Oil Corporation (CNOOC): CNOOC is a state-owned integrated energy company.
4. China Resources Holdings Co., Ltd.: Starting as Liow & Company in 1938 in Hong Kong, it is a state-owned conglomerate with a wide range of business covering properties, food, breweries, petrochemicals, retail, textiles, cement, and electricity.
5. China Mobile Communications Corporation: Established in 2000, it is a state-owned telecommunication company with not only basic mobile services but also data, IP telephone and multimedia services.
6. China Ocean Shipping Group Company (COSCO): COSCO is the country's largest shipping company with 25 wholly owned subsidiaries.
7. CITIC Group: It is a state-owned conglomerate owning 44 subsidiaries. Its core business is in finance and investment.
8. China National Cereals, Oils and Foodstuffs Corporation (COFCO): COFCO has been engaged in trading in cereals, oil and food, and since 1992 has been increasingly diversified.

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Box 3.2. **The Largest Chinese MNEs** *(cont.)*

9. China Merchants Group: Founded in 1872, it is now a diversified conglomerate owned by the State but based in Hong Kong, China. Its main businesses cover three core sectors of transportation and related infrastructure (ports, toll roads, energy transportation and logistics), financial investment and asset management, as well as property development and management.
10. Sinochem Corporation: It is an SOE operating globally in petroleum, fertiliser and chemicals.

All of the ten enterprises above are SOEs under the direct control of SASAC of the State Council. Many of the large SOEs operate in the natural resource related sectors and the telecommunications sector, all of which are characterised by monopolistic market conditions. By implementing an expansion strategy, these large SOEs currently own widely diversified businesses around the world.

China's OFDI is dominated by these large Chinese MNEs, most of them SOEs. For example, at the end of 2004, the 30 largest Chinese MNEs in terms of OFDI stock (more than 2/3 are SOEs) accounted for 80.4% (USD 36 billion) of the country's total OFDI stock and the same 30 largest contributed to 77% of total FDI outflows in 2004.

Many of these giant players from China are also ranked in the international top listings including a list of the largest MNEs from developing countries by foreign assets published by UNCTAD and the fortune global 500 list published by Fortune. In 2005, 10 Chinese MNEs (all of them SOEs) entered a list of top 100 non-financial TNCs by foreign assets from developing countries with combined foreign assets of USD 51.6 billion, foreign sales of USD 60.3 billion and foreign employment of 118 465. In Fiscal Year 2007, 24 Chinese enterprises with combined revenue of USD 838 billion were listed in Fortune Global 500, up from 20 Chinese enterprises in 2006 and only 3 in 1995. Out of 24 enterprises in the 2007 Global 500, 10[4] are also among the 30 largest Chinese (non-financial) enterprises by outward FDI stock.

1. This strategy was formulated in the mid-1990s under the direction of then Vice Premier Zhu Rongji, officially established as China's reform strategy at the Fifteenth National Congress in 1997 and put into full implementation in 1998.
2. *www.sasac.gov.cn*.
3. MOFCOM (2006).
4. These are Sinopec, China National Petroleum Corporation, China National Offshore Oil Corporation, China Mobile Communications Corporation, China Ocean Shipping Company, Sinochem, China State Construction Engineering Corporation, China Telecommunications Group Corporation, Shanghai Automotive Industry Corporation, and Shanghai Baosteel Group Corporation. Fortune Global list includes financial institutions, but the largest enterprise list by outward FDI stock compiled by MOFCOM does not include financial institutions.

Both macroeconomic and microeconomic conditions explain recent developments in China's OFDI

The recent dramatic expansion in China's OFDI, backed by the government's "go global" strategy, reflects two fundamental developments in the Chinese economy, one macroeconomic and the other microeconomic. At the macroeconomic level, China needs to balance its international capital flows better in the face of mounting pressure to revalue its currency. As a result of persistent trade as well as capital account surpluses, China's official foreign exchange reserves climbed up to an unprecedented level of USD 1.905 trillion as of end-September 2008. While China has been gradually making its foreign exchange regime more flexible, for example by adopting an adjustable peg basket system against the dollar in July 2005 and allowing incremental appreciations of the exchange rate, adjustments would not be enough to stave off the revaluation pressure effectively. Further exchange rate flexibility would solve a classic conflict between internal and external balance under the tight currency peg arrangements. In the meantime, a policy of encouraging capital outflows including foreign direct investment outflows as well as portfolio investment outflows[19] would help reduce the currency pressure by partially offsetting vigorous capital inflows to the country.

At the microeconomic level, many more Chinese enterprises have strong incentives as well as capacity to implement internationalisation strategies in order to advance their comparative advantage and profitability. Over the period of absorbing foreign investments into the country, many Chinese firms have gained the knowledge and experience crucial to operating business abroad via their foreign partners, and hence are ready to take up their international expansion/diversification programmes. Moreover, the emergence of overcapacity observed in some industry sectors within the domestic market is working as a push factor for Chinese enterprises exploring new markets overseas. As China's recent enthusiasm for OFDI is based more on an economic rationale than on a political agenda, the trend is expected to continue in future so far as underlying economic factors remain the same. Further discussion on the motivations of China's OFDI is found in Section 3.

Given the prevailing economic conditions, the upward trend in outward investment flows from China is likely to continue in the near future. It will be supported by further liberalisation of administrative and capital controls on outward investment as the government's "go global" policy matures. Through the reform programmes of Chinese SOEs and China's industrial sector in general, private-sector enterprises will gradually expand their share of overseas investment activities from China while certain sectors such as energy will remain dominated by large SOEs.

2. The government's policy on OFDI

In China's highly controlled economic system, shifts in the government's policy and strategy have always been among the most significant factors in explaining developments in China's OFDI. Since the start of the "open door" policy in 1978, the government has made incremental adjustments to OFDI policy in response to its perception of the political and economic needs of the country. Overall, China's OFDI policy has been shaped by the government's considerations of the reform needs of state-owned enterprises (SOEs), its industrial policies, the gradual relaxation of cross-border capital flow controls and bilateral relationships with host countries.

The government has developed a complex system of OFDI administration involving several different governmental bodies which guide the size and pattern of China's OFDI flows. China's policy framework governing OFDI covers a range of issues including the examination and approval process, the encouragement of specific types of projects, the system of foreign exchange control, and the SOE assets management and monitoring procedures. As the government's approach to OFDI has changed from one of tightly restricting capital outflows to one of encouraging Chinese enterprises to invest abroad, the policy framework has been adjusted to reflect the government's degree of willingness (or unwillingness) to allow Chinese enterprises' outward investment. This section lays out these policy adjustments and related changes in the administration and regulation of China's OFDI.

China's OFDI was strictly restricted up to the mid-1980s

In the early years of reform up to the mid-1980s, overseas investment activities were limited to state-owned foreign trade corporations under the supervision of the Ministry of Foreign Economic Relations and Trade (MOFERT)[20] and provincial and municipal economic and technology co-operation enterprises under the supervision of the State Economic and Trade Commission (SETC).[21] Although the government placed more emphasis on formulating policies to attract FDI into China than on encouraging FDI out of China, these state-owned enterprises nevertheless expanded business overseas by taking advantage of their high degree of autonomy in operation to establish international business links.

In August 1979, the State Council released a document stating that the setting up of overseas operations by Chinese enterprises was one of thirteen official policies for opening the economy.[22] However, there was no overall coherent framework designed to regulate overseas investments by Chinese enterprises, and all decisions on overseas investment projects had to be made by the State Council, which approved projects on a case-by-case basis. For example, the State Council approved the establishment of four large SOEs[23] specialised in overseas engineering and construction works and labour services which were expected to play a pioneering role in entering the international market. The China International Trust and Investment Corporation (CITIC) was also created as a ministerial-level corporation which enjoyed special permission from the top government officials to conduct investment activities both at home and abroad. Furthermore, even after the introduction of various administrative procedures for OFDI, these selected SOEs continued to operate outside of the standard administrative framework, and hence their investment activities were often not registered in MOFERT's official statistics.[24]

Due to the tight control of the State Council, it is believed that OFDI projects during this period were closely linked to the government's political considerations rather than the enterprise's commercial motivation and were approved on the basis of their contribution to China's political and economic influence and trade relationships. By early 1985, there were only 113 non-trade Chinese enterprises investing abroad with accumulated foreign investment stocks totalling USD 150 million.

In the mid-1980s the government introduced a series of regulations governing OFDI

In the mid-1980s, the government made a major move to standardise the regulations governing China's OFDI by introducing *The Notice about Principles and the Scope of Authority for Examination and Approval of Establishing Non-trading Enterprises in Foreign Countries, Hong Kong and Macao (1984)* and *Interim Regulations on the Administrative Measures and Procedures of Examination and Approval of Establishing Non-trading Enterprises Abroad (1985)*. These regulations extended the right to apply for permission to invest abroad to any legal-entity enterprises which could demonstrate access to sufficient capital, adequate technical and operational know-how, and alliance with a suitable overseas joint-venture partner. These regulations constituted the core of China's OFDI administration and remain applicable today after undergoing several revisions.

While the regulations cover any potential Chinese outward investors, the country's OFDI continued to be dominated by the large SOEs which could benefit from their already established foreign networks and experiences as well as the government's support. During this period, SOEs other than the trading corporations, such as Shougang (the Capital Steel and Iron Corporation), started to join the ranks of overseas direct investors. Domestic liberalisation and decentralisation, initiated by Deng Xiaoping's journey to the South in 1992, encouraged local governments at the provincial and municipal levels to promote actively overseas business operations of the enterprises under their supervision.

By the late 1990s, the government's approach turned favourable to Chinese outward investors

In the early 1990s, the government was faced with a streak of state asset losses from speculative investments in the real estate and stock markets in Hong Kong, China and, as a response, tightened its control on financial outflows, including OFDI flows. In particular, government agencies such as the State Planning Commission (SPC, since reorganised as the National Development and Reform Commission, NDRC) and the State Administration of Foreign Exchange (SAFE) were instructed to examine investment proposals of more than USD 1 million before the proposals could be sent to the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) for approval.

However, by the late 1990s, the government's attitude towards OFDI changed from merely allowing to actively encouraging Chinese enterprises, while support programmes were often targeted to certain industries and large SOEs rather than uniformly implemented. For example, Chinese enterprises engaged in processing and assembling raw materials, parts and machinery exported from China, mainly in light industry sectors such as textiles, machinery and electrical equipment, were supported with export tax rebates, foreign exchange assistance and financial assistance for their OFDI projects. Encouragement to large SOEs' investment overseas was provided as part of the government initiatives to nurture national champions in the strategic sectors which were expected to spearhead the country's industrialisation and gain global competitiveness.[25]

Since the early 2000s the government has consolidated the "go global" strategy

Since the early 2000s the government's policy to promote OFDI flows has been given increased impetus under the title of "go global" (zou-chu-qu, 走出去 – literally "go out"). This policy was officially initiated by former Premier Zhu Rongji in his 2000 report to the National People's Congress on the work of the government. Accordingly, the Tenth Five Year Plan (2001-05) listed overseas investment by Chinese enterprises as one of the four key thrusts to enable the Chinese economy to "adjust itself to the globalisation trend".[26] In March 2004, Premier Wen Jiabao advocated in his speech at the Tenth National People's Congress that China should speed up implementation of the strategy of "go global", and co-ordinate and guide Chinese investment abroad more effectively. Enterprises under all forms of ownership are encouraged to invest in overseas operations and expand their international market shares. The "go global" strategy is stressed again in the current Eleventh Five-Year Plan (2006-2010).

The government's intention to promote China's OFDI has frequently been mentioned by high-level diplomatic missions to other countries which were often accompanied by Chinese business delegations. Chinese enterprises have been directly and indirectly assisted by the government in winning procurement and construction contracts as well as natural resources exploration rights. For example, during President Hu Jintao's tour to several Latin American countries in November 2004, China signed some 400 agreements and business deals and promised an investment plan totalling USD 100 billion in Latin America over the following ten years.[27]

This turn in OFDI policy is a logical consequence of the country's success in attracting FDI and promoting exports in previous decades and is consistent with the overall framework of continuing reform and liberalisation of the Chinese economy. What has triggered this policy shift, however, is the government's recognition of two major developments: 1) the successful expansion of China's exports has been increasingly causing protectionist reaction in many host countries; and 2) the large accumulation of foreign exchange reserves has given rise to pressures from other countries on China to achieve equilibrium in its international financial flows by revaluing the currency. The government started to consider the implementation of OFDI-friendly measures as a way to circumvent trade frictions as well as to mitigate revaluation pressure.

The reform of OFDI administration has taken the form of streamlining approval procedures and relaxing foreign exchange controls for outward investment. Approval authority has been decentralised from the central level to the local level; the application requirement for OFDI proposals has been simplified with fewer items to submit to the authority; a specific time limit for each application step has been imposed on the approval authority; and online application procedures have been introduced to improve transparency.[28]

In parallel, the government has carried out step-by-step liberalisation of the restrictions on the use of foreign exchange for OFDI purposes. The task of examining the legitimacy of foreign exchange use for OFDI projects, up to a certain size of projects, has been decentralised to the local-level branches of SAFE in several pilot areas;[29] compulsory repatriation of overseas profits back to China has been abolished to allow Chinese enterprises to re-invest their profits overseas; the deposit required to guarantee remittance of profit from OFDI projects has also been abolished;[30] the size of projects up to which local-level branches are authorised to handle has been gradually increased[31] while this decentralisation arrangement has been rolled over from the pilot areas to the whole country; and finally the government eliminated the long- imposed quota of USD 5 billion per annum on foreign exchange allocation for OFDI in 2006.[32]

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In addition to the administrative reform mentioned above, the government has also formulated specific measures on OFDI reflecting the emerging priorities in its industrial policy. In October 2004, the government announced a plan to provide interest-subsidised loans to priority OFDI projects. These priority projects may include: projects to develop natural resources which are in short supply within the country; manufacturing and infrastructure projects leading to exports of domestic technology, products, equipment and labour; R&D projects accessing advanced global technology, managerial skills and talents; and merger and acquisition (M&A) projects with a potential to strengthen Chinese enterprises' international competitiveness.[33] Furthermore, the NDRC instructed China Export and Credit Insurance Corporation (SINOSURE) to provide services such as risk assessment, risk control, and investment insurance for the same four types of priority OFDI projects.

As a general support to Chinese enterprises planning OFDI projects, the government has started to provide information and guidance. For example, MOFCOM, through its information bank,[34] offers information useful for Chinese enterprises planning OFDI projects, such as: investment demand in host countries, opportunities for participation in business fairs, and FDI policies and regulations in host countries. MOFCOM has also started collecting information on problems, obstacles and/or barriers faced by Chinese investors[35] which is used to inform other fellow Chinese investors as well as to react promptly on problem solving through bilateral mechanisms if necessary.

In July 2004, MOFCOM, jointly with the Ministry of Foreign Affairs, released the first *Guidelines for Investments in Overseas Countries' Industries* in which a catalogue list of recommended industry sectors for China's OFDI were presented for each of 68 host destinations.[36] This list is used as a basis for MOFCOM to approve and administer OFDI projects. However, MOFCOM emphasised that the list is meant to assist Chinese enterprises in identifying promising industry sectors in each host country, and hence, not to impose any sectoral allocation on outward investment.

The government plans to transform its role from one of approving and controlling to one of monitoring and facilitating investment projects, as stated in *the Decision on Reforming the Investment System* issued by the State Council in July 2004, which relates mainly to investment in China, both domestic and foreign, but also covers outward investments from China. The progressive efforts made in the OFDI administration system since the early 2000s were in line with this overall direction of moving towards a more transparent and open policy framework. A challenge which the authorities are facing is to improve the monitoring system for statistical, tax and other similar purposes while continuing to reduce the scope of operations subject to the government's prior approval.

The current system of China's OFDI administration can benefit from further improvement

While the government's system of administration and regulation of OFDI has been evolving to reflect changing priorities and economic needs, Chinese enterprises investing overseas still have to go through a complex set of burdensome administrative procedures. Lightening this burden would allow market forces to play a fuller role in allocating investment overseas.

China's regulations on OFDI remain fragmented, as they are overseen by several different government bodies. In addition to the State Council, three other government bodies, namely the NDRC, MOFCOM and SAFE, have various influences on OFDI. The role of each government body in China's OFDI administration and regulation is described in the following:

State Administration of Foreign Exchange (SAFE)[37]

SAFE is the government agency responsible for China's foreign exchange control system, and is accordingly in charge of regulating the use of foreign exchange in OFDI projects. Before a specific project review can start, each OFDI proposal must be verified by SAFE for the legitimacy of its sources of foreign exchange whether it derives from an enterprise's own holdings, purchases made with renminbi, bank loans, or a combination of these. Then SAFE's opinion on the source of the foreign currency has to be attached to the application for each OFDI project filed with MOFCOM.[38] After obtaining approval from the NDRC, MOFCOM or both, all OFDI projects must be registered with SAFE to obtain a foreign exchange registration certificate, which is a prerequisite to remitting any currency overseas.

According to SAFE's *Circular on the Revision of Certain Foreign Control Policies Relating to Overseas Investment (2006)*, approval authority for OFDI projects with an estimated investment amount of less than USD 10 million in foreign exchange is delegated to the respective local-level branch of SAFE, while OFDI projects exceeding this ceiling have to be sent to the central-level SAFE office for approval. Previously, this ceiling was only USD 3 million and delegation of authorisation power to the local level was limited to the pilot SAFE branches, including Shanghai, Beijing and several eastern coastal provinces.[39]

While waiting for approval from the NDRC, MOFCOM or both, Chinese enterprises are allowed to request SAFE's permission on early-stage overseas remittance in order to cover preliminary expenditures up to 15% of total foreign exchange amounts estimated for the projects concerned. These preliminary expenditures may include: funds for acquiring shareholder rights in overseas companies or rights and interests in overseas assets; deposits required by the local laws or according to the demands of the project or the seller; market investigation fees; facility and equipment rentals; hiring costs;

intermediaries' fees; and bidding deposits.[40] The local-level SAFE branches can grant preliminary permission on early-stage overseas remittance based on submission either of an outward foreign direct project approval application or of documentation showing investment intent.[41] In case of lack of completion of the approval procedures within six months from the first remittance of preliminary expenses, the Chinese enterprise is required to repatriate any remaining funds in its overseas account to its domestic foreign exchange account.

SAFE has for a long time imposed an annual cap on the overall amount of foreign exchange to be approved for OFDI purposes and has used the cap to block a number of proposed overseas investment projects. This annual cap was originally USD 3.3 billion. This was raised to USD 5 billion in 2005. However, the ceiling on OFDI was neither realistic nor practical. In 2001, China's OFDI flows reached a record USD 6.9 billion. Accordingly, the 2006 Circular completely eliminated this cap.[42]

As Chinese enterprises explore overseas deals which are larger, more complicated and more time-sensitive, the government is likely to undertake further reform of its foreign exchange control system. With the huge accumulation of foreign exchange reserves in the country, China is aware of the need to facilitate greater capital outflows as demonstrated by implementation of the Qualified Domestic Institutional Investor programme.

NDRC and MOFCOM

The NDRC and MOFCOM share the power of vetting the legitimacy and usefulness of OFDI proposals. The NDRC is a macroeconomic management agency under the State Council and is in charge of formulating policies for economic and social development, maintaining a balance of economic aggregates and guiding overall economic system restructuring.[43] Within the NDRC, the Department of Foreign Capital Utilisation is responsible for recommending policies for overseas investment and approving China's OFDI projects requiring large amounts of foreign exchange. The NDRC reviews OFDI proposals to determine whether the projects comply with the laws and regulations of the state and the industrial policies; whether the projects contribute to sustainable development of the economy and society; whether the projects follow the administrative prescriptions of national capital projects and foreign loans; and whether the investors possess adequate capacity to carry out the projects.[44]

On the other hand, MOFCOM is in charge of setting administrative measures and specific policies, guiding China's overseas investment, approving each OFDI proposal, and recording OFDI data. The evaluation criteria used by MOFCOM in approving OFDI projects are essentially similar to those used by the NDRC but seem to include more micro-level examinations specific to the host countries and the projects concerned.

Prior to July 2004, all international investments larger than USD 1 million required both central-level NRDC approval and central-level MOFCOM approval.[45] The authorities would examine detailed information on the commercial value, the financing arrangements, and even the technical aspects of each proposed transaction. In July 2004, the State Council issued *The Reform of the Investment System Decision* to bolster Chinese enterprises' competitiveness in overseas investment, and decentralise approval authority to the local level within both the NDRC and MOFCOM.[46]

Under current regulations, there are five categories of OFDI project, each subject to a different approval process by the State Council, the NDRC and/or MOFCOM.[47]

1. Projects with total investment amount in excess of USD 200 million or with total foreign exchange in excess of USD 50 million: The projects in this category are initially reviewed by the NDRC to determine whether they are consistent with the government's economic security, industrial policy and capital management. After the NDRC completes evaluation of the projects, they are sent to the State Council for ultimate approval.
2. Projects in resource extraction with total investment amount in excess of USD 30 million or any kind of projects with total foreign exchange in excess of USD 10 million: The projects in this category are reviewed and approved by the NDRC at central level.
3. Projects of SOEs under the administration of the central government: For the central SOEs, projects with a total investment of less than USD 30 million and with total foreign exchange requirement less than USD 10 million do not need to undergo the NDRC's approval process, but are simply registered with the NDRC which issues a certificate of registration. Although the NDRC approval is not required, these projects have to obtain approval from MOFCOM which examines the viability of proposals. In conducting its examination, MOFCOM is instructed to seek advice from the Economic and Commercial sections of Chinese embassies located in the host countries.
4. Projects by others with a total investment of less than USD 30 million and with foreign exchange requirement less than USD 10 million: The projects in this category are approved by the NDRC at local level, which in turn reports their findings to the central NDRC office upon completion of review and approval. Subsequently the projects have to be sent to MOFCOM at the local level for further approval.
5. Projects targeting Chinese Taipei and other economies not having diplomatic ties with China: Regardless of project sizes, the projects in this category are reviewed by the NDRC at local level, which in turn reports its findings to the

State Council. In conducting its examination, the local-level NDRC office is instructed to consult with relevant government departments.

After obtaining approval, registering projects, and starting actual investment, Chinese enterprises are required to submit an annual report to MOFCOM and SAFE for their review.

Possible further reforms of OFDI administration and regulation

China does not have a centralised government body driving the country's globalisation efforts. During the external liberalisation process, while continuing to adhere to its obligations under the country's 1996 declaration of adherence to IMF Article VIII which provides for free payments and transfers in relation to international current transactions, China has developed a comprehensive exchange control and monitoring system covering all balance of payments transactions, the official objective of which is to manage international capital flows, maintain the autonomy of domestic monetary policy, and prevent Chinese enterprises from taking excessive external risks. While the foreign exchange control system has been evolving to adapt to the extent to which the Chinese economy is integrated with the global economy, SAFE has been and will remain an independent authority administering OFDI for the foreseeable future.

China's OFDI administration procedures could be further streamlined to reduce the unnecessary burden on Chinese enterprises investing overseas. This is especially important for small and medium-sized enterprises (SMEs) and all enterprises contemplating international investment for the first time. For example, the government could consider eliminating the requirement of obtaining approval from MOFCOM and the NDRC for at least relatively small-size projects proposed by private enterprises. Judgments on the viability of investment projects should be primarily the task of enterprises based on their risk-adjusted profit maximisation calculations and do not need to be confirmed or screened by the government. Experience has shown that administrations do not have the capabilities to make better judgments than enterprises on their own investment projects.

The government may wish to consider focusing on the provision of information useful for all Chinese investors, such as the relevant laws, regulations and policies related to foreign direct investment in host countries as well as the social and environmental regulations and practices of host countries to be complied with by Chinese (and all other) investors. MOFCOM has already made a move in this direction by starting an information bank and providing relevant information on its website.

Policy co-ordination among the three government bodies administering OFDI can be further improved. Each body requires a different set of documentations and certificates which could be consolidated to make paperwork easier and more efficient for Chinese outward investors. While MOFCOM has significantly improved its transparency by informing the public of its administrative procedures and required documents on its website, other government bodies seem to lack an equivalent level of transparency. Another possible improvement is the creation of a "one-stop shop", such as a single website, where Chinese outward investors can go to look for a complete set of requirements covering all three government bodies.

According to the survey undertaken by FIAS/IFC/MIGA[48] regarding perceived impediments to OFDI projects, the majority (58%) of enterprises interviewed pointed to the limitations on foreign exchange use as major impediments, followed by the lengthy time of the application process (44%), limited financial resources (35%), the high costs of complying with procedures and regulations (24%), and the strict check on the source of funds (17%).

The government uses various incentives to encourage and guide priority OFDI projects

The scope of government intervention in supporting OFDI includes financial incentives in the form of preferential access to loans, fiscal incentives, and indirect assistance to overseas activities by Chinese enterprises through its official development aid (ODA) programmes and diplomatic missions.

Financial incentives

Financial incentives provided by the government are the most powerful tools in promoting OFDI. Chinese enterprises on the priority list can benefit from the government's financial support in the form of access to below-market rate loans, direct capital contribution, and subsidies associated with the official aid programmes. Two policy banks, China Development Bank (CDB) and China Export and Import Bank (Exim Bank), are major providers of these financial incentives, but other major state-owned commercial banks are typically lined up to finance OFDI projects in response to strategic shifts in the government policy. For example, CDB and Exim Bank provided the telecommunications infrastructure provider Huawei with a USD 10 billion[49] and a USD 600 million[50] line of credit respectively to help its global expansion plan; the Industrial and Construction Bank of China (ICBC) offered a long-term soft loan of USD 7 billion to China National Offshore Oil Corporation (CNOOC) in supporting its (unsuccessful) bid to acquire a large US oil firm, Unocal,[51] and the acquisition of PetroKazakhstan by PetroChina Company Ltd. and the acquisition of Ssangyong Motors by Shanghai Auto were also financed by domestic state-owned commercial banks.[52]

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Exim Bank has been especially instrumental in promoting the government's "go global" strategy. Only relatively large projects using a majority of goods and services from China can be funded through concessional loans from Exim Bank.[53] In 2004, the NDRC and Exim Bank jointly announced that Exim Bank would earmark a portion of its budget for OFDI projects with at least a 2% interest rate discount and possibly other preferential lending terms.[54] The Ministry of Finance (MOF) will cover the gap between the actual market rate and the subsidised rate offered by Exim Bank to projects whenever supported by the government. Consequently, Exim Bank received a substantial capital injection from the government in 2005.

The government has also established special funds to back up China's OFDI projects. In 2005, the MOF and MOFCOM jointly announced that special funds for foreign economic and technical co-operation would be established to provide direct subsidies and discount loans to Chinese enterprises which plan to expand their business abroad by setting up plants and/or research and development centres and to conduct various forms of economic and technical co-operation in agriculture, forestry, animal husbandry and fisheries.[55]

The government's official aid programmes indirectly support Chinese enterprises' overseas operations. Firstly, most infrastructure construction projects offered under the government's ODA programmes require Chinese firms as construction contractors and/or equipment and material suppliers.[56] By winning contracts financed by ODA programmes, Chinese enterprises can keep engaged in host countries, establishing subsidiaries and diversifying their businesses. Secondly, these infrastructure projects are often offered as part of a package to win much larger commercial projects from the concerned host country which typically involve large-size acquisition of natural resources related assets by Chinese enterprises.

By actively guiding Chinese state-owned banks to fund OFDI projects, the government may increase the risk of undermining the commercial principle and the profitability of the banks as well as create moral hazard by encouraging Chinese enterprises to take high risk in investments. Chinese banks' aggressive financing to China's OFDI projects, if not transparent, may be questioned by host countries as well as the international community for their lending criteria. Moreover, subsidisation of cross-border acquisitions by Chinese government may cause international competitors to raise allegation of unfair competition in the light of perceived close connection between the government and large Chinese SOEs.

Chinese state-owned banks have been undergoing reform programmes to harmonise their corporate governance and risk management systems with international standards and have been making progress in incorporating environmental and social safeguards in their lending criteria. Their transformation into joint stock companies and subsequent IPOs bring in greater transparency, tighter supervision and closer scrutiny by regulators and public shareholders, giving the right incentives to their operations. Further reforms and efforts by Chinese state-owned banks are encouraged to enhance the competitiveness and sustainability of China's OFDI projects by directing funds to the most viable projects and safeguarding against environmental and social problems.

Non-financing incentives

Since 1986, the government has been providing all Chinese enterprises overseas with exemption from corporate income tax for five successive years after the beginning of operations. After the initial five years, Chinese enterprises operating in the host countries with double taxation treaties with China continue to enjoy exemption from income tax. In addition to the central government's tax incentives, some local governments have extra arrangements to promote OFDI projects by providing Chinese enterprises based in their localities with exemption from corporate and individual tax for certain specified periods. By mid-2007, China had concluded double taxation treaties with 88 countries as well as bilateral investment treaties (BITs) with 121 countries[57] in the world to protect the legal rights and interests of Chinese enterprises investing abroad.[58]

Chinese enterprises exporting equipment as well as raw and/or processed materials to their overseas investment projects have been entitled to an exporter's refund of value-added tax as is the case for other exports from China. If licensing or quota restrictions exist, their exports to supply OFDI projects are treated preferentially over other exports by the government. Imports from Chinese enterprises operating abroad are often given preference such as exemption from tariffs.[59]

Possible ways forward

Chinese enterprises have benefited from their government's financial and non-financial incentive schemes to promote OFDI under the "go global" strategy. However, without a centralised government body driving China's globalisation efforts, OFDI policies and implementation have not been well synchronised and the administration of OFDI projects has remained fragmented, with different government bodies exercising independent power over OFDI projects. The beneficiaries of the government incentives have been so far biased towards large SOEs operating in priority sectors.

To advance the government's "go global" strategy in a manner more inclusive of SMEs, the government can further remove the administrative burdens on Chinese investors and address two areas for which further government intervention may be especially useful:

Firstly, the government can play a more active role in advising and providing information to Chinese investors on the laws and regulations of host countries. These may include not only the foreign investment laws and regulations but also those concerning labour, environmental and social practices which Chinese investors should be aware of. A survey by FIAS/IFC/MIGA revealed that many enterprises investing in developed countries[60] found a lack of knowledge of local laws and regulations to be their most serious political risk when engaged in OFDI projects. While Chinese embassies are known to be active in assisting Chinese enterprises already investing in respective host countries, the government can improve bilateral and multilateral co-operation by also disseminating relevant information among potential Chinese investors.

Secondly, the government may wish to consider promoting and encouraging the use of various risk hedging tools for Chinese investors overseas. The majority of enterprises cite exchange rate volatility as a significant risk in outward investment projects.[61] As the gradual liberalisation of the exchange rate management system in China may bring in more uncertainty and volatility in the exchange rate in the future, Chinese enterprises can benefit from the availability and knowledge of various risk management tools.

3. Motives for China's OFDI

As government controls on outward investment have been steadily relaxed, China's OFDI has become more and more driven by Chinese enterprises' own commercial motivations, rather than the government's political agenda. To be approved and implemented, China's OFDI projects have to pass two tests: Chinese enterprises' evaluation showing the projects to be profitable and commercially viable, and the government's agreement that the projects are in the country's interest. The major outward investors are large state-owned enterprises (SOEs) for which the government's intentions may arguably dominate the enterprise's commercial calculations, even though many SOEs are encouraged by the government to act as autonomous enterprises maximising profits. Given the major role which the government plays in the Chinese economy, China's OFDI has been often seen as part of the broader process of economic reform and political activity, rather than as purely entrepreneurial activity.

OFDI projects may be driven by five major motivations

China's OFDI is multi-faceted in terms of characteristics, but can be categorised into the following five types: 1) projects seeking natural resources; 2) projects seeking product markets; 3) projects seeking strategic assets including advanced technology, brand names and customer/distribution networks; 4) projects seeking diversification; and 5) projects seeking efficiency. Chinese enterprises could be pursuing multiple objectives in one investment project; hence some investment projects could be classified under more than one category (see Box 3.3).

Resource-seeking projects

Resource-seeking has been the main consideration for China's OFDI projects ever since China started to invest abroad. Gaining access to natural resources on which the country depends can provide the benefits of long-term supply security. Chinese enterprises which are engaged in imports and exports of natural resources or are utilising natural resources as production inputs may benefit from internalisation by integrating extraction/ development of natural resources into their extended line of business. Large price fluctuations typically observed in the natural resources market may make many enterprises turn to protective measures against the price volatility risk including direct controls of natural resources production. Furthermore, large enterprises with monopolistic power in the domestic market may be able to enhance their monopolistic rents by vertically integrating their upstream businesses overseas.

Resource-seeking OFDI is driven by China's large, rapidly expanding domestic demand for natural resources to fuel its economic growth. Over the past two decades, China has moved from being East Asia's largest oil exporter to becoming the world's second largest importer of oil.[62] Explosive growth in demand has been also seen in aluminum, copper, nickel, iron ore, timber and other key commodities. Naturally, the government has placed securing the natural resources crucial for industrial growth at the top of its agenda and the NDRC has been encouraging Chinese energy firms to purchase equity in upstream energy suppliers, principally through overseas acquisitions. The government's intention of securing natural resources overseas is demonstrated in its diplomatic relations with resource-rich countries, to which China has sent high-ranking officials on missions and has provided official development aid (ODA) programmes. To assist Chinese state-owned energy enterprises in winning overseas deals of natural resources acquisition/ development, the government has often offered infrastructure projects as well as politically important landmarks through the government's soft loan or grant programmes as one package deal to the countries where the target natural resources are located. In addition to using diplomatic channels, the government intensively supports Chinese enterprises in carrying out resource-seeking OFDI projects by making preferential loans available to them through state-owned policy banks and commercial banks.

Box 3.3. **Major OFDI deals by Chinese enterprises (2004-07)**

Chinese enterprises	Invested project/ acquired asset	Host country	Estimated investment amount (USD billion)	Date	Comment	Major motivation
Wuhan Iron and Steel and other three steel mill companies	Wheelara joint-venture with BHP billion for mining iron ore	Australia	9.3	2004	Agreement signed	(1) Iron ore
CNPC	Petrokazakhstan	Canada/ Kazakhstan	4.18	2005	Acquired	(1) Oil
China Minmetals	CODELCO	Chile	0.55	2005	Agreement signed	(1) Copper
Sinopec	99.49% stake in Udmurtneft OAO	Russia	3.65	2006	Acquired	(1) Oil
CITIC	Kazakh oil assets of Nations Energy Company	Canada/ Kazakhstan	1.91	2006	Acquired	(1) Oil and (4)
China Metallurgical Group	Aynak copper field and related infrastructure project	Afghanistan	2.8	2007	Agreement signed	(1) Copper
Shanghai Baosteel	Joint-venture with Companhia Vale do Rio Doce for a steel slab plant	Brazil	3-4	2007	Letter of intent signed	(1) Steel
Sinopec	Development of Yadavaran onshore oil field	Iran	2	2007	Agreement signed	(1) Oil
Industrial and Commercial Bank of China	20% stake in Standard Bank	South Africa	5.49	2007	Completed	(2) and (4)
Bank of China	669 branches including a recent opening at London	28 countries	40% of its net profits from overseas	By 2007		(2) and (4)
Lenovo	IBM (PC hardware division)	USA	1.75	2004	Completed	(3) Computer
Nanjing Auto	MG Rover	UK	N/A	2005	Completed	(3) Automobile
China Mobile	China Resources Peoples Telephone	Hong Kong, China	0.43	2005	Completed	(4)
Bank of China	Singapore Aircraft Leasing Enterprise	Singapore	3.43	2006	Completed	(4)
State Grid Corporation	Consortium led by the Philippines' Monte Ore Grid Resources for grid operation privatisation	Philippines	3.95	2007	Bid awarded	(4)
Failed deals						
China Minmetals	Noranda	Canada	5	2004	Aborted	(1) Copper and zinc
CNOOC	Unocal	USA	19.5	2005	Aborted	(1) Oil
Haier	Maytag	USA	1.28	2005	Aborted	(3) Washing machine
China Mobile	Millicom International Cellular	Luxembourg	5.3	2007	Aborted	(3)

Note: Major motivations include: (1) resource-seeking, (2) market-seeking, (3) strategic-asset-seeking, (4) diversification-seeking and (5) efficiency-seeking.

Source: Various articles from *Financial Times*, *International Herald Tribune*, *International Petroleum Finance*, *People's Daily*, and *Xinhua*.

Prior to 1991, China's resource-seeking investments were mostly found in North America and Oceania, which were the leading destinations in terms of attracting investment outflows from China in this early phase.[63] Since then, the geographical landscape for China's resource-seeking OFDI projects has expanded further to Africa, Asia and Latin America. During 2003-06, resource-rich countries such as Algeria (2006), Indonesia (2004), Kazakhstan (2005), Sudan (2004), Nigeria (2004) and Zambia (2006) appeared in the top-ten list of China's OFDI destinations due to large natural resources acquisition/ development deals executed during each year (see Table 3.A1.6). Chinese energy SOEs have sometimes teamed up with Indian counterparts to acquire natural resources assets in other developing countries.[64] Despite recent media reports on China's aggressive acquisition of natural resources overseas, however, the share of natural resources related OFDI in total stock actually decreased from 2003 to 2005 and only picked up in 2006.

Box 3.4. **MNEs seeking resources – China National Petroleum Corporation (CNPC)**

CNPC was created in 1988 as an SOE to handle all petroleum activities in China which were originally the responsibility of the Ministry of Petroleum. Currently, CNPC is the largest oil and gas producer, supplier and overseas resources developer in China with total assets of CNY 1.4 trillion and more than 1 million employees, supplying 58% of the country's total crude oil output. CNPC began its international operations in 1993 when it signed a service contract with the government of Peru to manage an oil field. Since then, CNPC has been keen on acquiring oil contracts and stakes in oil companies in Sudan, Kazakhstan, Uzbekistan and Venezuela. By end-2006, CNPC had invested in 65 oil or gas projects in 26 countries, expanding its production capacity, transport (pipeline) networks, and oil refining and processing capacity. CNPC now produces 21% of its crude oil output from overseas. The enterprise aims to integrate downstream operations including products marketing to become an internationally competitive oil and gas company. Its subsidiary company, Petrochina Co., Ltd., is listed in New York and Hong Kong.

On 26 October 2005, CNPC acquired PetroKazakhstan, Kazakhstan's second largest foreign petroleum producer, and largest manufacturer and supplier of refined products, by gaining 67% of the company's shares. This deal gave CNPC the ownership of 11 oilfields, licences for 5 exploration blocks, the largest refinery in Kazakhstan, and the transport and sales network consisting of sales companies and service stations. In the first year of operation, the crude production of PetroKazakhstan reached a record high of 10.5 million tons.

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One distinctive feature of resource-seeking OFDI from China is that investments are dominated by a few large SOEs such as China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), Sinochem and Sinopec in the energy sector; and Baosteel, China Minmetals and Capital Iron and Steel Corporation in the mineral sector. Since resource-seeking investment normally requires a large up-front financial commitment, these large SOEs possess the immense advantage of having access to financial resources which can be preferentially offered from the state-owned banks as well as being raised from foreign stock exchange markets via share-listings. Not surprisingly, therefore resource-seeking is not frequently cited as a motivation to invest abroad by a sample of Chinese enterprises which includes a significant portion of non-SOEs and small and medium-sized enterprises (SMEs).[65]

Market-seeking projects

Market-seeking motives have become important for those Chinese enterprises which aim to expand business overseas by relying on their comparative advantage already established in domestic and foreign markets; or those which intend to find new markets overseas, pushed by intense competition in the domestic market. A large number of enterprises with this motive are found in the manufacturing sector. The survey by FIAS/IFC/MIGA revealed that 85% of the interviewed enterprises considered market-seeking very important or important[66] – the top-ranked motive among all for their OFDI. In the earlier period, market-seeking OFDI projects were typically undertaken through setting up local branches or distribution centres to facilitate trade, wholesale and retail of Chinese goods. In the later period, many more Chinese enterprises have been investing in production facilities, plants and supply chains, partially replacing exports of their products.

Unlike in the natural resources sectors, the government's support for OFDI in the manufacturing sector has not been crucial in encouraging Chinese manufacturers to go abroad, even though government policy recognises investment to develop global competitiveness and expand markets as key OFDI projects qualifying for financial incentives. The government has supported OFDI projects in the manufacturing sector to the extent that they could promote exports from China, but these export-related OFDI projects have been generally small in size. Rather, outward investments in this sector have been motivated by Chinese manufacturers' survival strategies in an increasingly competitive market environment and/or have been based on their long-term business development strategies.

Since the mid-1990s, excessive competition in the domestic market, with a large number of multinational enterprises entering and investing in China, has caused falling margins and overcapacity in certain mature industries such as textiles and clothing, bicycles, footwear, and electrical appliances.[67] In the face of this earnings pressure, Chinese enterprises have been trying to find new markets overseas by establishing not only local sales and distribution centres but also overseas production bases from which they can gain direct access to local markets. These types of OFDI are found in both developed and developing countries. As deregulation in the services sectors makes progress in accordance with China's WTO accession agreements, competitive pressures may push more Chinese enterprises in the services sectors out to explore international markets in the near future.

Chinese manufacturers' investment in certain developing countries is also undertaken with a view to taking advantage of preferential access to the ultimate sales markets in developed countries. Investment in garment factories in Mauritius and Jamaica is targeted at the US market, and investment in cotton manufacturing in Turkey at the EU market, while investment in clothing factories in Fiji is aimed at the Australian market. Due to its immense success in exporting products over the past years, China has been increasingly facing resistance from major export destinations, including various trade barriers such as prohibitory tariffs, import quotas and anti-dumping sanctions. OFDI may be one solution to maintain access to these ultimate sales markets, circumventing regional protectionism as well as mitigating frictions with trade partners. A prominent example is the Haier Group which has established manufacturing facilities and assembly plants in the United States and Europe to avoid quota restrictions and potential anti-dumping sanctions.

Strategic asset-seeking projects

Strategic asset-seeking has been an increasingly demonstrated motive for China's OFDI since the late 1990s. Foreign enterprises which own proprietary technology, globally-recognised brand names and/or established customer networks and sales channels are the target of acquisition by Chinese enterprises. They consider the acquisition as a short-cut to gain these strategic assets without incurring large expenses on research and development, international marketing campaigns and development of an overseas customer base. In an increasingly competitive world, many Chinese enterprises are aware of the need to shift their strategy from one of competing on low cost and aggressive pricing to one of competing on innovation, brand image and services with higher profit margin. For example, Lenovo's decision to purchase IBM's computer unit was clearly influenced by the motive of seeking strategic assets – in this case, a globally-recognised brand name,[68] and China's largest independent power producer, Huaneng Group, acquired half of the Australian power generation subsidiary of Shell-Bechtel venture, InterGen, with an aim to obtain operational skills in deregulated markets.[69] Access to

Box 3.5. **MNEs seeking new markets – ZTE Corporation**[1]

Established in 1985, Zhongxing Telecom Equipment (ZTE) corporation is a Shenzhen-based telecom equipment vendor owned by a consortium of state-owned, private and public shareholders. ZTE's product range has expanded over time to include virtually every sector of the wireline, wireless, terminal and service markets. After an intense lobbying effort, the government eventually allowed ZTE to list its shares under the listing quota system[2] and the company went public in Shenzhen in 1997 and in Hong Kong in 2004.

Competition for telecommunications equipment is fierce since China fully opened up its market, so winning a significant domestic market share is an enormous challenge for a latecomer. Pushed out by this domestic competition from entrenched multinational vendors such as Alcatel, Ericsson, Lucent, Motorola, Nortel, Nokia and Siemens, ZTE found overseas markets, especially in developing countries, a potentially lucrative place to sell its products and provide its services. By successfully exploiting its comparative advantage of the compatibility in telecommunications equipment models between China and other developing countries and its relatively high cost-performance ratio, the enterprise could quickly meet the effective demand of telecommunications equipment in several developing countries and multiply its business model in others.

Starting from export of its expanding variety of products, ZTE made its first foreign investment in 2000. ZTE's OFDI projects include overseas customer service centres, sales representative offices, factories, and several R&D centres, including in the United States, Sweden, France, India, and Pakistan. So far, ZTE has established partnerships with over 500 operators in more than 120 countries around the world; ZTE's overseas assets account for 10% of its total and its overseas staff reach about a quarter of its total staff.

ZTE's market share in Africa is expanding rapidly due to its aggressive strategy in seeking markets in developing countries. Since it won a contract to build a mobile phone network in Algeria for USD 32 million in 2004, ZTE has struck similar deals in Ghana and Lesotho, and recently also in Ethiopia. In 2004, the first Wideband Code-Division Multiple-Access (WCDMA) network was launched in Tunis by ZTE. In Angola, it signed a framework agreement to supply telecommunications equipment worth USD 69 million with the Angolan fixed line telecommunications utility, Mundo Startel. ZTE is also planning to invest USD 400 million in Angola to construct the country's telecommunications network, improve military telecommunications system, construct a mobile phone factory, create a telecommunications training institute and establish a telecommunications research laboratory. ZTE also has won a majority stake (USD 16.1 million) in Sonitel, Niger's state-owned telecommunications company, outbidding France Telecom, and has constructed a telecommunications network in partnership with Zamtel in Zambia.

Box 3.5. MNEs seeking new markets – ZTE Corporation[1] *(cont.)*

While ZTE has made great inroads into Africa, there are reputational hazards in ZTE's African business that the company might wish to avoid in future. The company donated 144 million Kenyan shillings (USD 2.1 million) in 2005 to Telkom Kenya, and was subsequently awarded a contract to install 26 000 switching lines in Nairobi and Mombasa. Though ZTE denied any corrupt practice in its donation, a gift like this invites suspicion from the international community.

1. The quota system was scrapped in 2001.
2. Based on Leander, T. (2007).

advanced proprietary technology and other strategic assets is also one of the government's expressed goals in encouraging China's OFDI.

To obtain strategic assets available overseas, merger with an acquisition of a foreign enterprise in developed countries such as North America, Europe and Japan is the most popular mode of investment, followed by a strategic joint venture. Establishment of R&D centres in advanced countries is also used by Chinese enterprises which aim to tap into human resources available in these countries. According to the FIAS/IFC/MIGA survey, about half of the sample enterprises stated strategic assets-seeking or global competitiveness strategy as a very important or important factor for determining their outward investment. As Chinese enterprises strive to upgrade their global competitiveness, this type of OFDI is expected to increase in the near future.

Diversification-seeking projects

Diversification-seeking OFDI is mainly pursued by large SOEs which used to enjoy monopoly power in the country's foreign trade in their respective industries. Due to the industrial reforms that have taken place since 1979, these state-owned trading giants have lost their monopoly positions and have been forced to diversify to other business areas if they want to survive. They have benefited from their comparative advantage in international diversification resulting from their past international experience and the established networks which they build up as trading houses. On the other hand, the government's strategy of nurturing national champions has benefited relatively large Chinese enterprises, mostly SOEs, which aimed to expand and diversify their business internationally.

Examples of Chinese enterprises pursuing diversification-seeking OFDI include China National Chemicals Import & Export Corporation (Sinochem) and China Resources Corporation. Both were originally large trading companies under the direct control of the former MOFTEC. In late 1987,

Box 3.6. **MNEs seeking strategic assets – China National BlueStar (Group) Corporation**

China National BlueStar Corporation (BlueStar) is a large SOE with its focus on chemical products and new materials. Starting from a specialised cleaning company in Lanzhou City in 1984, BlueStar has expanded its cleaning business and has developed new technology and equipment in competition with foreign enterprises. Currently, it has total assets of CNY 30 billion including more than 30 subsidiaries and scientific research institutes as well as holding shares of three public listed companies (BluesStar Cleaning, BlueStar New Materials, and Chenyang Chemicals). In 2004, BlueStar became a subsidiary of China National Chemical.

BlueStar has greatly enhanced its technology and management level through overseas mergers and acquisitions. In 2005, it acquired Drakkar, the parent company of a world-leading animal nutritional feed firm based in France, for USD 460 million to extend BlueStar's product line. Later in 2006, it also bought French company Rhodia's organic silicon business including its patents, manufacturing equipment and distribution channels as well as the company's sulphide business. After these M&A deals, BlueStar became the world's second and third largest producer of methionine and organic silicon, respectively, and the largest Chinese investor in France.

In 2007, Blackstone Group purchased a 20% share of BlueStar for USD 600 million. With Blackstone's overseas network, it is aiming to integrate its business in France more effectively and eventually group the assets for an initial public offering in Shanghai or Hong Kong by the end of 2008.

Sinochem, which formerly enjoyed a monopoly in trading petroleum, chemical fertilisers and raw materials for plastics manufacturers, obtained permission from the State Council to start a new business including overseas investment on a trial basis and was subsequently designated the first pilot corporation in China to diversify its business with the objective of becoming a top multinational enterprise. Currently, Sinochem is a highly diversified multinational enterprise, listed in Fortune Global 500, with business encompassing agriculture, energy, chemicals, finance and real estate. A similar experience applies to the case of China Resources Corporation. It started using its Hong Kong, China base to diversify its operations through outward investment in the face of dwindling monopolistic power in trade between China and Hong Kong, China. It currently owns 11 listed and 8 unlisted companies with its core business in the four sectors of manufacturing and distribution of daily-use consumer goods; properties and related industries; infrastructure and public utilities; and pharmaceutical production and distribution.

Efficiency-seeking projects

Even though China still has an ample supply of labour within the country, efficiency-seeking is one of the motives expressed by manufacturing enterprises investing in developing countries. As Chinese industrial structure moves up the value chain and China's exports shift toward more high-tech products, China will shed low-tech and labour-intensive manufacturing to secondary locations in western inland provinces and foreign countries, consistent with a flying-geese model. For example, since the late 1990s, China's investment in ASEAN countries has started to show a strong bias toward low-tech labour-intensive manufacturing and assembly plants. Establishment of joint-ventures or wholly-owned factories in developing countries is especially popular in household electrical appliances,[70] automobile production,[71] the textile industry[72] and the agricultural industry.[73]

Efficiency-seeking outward investment is a common activity of multinational enterprises which are truly global players and are able to take advantage of differences in market characteristics, costs, physical and human resource endowment, and government policies worldwide without national constraints. Large Chinese enterprises aspiring to be among the ranks of truly global investors have started to demonstrate their capacity and willingness to follow the path of other multinational giants by making efficiency- seeking outward investment.

Small and medium-sized enterprises may invest abroad to replicate their production model in other developing countries where China's labour-intensive model of producing low value-added goods fits in well with the endowment pattern as well as the stage of economic development and therefore is relatively easy to transplant. At the same time Chinese enterprises may still have slightly more advanced technology, a better international marketing system and more sophisticated managerial skills than host countries in the developing world. By establishing production facilities in these host countries and integrating them into the global manufacturing chain, China can also benefit from an increased export of capital goods and raw materials to their overseas production facilities. The expected appreciation of Chinese currency and rising labour costs may push more domestic enterprises out to maintain the cost competitiveness of their products in the international market.

Are the motivations to invest overseas influenced by the government?

The governance structure of China's SOEs indicates that their decisions, including overseas investment decisions, might be influenced by the government's intentions rather than by the purely commercial goal of maximising shareholder wealth. Though most Chinese SOEs are now partially held by the public as a result of reforms aimed at commercialising them, they still have governance and incentive structures different from non-SOEs: the government holds non-tradable shares of the SOEs; their board members and top managers are appointed by the government; their operations are not threatened by bankruptcy and takeover; and they have relatively easy access to government subsidies and below-market rate loans. These features are especially true for the large Chinese SOEs whose assets are administered by the State-Owned Assets Supervision and Administration Commission (SASAC).[74] As of mid-2007, SASAC controls 155 Chinese SOEs with combined assets of more than USD 1.5 trillion and holds the power of deciding on major issues including human resources, budgets and investment strategies. This has contributed to the perception that decisions to invest abroad may be made by the government to achieve its strategic/political agenda.

In terms of the five categories of China's OFDI mentioned above, the government's intervention and influence have been important for projects with the motivation of seeking natural resources, strategic assets and diversification, but have not been very important for projects with the motivation of seeking markets and efficiency. The former three categories of OFDI may be more influenced by the government's strategic agenda, such as securing energy resources and nurturing national champions with international competitiveness. On the other hand, the latter two categories of OFDI are more likely to be a result of purely commercial calculations based on Chinese enterprises' comparative advantage in the host countries.

Foreign governments, especially from developed countries, are increasingly concerned about China's OFDI motivated by non-commercial reasons. Their concerns include that OFDI seeking strategic assets may conflict with host country national security interests, and that OFDI with non-commercial motivations may lead to loss of productivity and efficiency in the host country economy. These concerns have been fuelled by the common perception that many Chinese SOEs do not comply with internationally-recognised standards of responsible business conduct, including principles of corporate governance.

4. China's direct investment in Africa

China and Africa have decades of relationships which have evolved from being highly influenced by ideological and political considerations to being increasingly driven by commercial motivations. While the evolution of China's economic relationship with Africa is on a parallel with that of China's overall economic relationship with foreign countries, it illustrates the unique characteristics of China's OFDI more clearly than with any other region.

In the 1950s, China provided support to liberation movements in many African countries, and after their independence, benefited from the numerical advantage of African countries in the United Nations General Assembly to push China's political agenda, in particular the restoration of China's representation there and in the Security Council. However, Africa's importance in China's foreign policy declined in the 1980s and 1990s while China turned its focus to internal economic reform and modernisation by attracting foreign capital and technology into the country. Africa was not perceived by China as a source of the capital and technology desired for modernising China's industry.

In recent years, there has been a great revival of China's relationship with Africa. What is new in the contemporary China-Africa relationship is a strong commercial impulse and an economic rationale, supported by China's economic success and growing confidence in participating in the global economy. China has become Africa's second largest trading partner after the United States, surpassing France, with more than USD 50 billion of trade recorded between China and Africa in 2006, up from a mere USD 5.6 billion in 1999 (see Box 3.7). China increasingly considers Africa as not only an important source of energy and other crucial natural resources required for its fast growing economy but also a rapidly expanding market for Chinese products, especially manufactured goods. Africa's renewed importance for China has been also demonstrated by a series of high-profile visits by Chinese officials to African countries making promises to increase its official development assistance (ODA) programmes.

One milestone for the contemporary China-Africa relationship was the first summit of the Forum on China Africa Co-operation (FOCAC) which took place in Beijing in October 2000.[75] The forum has become an important platform for dialogue on various issues between China and African countries, leading to the formulation of a road map of co-operation in politics, economy, international affairs and social development. It was followed by the second summit of FOCAC in 2003, and most recently in November 2006 by the third summit of FOCAC at which China announced a large economic co-operation and assistance package to Africa. The package included a preferential credit line of USD 5 billion, the establishment of a USD 5 billion China Africa Development Fund to support China's OFDI projects in Africa, a further opening of Chinese markets for African exports, a series of public infrastructure projects, the cancellation of official debts owed by eligible African countries, and the establishment of three to five economic and trade co-operation zones in Africa. These pledges were summarised in the Beijing Action Plan (2007-09) as a road map of China-Africa co-operation in the following three years.

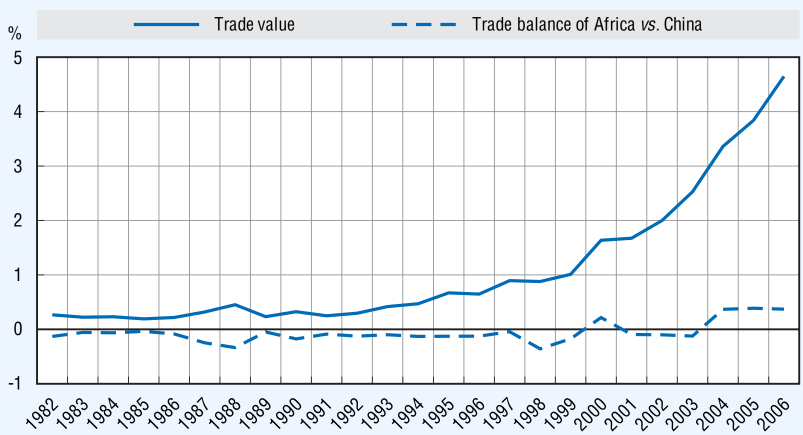
China's recently intensified engagement in Africa culminated in the country's first African Policy Paper issued in January 2006. Based on the principles of "mutual benefits", "common development" and "win-win

Box 3.7. **The trade relationship between China and Africa**

Trade between China and Africa accelerated during 2000-06 at an average rate of 33% per annum. In 2006, China's exports to Africa reached USD 22.9 billion, rising from USD 4.2 million in 2000. China's exports to Africa mostly consisted of machinery and transport equipment, textiles and apparel, and other manufactured products (which together amounted to 87% of China's total exports to Africa). On the other hand, China imported USD 26.9 billion from Africa in 2006, rising from USD 5.4 billion in 2000. China's imports from Africa are dominated by oil and natural gas (together 62% of China's total imports from Africa),* ores and metals (17%) and agricultural raw materials such as logs and cotton (together 7%). In particular, China's dependence on Africa for its oil imports has been increasing and Africa currently supplies nearly a third of China's oil imports. China's five most important trade partners in Africa are Angola, South Africa, Sudan, Nigeria and Republic of Congo.

Figure 3.3. **Trade value between Africa and China: 1982-2006**

As a ratio to African GDP



Source: IMF.

China's trade value with Africa has increased at a faster pace than China's overall trade with the world: the growth rate of trade between China and Africa in 2000-06, at 33.1% per year, was higher than the 24.8% growth rate recorded for China's total foreign trade. As a result, the share of trade with Africa in China's overall trade increased from 2% in 2000 to 2.8% in 2006. This figure is very close to Africa's share of overall OFDI flows from China in the same year, which amounted to 2.9%.

Box 3.7. **The Trade Relationship between China and Africa** *(cont.)*

For China, Africa is still a minor partner, representing less than 3% of its trade value worldwide. However, from Africa's point of view, China is becoming an important trade partner: Africa's share of trade with China in its total trade with the world climbed to 8.6% in 2006 from 3% in 2000 and China overtook France as the second largest partner for Africa by trade value in 2006, following only the United States. China accounted for about 40% of Africa's total exports to Asia and 36% of Africa's total imports from Asia. China has become a dominant trade partner especially for Benin, Republic of Congo, Angola, Equatorial Guinea and Sudan: for all of them, China accounted for more than 25% of their total trade values.

Compared to the advance made in the trade relationship between China and Africa, direct investment flows between the two parties have been more modest. China accounts for only 0.6% of total FDI stock found in Africa as of end-2006 and 1.2% of total FDI flows into Africa during 2003-05. Compared with the OECD member countries, China's FDI contribution to Africa during 2003-05 is ranked the 8th largest (see Table 3.A1.14).

* Three major oil exporters to China are Angola (accounting for 47% of oil exports from Africa to China), Sudan (25%) and Republic of Congo (13%).

results", the policy paper outlines the government's intentions to promote trade, investment, financial services, agriculture, infrastructure, resources development and tourism in Africa.

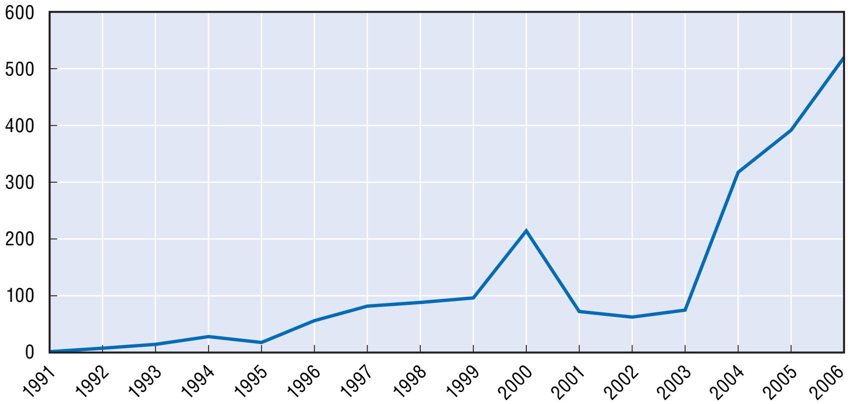
China's new engagement with Africa is emerging but China has remained a minor investor in Africa

China's FDI in Africa has rapidly increased since the late 1990s, starting from a very low base. China's OFDI flows into Africa were estimated to be USD 107 million per annum in the latter half of the 1990s, rising from a mere USD 14 million in the former half of the 1990s.[76] Robust investment flows to Africa continued further in the 2000s, keeping pace with the general trend of China's outward investment volume worldwide. During the period 2003-06, an average of USD 326 million of investment was made annually by Chinese enterprises in Africa. By end-2006, China's OFDI stock in Africa had reached USD 2.6 billion (see Figure 3.4 and Table 3.2).

Though the recently observed rise in China's direct investment in Africa has drawn wide attention, as is also the case for its global position as an investor, China has so far remained a relatively small investor in Africa. China's FDI stock of USD 2.6 billion[77] in Africa in 2006 accounted for less than 1% of total FDI stock owned by all foreign counties in Africa, and European and

Figure 3.4. **China's OFDI in Africa – flow: 1991-2006**

USD millions



Source: MOFCOM (data for 1991-2002 based on an approval record; and data for 2003-06 based on a balance of payments record)

Table 3.2. **China's OFDI in Africa – flow and stock**

	1991-95 (annual average)	1996-2000 (annual average)	2001-06 (annual average)	2003	2004	2005	2006
Flow (USD million)	14	107	240	75	317	392	520
As a share in total OFDI flows from China (%)	15.10	31.30	5.20	2.60	5.80	3.20	2.90
Stock (USD million)				491	900	1 595	2 557
As a share in total OFDI stock from China (%)				1.50	2.00	2.80	3.40

Source: MOFCOM.

North American countries with traditional ties with Africa have continued to occupy prime positions as foreign investors in Africa. The top investor in Africa remained the United Kingdom with a 16.6% share of total FDI stock in Africa, followed by the United States with a 9.2% share and France with a 7.7% share (see Table 3.A1.14). In terms of flow, China's share in total FDI flows to Africa is slightly larger than its share of FDI stock, at 1.2% over 2003-05, but this is overwhelmed by the large inflows originating from the United Kingdom (42.2%), the United States (9.2%), France (7.6%), Spain (5.6%) and the Netherlands (4.9%). Among Asian investors, however, China exceeded Japan and Korea in both flow and stock of direct investment in Africa; and China has become a leading source of FDI in Africa from developing countries.

Although it is consistent with Chinese investors' general preference for developing countries as OFDI destinations, China's expansion into Africa does not seem particularly outstanding. Though China's pragmatic approach to economic relationships with Africa, based on the principle of "no interference in internal affairs", has allowed Chinese enterprises to expand business in certain African countries from which enterprises from other industrial countries have had to withdraw due to concerns regarding human rights violations, weak governance and corruption, China's overall investment position in Africa is far from matching those of traditional foreign investors in Africa.

The average size of China's OFDI in Africa is relatively small

One characteristic of China's direct investment in Africa is the relatively small average size of investments made by Chinese enterprises. There are around 750-800 Chinese enterprises actively investing in Africa, of which only about 100 are state-owned and the rest are private enterprises with various business interests ranging from trade, manufacturing, construction, services and communications to agriculture and natural resources development.[78] Large investment deals which have caught public attention were executed almost without exception by giant SOEs acquiring natural resources assets or developing natural resources extraction/processing projects. On the other hand, numerous small and medium-sized enterprises (SMEs), mostly private, have been investing small amounts in the manufacturing and services sectors.

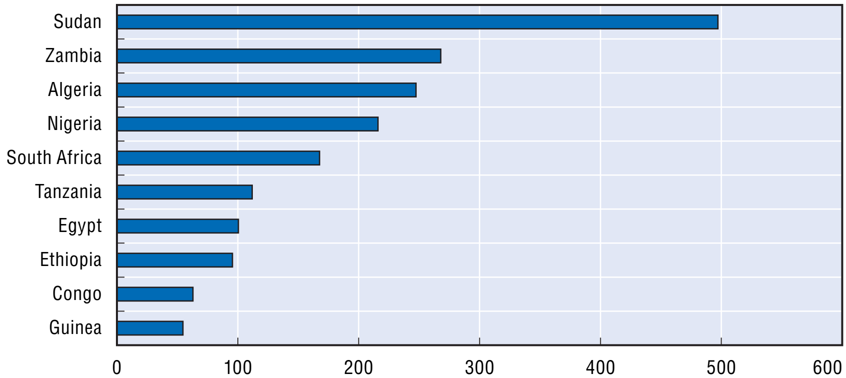
In case of the construction industry, the long-term presence of large SOEs in the construction business in Africa[79] has led to a number of spin-off enterprises established by former employees of such large Chinese construction SOEs as China Overseas Engineering Corporation, China Roads and Bridges Corporation and China Railway Construction Corporation. These Chinese entrepreneurs stayed on in Africa even after the construction contracts were over and have typically become independent sub-contractors for their former employers.

Chinese investment is highly diversified among African countries

The geographical composition of China's direct investment in Africa is highly diversified, reaching 48 countries in the African continent (see Figure 3.5 and Table 3.A1.15). The top five countries with China's largest OFDI stocks, all of them resource-rich countries (Algeria, Nigeria, South Africa, Sudan and Zambia), accounted for 54.6% of China's total OFDI stock in Africa as of end-2006. Sudan is the only country in Africa which has entered the worldwide list of top ten OFDI destinations favoured by Chinese enterprises: in terms of stock, Sudan ranked the 10th largest in the world in 2005 and the 9th largest in 2006.

For several African host countries China's investment has become prominent as a source of FDI: African countries which sourced more than 5%

Figure 3.5. **Top African recipients of China's OFDI stock**
As of end 2006, USD millions



Source: MOFCOM.

of their FDI stocks from China so far are Niger (27.5% of its FDI stock received from China), Madagascar (10.8%), Guinea (8.0%), Zambia (7.1%), Gabon (6.5%), Benin (6.4%) and Mauritius (5.7%).

In terms of investment flows, the list of African countries favoured by Chinese enterprises did not change much during 2003-2006, with Algeria, Nigeria, Sudan, South Africa and Zambia in the top list. These five popular destinations continuously absorbed more than a half (76.2%) of China's OFDI flows into Africa during 2003-2006 (see Table 3.A1.16).

China's OFDI has also flowed into African countries from which other countries have decided to withdraw or abstain from investing due to concerns regarding human rights abuses, corruption and repressive regimes. The Chinese government has, for example, supported some investments in such troubled countries as Angola, Sudan and Zimbabwe. When Angola ended a 27-year civil war in 2002, China offered a USD 2 billion oil-backed credit line for financing the country's reconstruction efforts in March 2004[80] in spite of the long-criticised mismanagement of oil revenues by the Angolan government. In return for the credit offer, Sinopec succeeded in winning a 50% stake in Offshore Block 18 from Sonangol, the Angolan state oil company. In March 2006, Sinopec and Angolan state-owned Sonangol formed a joint-venture, Sonangol-Sinopec International, to develop a new refinery at Lobito with an estimated investment cost of USD 3 billion.[81]

Since the late 1990s China has aggressively cultivated its oil relationship with Sudan while other countries withdrew due to the Darfur crisis and Sudan's poor record of public spending practices.[82] By end-2006, China had OFDI stock of nearly USD 0.5 billion in Sudan, including CNPC's 45% stake in the Greater Nile Petroleum Operating Company. CNPC also invested in the country's largest oil refinery in collaboration with the Energy Ministry, and owns many fields in the southern Darfur. In Zimbabwe, China has signed an energy and mining deal worth USD 1.3 billion while other companies have been discouraged by the country's unpalatable human rights record.[83]

China's OFDI in Africa has not been particularly skewed towards the natural resources sector

In terms of sectoral composition, during 1979-2000[84] the manufacturing sector received the largest amount of China's investment flows (46.2%), followed by resource extraction (27.6%), services (18.3%) and agriculture (7.0%) (see Table 3.A1.17). Considering that about 50-80 % of FDI goes to natural resource exploitation in most African countries,[85] China's OFDI in Africa is not particularly biased towards the natural resources extraction sector in international comparison. A large portion of China's investment in the services sector has been in construction due to China's long engagement in investing in infrastructure projects in Africa.

China's FDI flows to Africa have mainly taken the form of equity joint-ventures with local enterprises. Chinese enterprises consider that finding a suitable local firm as a business partner is very important for project success.

Though disaggregated data are not available with which to analyse the more recent sectoral composition of China's OFDI in Africa, a series of large investments made in oil and mineral extraction are likely to have contributed to an increasing share of the resource extraction sector in recent years.

Markets and resources are two main motives for China's OFDI in Africa

The main motives for Chinese enterprises to invest in Africa are market-seeking and resource-seeking. While resource-seeking OFDI is led by a few large SOEs with strong government backing (*e.g.* CNOOC, CNPC and Sinopec), market-seeking OFDI is driven by not only a few large SOEs but also numerous relatively small-sized private enterprises in such sectors as trading, wholesale and retail, manufacturing and other services.

The expanding demand for energy and other natural resources essential to sustain China's economic growth and the abundance of these resources in Africa have naturally determined the recent evolution of China's economic relationship with Africa. Currently, nearly a third of China's oil imports come from Africa where Angola, Sudan, Republic of Congo, Equatorial Guinea and Nigeria are the top African oil exporters to China. These African countries with strong oil trade links with China are also recipients of many of China's OFDI projects, infrastructure projects carried out by Chinese constructors, and China's ODA programmes. These three contributions from China to Africa are highly interrelated: large OFDI deals in the natural resources sector are often accompanied by infrastructure projects which are financed through China's ODA programmes. These infrastructure projects are commonly carried out by Chinese contractors as required by the terms of China's concessional loans and grants. Furthermore, ports, electricity plants, roads and railroads constructed by Chinese contractors may provide better transport, logistics and utility services which can be useful for other Chinese enterprises' operations in Africa.

Examples of resource-seeking OFDI projects are listed in Box 3.8. The resources sought after by Chinese enterprises in Africa include: oil in Algeria, Angola, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Kenya, Libya, Namibia, Nigeria and Sudan; copper in Republic of Congo, Zambia and Democratic Republic of Congo; chrome in South Africa and Zimbabwe; iron-ore in Gabon, and fisheries in Ghana and Morocco. Among major Chinese enterprises in the natural resources sector, CNPC has invested the largest amount in the African continent, covering 8 countries with a large stake in Sudan. Sinopec has oil and gas exploration and production business in 6 countries. CNOOC has recently committed USD 2.3 billion to acquire a 45% stake in Nigeria's Akpo oil field[86] and signed an exploration contract with Equatorial Guinea for an offshore oil block.[87]

There are two broad types of market-seeking OFDI projects in Africa: investment targeted for the market in African countries and investment targeted for the market in third countries, typically developed countries. For the latter type of OFDI projects, investors intend to take advantage of the preferential market access provided by developed countries to African countries through such mechanisms as the African Growth and Opportunity Act (AGOA) offered by the United States, the Everything But Arms initiative offered by the EU, and the Economic Partnership Agreement between the EU and Africa, the Caribbean and the Pacific (ACP) countries.[88] It is believed that these trade agreements have contributed to the establishment of apparel factories in Lesotho, Mauritius, Rwanda and Swaziland and investments in the light manufacturing and agribusiness sector in Tanzania. Investment to seek markets in third countries is bound to be very sensitive to the terms of the trade agreements; and the expiration of the Multifibre Arrangement (MFA) in January 2005 caused many investors in apparel factories to leave Africa.

African local markets are still small but have been actively explored by Chinese enterprises operating in the manufacturing and services sectors. In the services sector, the construction industry has been prominent. China's construction business in Africa has a long history including the construction of the Tanzam Railway in Zambia in the 1960s-1970s, and has been very successful in winning construction contracts in Africa.[89] Chinese construction companies have a comparative advantage over those from developed countries since they have access to relatively cheap financial sources provided by Chinese state-owned banks as well as a relatively cheap labour force[90] and

Box 3.8. **China's Resource-seeking OFDI projects in Africa**

Algeria (China's FDI stock around USD 247 million as of end-2006 – rank 3 in Africa)	Sinopec	Oil	It signed a contract for USD 525 million to develop the Zarzaitine oil field in 2002; and holds exploration licences for several blocks in the Amguid Massaoud Basin and in the Oued Mya Basin.
	CNPC	Oil	It acquired oil refineries for USD 350 million in 2003; and holds several exploration licences for blocks in the Oued Mya Basin, Adra/Sbaa Basin and Cheliff Basin.
	PetroChina	Oil	It signed a contract with Hydrogen Carbide (Algeria) to develop oilfields and construct a refinery in 2003.
Angola (China's FDI stock around USD 37 million as of end-2006 – rank 17 in Africa)	Sinopec	Oil	It secured a 40% stake in Block 18 for more than USD 1.4 billion in 2006 after Exim Bank offered a USD 2 billion oil-backed loan to Angola between 2005 and 2006 and entered into a joint-venture agreement with Sonangol to build an oil refinery in Lobito.
Côte d'Ivoire (China's FDI stock around USD 25 million as of end-2006 – rank 24 in Africa)	Sinopec	Oil	It signed two offshore agreements for the Marine XII and high Sea C blocks in 2005 with the government and acquired a 27% stake in the joint-venture with ONGC and Oil India to explore a deep water oil field off the coast in 2004.
Democratic Republic of the Congo (China's FDI stock around USD 38 million as of end-2006 – rank 16 in Africa)	Wambao Resources	Cobalt and Copper	Through its joint venture with the Congolese company Comide, it opened a plant to produce cobalt-copper alloys in Likasi in 2005.
Equatorial Guinea (China's FDI stock around USD 30 million as of end-2006 – rank 19 in Africa)	CNOOC	Oil	It signed a production sharing contract for an offshore oil field with GEPetrol in 2006.
Gabon (China's FDI stock around USD 51 million as of end-2006 – rank 12 in Africa)	Sinopec	Oil	It signed a technical evaluation deal for three onshore oilfields in 2004 for a possible production sharing contract.
Kenya (China's FDI stock around USD 46 million as of end-2006 – rank 14 in Africa)	CNOOC	Oil	It signed an offshore oil exploration deal in six blocks in 2006.
Libya (China's FDI stock around USD 29 million as of end-2006 – rank 21 in Africa)	CNPC	Oil	It won a 45% production share in Block 2 in 2005; and holds an exploration licence in Block 17-4.
Nigeria (China's FDI stock around USD 216 million as of end-2006 – rank 4 in Africa)	CNOOC	Oil	It bought a 45% stake in the Akpo field from South Atlantic in 2006 for USD 2.3 billion in 2006. It was given preferential access for up to 7 oil blocks in exchange for a USD 2.5 billion loan package in 2007.

Box 3.8. **China's Resource-seeking OFDI projects in Africa** *(cont.)*

South Africa (China's FDI stock around USD 168 million as of end-2006 – rank 5 in Africa)	Zijin Mining Group Company	Gold	It bought a 20% state in Ridge Mining for ZAF 120 million which is developing ZAF 1 billion Blue Ridge mine and larger Sheba's Ridge.
	Sinosteel	Chrome	It has a joint-venture to operate a chrome ore mine and a smelting plant with Limpopo Province Development Corp.
Sudan (China's FDI stock around USD 497 million as of end-2006 – rank 1 in Africa)	CNPC	Oil	It acquired a 40% stake in the Greater Nile Petroleum Operating Company in 1996; and owns most of a field in southern Darfur and a 41% of a field in the Melut Basin.
Zambia (China's FDI stock around USD 268 million as of end-2006 – rank 2 in Africa)	China Nonferrous Metals Industry	Copper	It established Foreign Engineering & Construction Company in 1998 to develop Chambishi Copper Mine and owns a majority stake in Chambishi copper operation. It plans to expand the Chambishi mine and build a new smelter with the Yunnan Copper Group to ship copper blister back to China with total investment of USD 500 million.

Source: Various articles from *Financial Times, International Herald Tribune, International Petroleum Finance, People's Daily* and *Xinhua.*

cheap equipment available from China. Furthermore, the African market for Chinese construction services is effectively created by the Chinese government itself, which imposes the condition that the bulk of China's concessional loans and grants be used to procure goods and services from Chinese suppliers/contractors. These advantages allowed Chinese enterprises to overcome the high risks commonly perceived by foreign investors for infrastructure development projects in Africa.

China's ODA has been aligned with its OFDI policy

China has had an African aid programme since the mid-1950s. Its programme consists of grants, zero-interest loans and concessional loans often carrying a flexible repayment schedule. In addition, China provides technical assistance, scholarships, medical missions and labour co-operation programmes. Between 1960 and 1989, China provided an estimated cumulative sum of USD 4.7 billion to Africa, accounting for nearly a half of China's total aid flows worldwide[91] for this period. By May 2006, China's contribution to assistance in Africa had reached USD 5.7 billion (CNY 44.4 billion) since the beginning of its African aid programme.[92] With approximately 800 aid projects, China has established its aid programmes in nearly every country in Africa.[93]

Given the accumulated sum of China's OFDI in Africa at USD 2.6 billion by end-2006, the official aid flows have clearly constituted a large share of bilateral capital flows from China to Africa. Though the actual figures for China's ODA are hard to pin down due to lack of transparency in data collection and publication,[94] China's annual ODA has been accelerating in parallel with other economic relationships with Africa and is likely to have surpassed USD 1 billion per annum.[95] The size of China's official aid flows to Africa is more than twice as large as that of China's FDI flows to Africa. At the third summit of FOCAC in November 2006, China further promised to double the size of aid to Africa in 2006 by 2009.

In addition to the official aid programme, China has been providing debt relief to many African countries. Since 2000, China has cancelled more than USD 1.3 billion (CNY 10.5 billion) of official debts owed by African countries. Furthermore, China is currently committed to a debt cancellation programme worth another USD 1.3 billion (CNY 10.5 billion) for 31 African countries as pledged at the third summit of FOCAC.[96] In spite of this increase in China's ODA flows to Africa, the size has been modest in comparison with the OECD member countries (see Table 3.A1.18).

China's aid programme has been always used as an instrument to achieve political, strategic and economic goals. In contrast to the early years of channelling aid for the purpose of gaining international support for China's political agenda,[97] China's contemporary aid policy has been increasingly guided by an economic and commercial rationale. Recent aid packages have been effectively targeted to complement other, more dynamic, economic relationships between China and Africa. In particular, trade and access to energy and mineral resources have become central interests. The distribution pattern of China's aid among African countries may provide a good indication of the importance of countries as perceived by China (see Table 3.A1.19).[98]

As the "going out" of Chinese enterprises has become an official goal of the government, China's OFDI in Africa has been actively facilitated by the government aid programmes: for example, construction projects to build politically important public buildings and basic infrastructure are offered under the aid programme arguably in the expectation of winning political support for large natural resources-related FDI deals between African governments and Chinese SOEs; and many of these construction projects financed through the aid programmes have been carried out by Chinese contractors, encouraging them to establish a long-term base in Africa in the form of branches, subsidiaries and/or joint- ventures (see Box 3.6).

However, China's pragmatic approach to ODA has been often criticised by other donor countries. They often argue that China's ODA approach, especially its principle of "no interference in internal affairs", undermines harmonised efforts of the international community to eliminate human rights abuses and corruption, to promote democratic governments and to keep debt levels sustainable in Africa.[99]

Financial support to Chinese investors in Africa powerfully encouraged China's OFDI there

In addition to the government financial support to African countries through ODA programmes mentioned above, direct financial support to Chinese investors has been especially important for China's OFDI in Africa. Many of the surveyed Chinese enterprises[100] which were already investing in Africa stated that government support was a key factor in making investment in Africa, much more important than for investment in any other region. Chinese enterprises, as consistent with the global view, perceive Africa as the riskiest region to invest in, and hence require a relatively low cost of capital to overcome the high risks associated with investment projects there.

Direct financial support is available in the form of preferential access to below-market-rate loans from state-owned policy banks and commercial banks for Chinese enterprises which work in the priority sectors identified by government policy. The natural resources sector is a prominent example: investment projects in the natural resources sector typically require large and long-term financial commitments and are characterised by enormous uncertainty in profitability; and the government actively promotes OFDI projects in the natural resources sector as high priority projects by providing the needed financial support. In the government's African Policy Paper (2006), China promised its continued practice of providing preferential loans and buyer credits to support Chinese enterprises' investment in Africa.

Among Chinese banks, China Export and Import Bank (Exim Bank) and China Development Bank (CDB) are the two state-owned policy banks actively financing Chinese enterprises in Africa, as elsewhere.

Exim Bank is the world's third largest export credit agency with annual disbursements of USD 17 billion (CNY 132 billion),[101] and had reached CNY 100 billion for the total value of loans signed with an outstanding loan portfolio of CNY 50 billion[102] for African projects as of June 2007, accounting for 20% of the bank's total business volume.[103] The majority of projects financed by Exim Bank are directed to infrastructure development including dams, hydropower, thermal power plants, oil facilities, copper mines, and railways.[104] Exim Bank is also assigned the responsibility of implementing a USD 5 billion preferential credit programme to Africa which was pledged at the third FOCAC in Beijing for 2007-09. On top of this commitment, it was reported that the bank plans to make available about USD 20 billion in infrastructure and trade financing to Africa in 2008-10.[105]

Box 3.9. **Case study: A Chinese construction SOE in Africa: COMPLANT**

China Complete Plant Import and Export Corporation (COMPLANT) was established as the body responsible for organising and managing all China's aid projects as a government agent, and at the same time operated as a general construction contractor overseas. In 1993, COMPLANT was reorganised into a comprehensive foreign trade conglomerate with an independent financial accounting system, and since then it has undergone a series of reforms to modernise its management and governance structures. Currently under the supervision of State-Owned Assets Supervision and Administration Commission (SASAC), it not only continues to be engaged in China's aid projects and general overseas construction projects, but also invests and leases business at home and abroad, and imports and exports technology and complete plants. Its subsidiary company, Complant Import and Export Company Ltd., established in 1999, is listed on the Shenzhen Stock Exchange.

COMPLANT is a symbolic example of how China's investment is interrelated with government aid programmes and trading activities. While it started as a government agent to execute all ODA projects, through reform efforts to restructure SOEs COMPLANT has become increasingly involved in other investment projects and trading business on a profit-making basis. Historically, it has executed a number of construction projects in developing countries, especially in Africa, which were financed under China's ODA programmes. Most prominently, it participated in the massive Tanzania-Zambia Railway construction during 1967-76 with other Chinese construction companies. Other projects in Africa executed by COMPLANT include the Cairo International Conference Centre in Egypt, the Palace of the Congress and the Lagdo Hydropower Station in Cameroon, the Palace of the People in Guinea, the Theatre in Côte d'Ivoire, the Airport Hotel in Algeria, the Islamic Cultural Centre in Mali, the Nouakshott Friendship Port in Mauritania, the Fanole Water Conservancy Plant in Somalia, the Mbarali Farm in Tanzania, the Bangui Stadium in Central Africa, the National Stadium in Zimbabwe, and the Cotonou Sports Complex in Benin. On the other hand, it has also invested in sugar plant joint-ventures and subsidiary companies in Madagascar, Togo, Sierra Leone and Benin.

As a result of its long engagement in Africa, COMPLANT has the largest number of overseas branches in Africa than any other regions with 11 branches in Sierra Leone, Benin, Madagascar, Togo, Guinea, Zambia, Eritrea, Côte d'Ivoire, Mauritania, Ethiopia, and Morocco.

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CDB is responsible for managing the China Africa Development Fund (CADFund)[106] worth USD 5 billion which was also announced at the third FOCAC in 2006. In June 2007, the CADFund started its business with first-phase funding provided by CDB. It aims to promote economic co-operation between China and Africa and advance Africa's economic development by investing directly in Chinese enterprises which have already set up operations in Africa or plan to invest in Africa. Its focus is in: agriculture and manufacturing industries; infrastructure, such as power, transport, telecommunications and urban water supply and drainage; natural resources; and industrial parks set up by Chinese enterprises in Africa. In addition to managing the fund specifically targeted to China's outward investment projects in Africa, CDB has been actively supporting individual firms' expansion plans in Africa.[107]

Despite the large size of financing operations in Africa, the majority of the financing from Exim Bank to African projects does not translate into direct investment flows from China to Africa on a one-to-one basis. Exim Bank not only provides commercial loans to projects in Africa via its main financing facilities (*i.e.* export seller's credits and export buyer's credits) but also channels concessional loans under China's ODA programmes. Only a small part of the export seller's credit lent to Chinese enterprises or joint-ventures for their overseas investment projects[108] may be directly linked to China's OFDI and the rest of credits may be categorised under other financial flows including portfolio investment and transactions in private financial claims. Although the direct contribution to China's OFDI may not be as large as the bank's financing portfolio in Africa seems to indicate, the bank's vast engagement in Africa has clearly had an externality effect on China's expanding OFDI flows to the African continent. By financing Chinese enterprises' various operations, the Exim Bank has contributed to the development of an environment more conducive to China's OFDI.

A large contribution to the African economy can be expected from Chinese investments…

China's contribution to the African economy is potentially very large. In addition to the commonly agreed benefits of FDI including employment creation, capital deepening, technology transfer, trade promotion, and efficiency improvement, China's specific contribution may include the following:

- China's strong comparative advantage in infrastructure projects in Africa has been providing basic services such as water supply, transport, communications and power supply at relatively low cost. All these services are fundamental for African countries' economic growth and poverty reduction.

- China's technology tends to be more labour-intensive than that of developed countries, and hence may be easier and more suitable to transfer to African countries, given the current development stages of China and Africa. More generally, Africa can learn important lessons from China's experiences in opening and modernising the economy. For example, China can provide an opportunity for Africa to participate in the global value chain, especially in the textile and apparel sector.
- China's investment in Africa has strong complementarities with trade between the two regions. China's expanding share in total exports from Africa is driven by China's resource-seeking investment in Africa, reflecting the increasing demand for resources within China. Similarly, China's growing share in Africa's total imports is linked to China's market-seeking investment in Africa, especially in the manufacturing sector which requires raw materials, intermediate inputs and capital goods from China.

... but challenges lie ahead for Chinese enterprises investing in Africa

In the context of China's growing role as an investor in Africa, concerns over China's investment behaviour are being raised and large Chinese enterprises operating in Africa are under increasing pressure to be more responsible global players. Though similar concerns have been heard for China's outward investment in other regions, China's investment in Africa has invited the most intense debate on China's business conduct in the light of Africa's weak governance capacity.

Criticisms raised against China's investment in Africa include: unfair subsidy provided by Chinese government to Chinese enterprises; poor implementation of social and environmental safeguards in China's investment projects; and lack of harmonisation with international efforts to tackle human rights abuses, corruption, and repressive regimes. They are compounded by the involvement of large SOEs which are perceived to be close to the Chinese government; the lack of transparency and accountability mechanisms; and Chinese investors' seeming ignorance of codes and principles set in international instruments such as the *OECD Guidelines for Multinational Enterprises*, the Extractive Industries Transparency Initiative and the UN Global Compact. While some of these criticisms are legitimate, they cannot be generalised. Characteristics and impacts of China's investment projects in Africa vary from case to case. However, Chinese enterprises will be increasingly confronted with the demands and needs to adhere to international standards of business conduct in their overseas investment activities as they strive to "go out".

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Discussions on future prospects for China's OFDI

The emergence of China as an outward investor has caused a mixture of enthusiasm and concern among both host countries and other FDI source countries. While host-country governments in the developing world generally welcome the availability of an alternative source of long-term capital from China, various questions have been raised regarding the impact of China's OFDI. The questions worth further discussions include:

- How can we best ensure Chinese enterprises' adherence to the internationally-recognised standards of business conduct in their overseas investment projects? How can the importance of implementing these standards be understood by Chinese enterprises investing abroad?
- What can be done to maintain a level playing field for international investments *vis-à-vis* various supports and subsidies provided by the government to enterprises investing overseas?
- Is there any evidence that would make China's OFDI more threatening to the home country's national security than OFDI from other countries? If so, what is required to eliminate the excessive threat perceived for China's OFDI projects?
- How can we best co-operate to agree on and fulfil governments' responsibilities for enterprises' operations in the countries beset with political instability, weak governance, corruption and human rights abuses?

Notes

1. Inclusive of China's OFDI stock in the financial sector. MOFCOM started collecting OFDI figures in the financial sector only from 2006.
2. This is the average figure over the period from 1982 to 1989, based on the OFDI statistics published by UNCTAD.
3. MOFCOM (2004), *Regulations on Matters Subject to Approval for Establishing Invested Enterprises*, and *Regulations on Matters Subject to Approval for Establishing Invested Enterprises in Hong Kong and Macao*.
4. This figure does not include OFDI in the financial sector comparable with OFDI figures published in earlier years as MOFCOM started inclusion and publication of OFDI in the financial sector only in 2006 Including OFDI in the financial sector, the total OFDI from China amounted to USD 21.16 billion in 2006, making China the 3rd largest in outward flows among developing and transitional countries, ahead of Russia.
5. This figure does not include OFDI in the financial sector compatible with OFDI figures published in earlier years as MOFCOM started inclusion and publication of OFDI in the financial sector only in 2006. If OFDI in the financial sector is included, China's OFDI stock in 2006 is USD 90.6 billion.
6. UNCTAD (2007), World Investment Report 2007, Annex B. The ratio for China is OECD Investment Division's estimate based on the OFDI figure from MOFCOM.

7. World Bank (2002), Global Development Finance 2002.
8. Qian, X (2007).
9. Buckley, P., L. Clegg, A. Cross, X. Liu, H. Voss and P. Zheng (2007).
10. Lunding, A. (2006). The figure from January 1999 to January 2005.
11. Among the existing OFDI projects, M&A was only ranked 5th as a chosen mode of investments after establishment of own sales office, setting up of equity joint ventures with local firms, opening of own retail stores and distribution networks, and setting up of wholly-owned new manufacturing facility. However, for the future OFDI projects, M&A is ranked 3rd after establishment of own sales office and setting up of equity joint ventures with local firms.
12. China Minsheng Bank is buying a 20% stake in UCBH, a small local US bank; China Merchants Bank has obtained approval from Federal Reserve Bank to set up a branch in New York City.
13. *Financial Times*, 9 October 2007.
14. In 2007, the Industrial and Commercial Bank of China (ICBC) acquired a stake of about 20% in Standard Bank, the largest bank in Africa by assets, for USD 5.5 billion. It will be the largest banking deal in South Africa since Barclays bought Absa Group, the country's largest retail bank, in 2005.
15. Cheng, L. and Z. Ma (2007).
16. This figure may be over-estimated since the OFDI statistics tend to capture activities by non-SOEs less comprehensively than those by SOEs.
17. The remaining share is divided among other forms of enterprises including privately-owned enterprises (13%), limited-stock enterprises (12%), foreign-invested enterprises (5%), joint-stock enterprises (4%), collectively-owned enterprises (2%), Hong Kong, Macao and Chinese Taipei-invested enterprises (2%) and jointly-operated enterprises (1%).
18. Asia Pacific Foundation of Canada (2006).
19. To encourage China's outward portfolio investment outflows, the Qualified Domestic Institutional Investor (QDII) scheme was initiated in April 2006.
20. MOFERT was formed from the merging of 4 government departments in 1982, re-named the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) in 1993, and was most recently reorganised into the Ministry of Commerce (MOFCOM) in 2003.
21. Now part of the National Development and Reform Commission (NDRC).
22. Hong, E. and L. Sun (2006).
23. The China State Construction Engineering Co. Ltd., the China Civil Engineering and Construction Corporation, the China Road and Bridge Engineering Co. Ltd., and the China Complete Set Equipment Import and Export Co. Ltd.
24. Hong, E. and L. Sun (2006).
25. Between 1991 and 1997, the State Council assembled a national team of 120 state-owned industry groups selected from "strategic" sectors such as power generation, mining, automobiles, electronics, iron and steel, machinery, chemicals, construction, transport, aerospace, and pharmaceuticals. The government expected them to spearhead the internationalisation of Chinese enterprises and assisted them with preferential access to financing, high levels of

protection and special rights in management autonomy, profit retention and investment decisions. Some large SOEs even enjoyed the government's support in recruiting top executives and corporate matchmaking.

26. Zhu Rongji (2001).

27. Bajpaee, C (2005). However, little progress has been made on the USD 100 billion pledge so far.

28. The main documents issued by the government on reform of OFDI administration are: *Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects* by the NDRC and *Provisions on the Examination and Approval of Investment to Run Enterprises Abroad* by MOFCOM (2004).

29. Cities directly under the central government, *i.e.* Beijing, Chongqing, Shanghai, Tianjin, and the 10 provinces of Fujian, Guangdong, Guangxi, Hainan, Heilongjiang, Hubei, Jiangsu, Shandong, Sichuan and Zhejiang.

30. Xiaohong, C., M. Jung and Y. Dongming (2007).

31. The original ceiling of foreign exchange for the projects which can be delegated to the local branches was USD 1 million, later raised to USD 3 million in 2002 and to USD 10 million in 2005.

32. This quota had been gradually raised from the original level of USD 1 billion, to USD 3.3 billion in 2004 and further to USD 5 billion in 2005.

33. The plan was released in *the Notice of the NDRC and the Export Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State* on 27 October 2004. The loans will be available from the Export Import Bank of China under the overall direction of the NDRC.

34. *Circular of the General Office of MOFCOM on Setting Up an Information Bank of Overseas Investment Intention of Enterprises* issued on 28 November 2003.

35. *A Reporting System for Obstacles of Outward Foreign Direct Investment and Operations* was announced in November 2004 by MOFCOM.

36. The list was supplemented in May 2005 to add a catalogue list for 28 more countries. Furthermore, MOFCOM promulgated *Guiding Catalogue on Investment in Processing Trade of Textiles and Clothing for Latin America and Asia* in 2005.

37. This section on policy development for China's OFDI at SAFE has significantly benefitted from Stender, N., X. Yin, N. Sheets and L. Cui (2006).

38. Certain projects are submitted to the NDRC rather than MOFCOM for approval. However, it is not clear if SAFE's opinion on the source of the fund to be used in overseas investment has to be submitted to the NDRC as it is not mentioned in the requirements listed by the NDRC.

39. The number of pilot branches was increased from 6 in 2002 to 14 in 2003 and then to 24 in 2004. Nationwide application was finally realised in 2005.

40. Bidding deposits were included in a list of permissible preliminary expenditures in the 2006 Circular.

41. For preliminary and final approval to obtain and remit foreign exchange for early stage expenses for OFDI projects, Chinese enterprises must submit the following documents to SAFE: an application form; business licence; documents related to biddings, mergers or joint ventures; a written letter of commitment ensuring the use of foreign exchange in connection with the approved projects; foreign bank account information; and other relevant materials as requested by SAFE.

42. SAFE has also dropped the system of regional foreign exchange quotas that limited annual OFDI flows from any one administrative unit of China to USD 200 million.

43. NDRC website: *www.en.ndrc.gov.cn*. The NDRC has succeeded in developing new functions as its old powers of mandatory planning of output have been removed with the move to a more market-oriented economy. Some central planning habits persist nonetheless.

44. NDRC (2004), *The Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects*.

45. To apply for approval, a Chinese enterprise must submit: an application form, the company charter, contracts/agreements with the overseas enterprises, certificate of the source of foreign exchange issued by SAFE, assessment of project feasibility by the Chinese embassy in the respective host country, a certificate of domestic operation and other certificates and documents required by law and regulations.

46. MOFCOM (2004), *Regulations on Matters Subject to Approval for Establishing Invested Enterprises*, and *Regulations on Matters Subject to Approval for Establishing Invested Enterprises in Hong Kong and Macao.*

47. Mulcahy, N. (2007).

48. Yao, Y. and Y. He (2005).

49. In December 2004, Huawei and CDB signed a development financing agreement with a credit facility of USD 10 billion to help finance Huawei's international expansion in the following five years (Huawei, 2004, *Annual Report*).

50. Lernon, S. (2004).

51. CNOOC's receipt of a USD 7 billion intercompany loan from ICBC consisted of a noninterest USD 2.5 billion loan and a USD 3.5 billion soft loan with a 3.5 per cent interest and 30 year maturity. The bid was eventually withdrawn by CNOOC.

52. Lunding, A. (2006).

53. The minimum size of the projects is normally CNY 20 million or USD 2.4 million and at least 50% of the project cost must be used to purchase Chinese goods or services.

54. *Circular on the Supportive Credit Policy on Key Overseas Investment Key Overseas Investment Project Encouraged by the State*, issued by the NDRC and Exim Bank in October 2004.

55. *Notice on Printing and Distributing the Measures for the Administration of Special Funds for Foreign Economic and Technical Co-operation (2005)* by the MOF and MOFCOM.

56. Government aid funds (both grants and loans) are administered by Exim Bank which requires at least 50% of funds to be disbursed to Chinese enterprises.

57. Of this, 88 BITs have been in force by the mid-2007.

58. China is currently ranked the second most common BIT signatory country in the world after Germany.

59. UN (2007), *Asian Foreign Direct Investment in Africa: Towards a New Era of Co-operation among Developing Countries*.

60. Australia and New Zealand; East Asia; and North America were the three top regions for which lack of knowledge of local laws and regulations was chosen as a political risk in the survey.

61. Yao, Y. and Y. He (2005).
62. China imported about 43% of its total oil consumption in 2006 and the dependency ratio may rise to 60% and 76% by 2010 and 2020 respectively, according to International Energy Agency.
63. In North America, China purchased a sawmill (Sundance Forest Industries Ltd. by CITIC) and an oil extraction project; in Australia, China acquired the Channar Mine (by China National Metals and Minerals Import & Export Corporation for USD 180 million) and the Portland Aluminum Smelter Company (by China International Trust and Investment Corporation (CITIC) for USD 140 million).
64. The two countries won a joint bid in 2004 to buy PetroCanada's 37% stake in Syrian oilfields for USD 573 million, and jointly invested USD 850 million in 2006 to buy half of Omimex de Colombia Ltd. which has oil and gas assets in South America.
65. Asia Pacific Foundation of Canada (2005 and 2006).
66. Asia Pacific Foundation of Canada (2006) also confirmed that existing OFDI by the majority of Chinese investors is targeted to seeking foreign markets, including through manufacturing and sales in the invested foreign markets and through re-exports from the invested countries to other foreign markets.
67. One analysis estimates that the overcapacity within China's home-appliance may run at over 30% for washing machines, 40% for refrigerators, 45% for microwave ovens, and 87% for televisions. The automobile industry had an estimated overcapacity of 3 million units in 2004, driving prices down and squeezing profits for the entire industry, especially for low-end models.
68. The acquisition, costing USD 1.7 billion, allowed Lenovo to use the IBM brand for five years and to have access to IBM's marketing and corporate sale support.
69. Huaneng's first-ever foreign acquisition, costing USD 246 million.
70. Examples include the Hisense, Changhong, Skyworth, Haier and TCL groups, which have established overseas production bases and joint-ventures in countries such as Mexico, Hungary, the Czech Republic, and Poland.
71. Examples include three domestic companies (Dongfeng Motor Corporation, Chery Automobile and Guangzhou Panyu Huanan Motors Group) investing in an automobile production base in Ghana, Chang An Automobile Group establishing a factory in Vietnam, Lifan Company establishing a joint-venture in Vietnam and factories in Cambodia, Malaysia, Thailand and Pakistan.
72. Examples include Wuxi Huanyuan Garment Co. Ltd., operating a textile processing factory in Vietnam with outputs targeted at European and American markets and Ningbo Shenzhou Knitting Co. Ltd., investing in a garment factory in Cambodia from which it directly exports clothing to the United States.
73. Examples include New Hope Group establishing three factories in Vietnam and the Philippines in 2001 and Liaoning Hefeng Stock Raising Co. Ltd., establishing a forage manufacture in North Korea and another in Nepal.
74. SASAC was established in 2003 to supervise the SOEs that had previously belonged to various ministries and reports directly to the State Council. Its website is *www.sasac.gov.cn*.
75. China pledged an assistance package including debt relief of CNY 10 billion owed by African countries, establishment of a special fund to encourage and support China's OFDI in Africa, and setting-up of an African Human Resources Development Fund to train more professionals from Africa.

76. The data before 2003 are based on MOFCOM's approval record of OFDI projects in Africa and are not consistent with the international standards of measuring OFDI flows, while the data since 2003 are collected according to international standards. Hence, the figures before 2003 and those after 2003 are not, strictly speaking, comparable.
77. However, this figure may be an underestimate. One analysis estimates aggregated investments made by three major Chinese oil SOEs around USD 8 billion accumulated over 1995-2006. (Paik, K., V. Marcel, G. Lahn, J. Mitchell, and E. Adylov, 2007).
78. Xinhua, 2 February 2007.
79. Chen, C., P. Chiu, R. Orr and A. Goldstein (2007).
80. The terms of the loan stipulate that 70% of construction projects are assigned to Chinese enterprises and that China can import 10 000 barrels per day of oil from Angola.
81. Aguilar, R. and A. Goldstein (2007).
82. However, China's NDRC took Sudan off the list of resource-rich countries that were eligible for concessional loans from EXIM Bank in March 2007, showing its policy alignment with the international community towards Sudan (Ellis, L., 2007).
83. Chan-Fishel, M. and R. Lawson (2007).
84. These are the most recent data available from MOFCOM which are based on its approval record.
85. Goldstein, A., N. Pinaud, H. Reisen and X. Chen (2006).
86. The Akpo field was discovered in 2000 and is operated by Total. CNOOC bought a stake from South Atlantic Petroleum, Ltd. Other partners in the field are Nigerian National Petroleum Corporation and Petrobras.
87. ECOWAS-SWAC/OECD (2006).
88. Kaplinsky, R. and M. Morris (2007).
89. For example, Chinese contractors won a third of all public works contracts funded by the African Development Bank in 2006.
90. According to Xinhua, at least 750 000 Chinese were working or living for the extended period in Africa (*New York Times*, 18 August 2008).
91. Brautigam (2007), based on the *Handbook of Economic Statistics* (1990) published by the Central Intelligence Agency. The total cumulative sum of China's aid worldwide is estimated to be USD 9 655 million for the same period.
92. Wengping, H. (2006) and Hongming, Z. (2006).
93. Brautigam, D. (2007).
94. China does not regularly publish development assistance figures by recipient and it is not clear if China uses the same definition of ODA as the *OECD/DAC Guidelines*.
95. Taylor (1989) estimated the average aid flows to be around USD 310 million per annum for 1989-1992 and USD 290 million per annum for 1980-1987. Brautigam (2007) estimates that China's aid budget for Africa is approximately USD 263 and USD 616 million in 2006 and 2007, respectively; but notes that the budget does not include the face value for China's concession loans and only include the interest subsidy offered by the government to concessional loans. By adding the concessional loans from ExIm Bank, Brautigam (2007) put an estimate of China's ODA in 2007 at USD 1.6 billion. On the other hand, Wang (2007) estimated that, based on the data on contracted projects financed under the aid programmes, China's ODA to Sub-Saharan Africa could be around USD 1.0-1.5 billion per annum for 2004-2005.

96. It includes 168 interest-free official loans that had matured by the end of 2005 owed by 33 African countries.
97. Up to 1971, China had wrestled to win diplomatic recognition with the objective of securing the seat held by Chinese Taipei in the UN Security Council.
98. In Table 3.A1.19, total turnovers of economic co-operation between China and 10 African countries for 2005 are shown. This figure is inclusive of China's ODA programmes as well as other contracted projects undertaken by Chinese contractors in each African country. Hence, the figure is likely to be correlated with China's ODA in each country, but is an over-estimate.
99. Reisen, H. and S. Ndoye (2008), however, argue that China actually helps growth and debt sustainability in Africa through debt relief, infrastructure investment and higher exports.
100. Yao, Y. and Y. He (2005).
101. 2006 *Annual Report* of ExIm Bank.
102. Only a portion of these are lent on concessional terms, and the rest lent on commercial terms. ExIm Bank reports that as of end-2005 its concessional loans to Africa consists of 55 projects with accumulated loans of USD 800 million. (Wang, J., 2007).
103. China Exim Bank (2007), news release, 24 July 2007.
104. According to Ellis (2007), as of September 2006 there were 259 ExIm Bank projects in 36 African countries and 79% of them are for infrastructure. Broadman, H. (2007) estimates that Exim Bank's loan portfolio to Africa in the infrastructure sector amounts to USD 12.5 billion as of mid-2006.
105. Financial Times, 18 May 2007, "China Pledges USD 20 billion for Sub-Saharan Africa".
106. *www.cadfund.com*.
107. These include Yunnan Copper and China Nonferrous Metal Mining operating the Chambishi copper mine in Zambia; Zijin mining company investing in iron mining in South Africa; and China International Water and Electric Corporation building the Merowe dam in Sudan.
108. Exim Bank may lend to Chinese enterprises in Africa for resources development projects; processing and trading projects; construction of plants or mills; infrastructure building projects; research and development centres; product marketing and sales centres and post-sales service centres; acquisitions, mergers, share-holding and other ventures. Loans to overseas investment projects and construction projects combined accounted for 28% of export seller's credit (about CNY 29 billion) in actual disbursement for 2006. (Annual Report 2006 of Exim Bank).

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ANNEX 3.A1

Statistical Tables

Table 3.A1.1. **China's OFDI flow**

	1982-89 (average)	1990-99 (average)	2000-06 (average)	2003	2004	2005	2006
Amount (USD million)	453	2 323	6 938	2 855	5 498	12 261	17 634
As a share in the world OFDI (%)	0.4	0.8	0.8	0.5	0.6	1.5	1.5
Rank in the world	22	22	23	25	22	17	18
As a ratio in China's GDP (%)	0.1	0.3	0.3	0.2	0.3	0.5	0.7

Source: OECD calculation based on the data from IFS, MOFCOM and UNCTAD.

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Table 3.A1.2. **FDI statistics (stock): OECD (inward) *vs.* China (outward)**

	Latest year	OECD inward FDI from China (USD million)	MOFCOM outward FDI from China (USD million)	OECD minus MOFCOM
Austria	2004	0.17	0.70	(0.53)
Canada	2005	1 169.55	103.29	1 066.26
Czech Republic	2005	0.19	1.38	(1.19)
Denmark	2005	147.35	96.59	50.76
Finland	2005	12.98	0.90	12.08
Denmark	2005	147.35	96.59	50.76
Finland	2005	12.98	0.90	12.08
France	2004	200.23	21.68	178.55
Germany	2004	222.02	129.21	92.81
Greece	2005	3.08	0.35	2 073
Hungary	2003	15.08	5.43	9.65
Italy	2005	69.52	21.60	47.92
Japan	2005	101.72	150.70	(48.98)
Korea	2005	1 102.10	882.22	219.88
Netherlands	2005	96.74	14.95	81.79
Poland	2005	65.00	12.39	52.61
Slovak Republic	2005	0.63	0.10	0.53
Turkey	2005	3.00	4.23	(1.23)
United Kingdom	2005	203.18	107.97	95.21
United States	2005	481.00	822.68	(341.68)
Total		3 893.53	2 376.37	1 517.163

Source: OECD and MOFCOM.

Table 3.A1.3. **China's OFDI – stock**

	1985	1990	1995	2003	2004	2005	2006
Amount (USD million)	900	4 455	17 768	33 222	44 777	57 206	75 026
As a share in the world OFDI (%)	0.1	0.2	0.6	0.4	0.4	0.5	0.6
Rank in the world	32	25	21	25	27	24	23
As a ratio in China's GDP (%)	0.3	1.1	2.3	2.0	2.3	2.5	2.9

Source: OECD calculation based on the data from IFS, MOFCOM and UNCTAD.

Table 3.A1.4. **FDI stock and flow from the OECD member countries**

	FDI outward stock 2006 (USD million)	As a share in FDI outward stock from world (%)	As a per capita (USD)	FDI outward flows (average 2003-06, USD million)	As a share in FDI outward flows from World (%)	FDI outflow per capita (USD)
China	**75 026**	**0.6**	**57**	**9 562**	**1.0**	**7.3**
Australia	226 764	1.8	11 005	3 750	0.4	182
Austria	77 310	0.6	9 335	6 976	0.8	842
Belgium	462 032	3.7	43 803	39 589	4.5	3 753
Canada	449 035	3.6	13 764	36 024	4.1	1 104
Czech Republic	5 058	0.0	493	908	0.1	89
Denmark	150 082	1.2	27 616	2 068	0.2	380
Finland	90 878	0.7	17 254	–160	0.0	–30
France	1 080 204	8.7	17 606	85 214	9.8	1 389
Germany	1 005 078	8.1	12 202	33 280	3.8	404
Greece	17 521	0.1	1 572	1 765	0.2	158
Hungary	12 693	0.1	1 260	1 782	0.2	177
Iceland	13 190	0.1	43 341	3 514	0.4	11 545
Ireland	124 987	1.0	29 509	14 098	1.6	3 329
Italy	375 756	3.0	6 430	27 510	3.2	471
Japan	449 567	3.6	3 519	38 950	4.5	305
Korea	46 760	0.4	968	4 881	0.6	101
Luxembourg	35 658	0.3	77 602	2 344	0.3	5 100
Mexico	35 144	0.3	335	4 404	0.5	42
Netherlands	652 633	5.2	39 926	50 902	5.8	3 114
New Zealand	12 806	0.1	3 093	–125	0.0	–30
Norway	120 568	1.0	25 818	10 873	1.2	2 328
Poland	10 705	0.1	281	1 705	0.2	45
Portugal	54 850	0.4	5 181	5 185	0.6	490
Slovak Republic	1 282	0.0	238	99	0.0	18
Spain	507 970	4.1	11 527	54 148	6.2	1 228
Sweden	262 951	2.1	28 956	23 151	2.7	2 549
Switzerland	545 401	4.4	72 876	41 660	4.8	5 567
Turkey	8 866	0.1	121	843	0.1	12
United Kingdom	1 486 950	11.9	24 542	84 401	9.7	1 393
United States	2 384 004	19.1	7 963	138 922	15.9	464
Total OECD	10 706 683	85.8	9 111	718 639	82.3	612

Source: MOFCOM; OECD, *International Direct Investment Statistics*; and UNCTAD.

Table 3.A1.5. **OFDI stock and flow from emerging countries**

	FDI outward stock 2006 (USD million)	As a share in world FDI outward stock (%)	FDI outward flows (average 2003-06, USD million)	As a share in world FDI outward flows (%)
China	**75 026**	**0.6**	**9 562**	**1.0**
Hong Kong, China	688 974	5.5	31 806	3.6
Russia	156 824	1.3	13 654	1.6
British Virgin Islands	123 512	1.0	7 531	0.9
Singapore	117 580	0.9	6 450	0.7
Chinese Taipei	113 910	0.9	6 564	0.8
Brazil	87 049	0.7	10 194	1.2
Korea	46 760	0.4	4 881	0.6
South Africa	43 499	0.3	2 165	0.2
Cayman Islands	40 395	0.3	3 441	0.4
Mexico	35 144	0.3	4 404	0.5
Malaysia	27 830	0.2	3 111	0.4
Chile	26 787	0.2	2 039	0.2
Argentina	24 047	0.2	1 095	0.1
Panama	21 176	0.2	1 726	0.2
Indonesia	17 350	0.1	2 476	0.3
India	12 964	0.1	3 597	0.4
United Arab Emirates	11 830	0.1	2 744	0.3

Source: MOFCOM and UNCTAD.

Table 3.A1.6. **Top ten OFDI destinations – flow**

% share of total OFDI from China

	2003		2004		2005		2006	
1	Hong Kong, China	40.2	Hong Kong, China	47.8	Cayman Island	42.1	Cayman Island	44.4
2	Cayman Islands	28.3	Cayman Islands	23.4	Hong Kong, China	27.9	Hong Kong, China	39.3
3	BVI	7.3	BVI	7.0	BVI	10.0	Russia	2.6
4	Korea	5.4	Sudan	2.7	Korea	4.8	United States	1.1
5	Denmark	2.6	Australia	2.3	USA	1.9	Singapore	0.7
6	USA	2.3	USA	2.2	Russia	1.7	Saudi Arabia	0.7
7	Thailand	2.0	Russia	1.4	Australia	1.6	Algeria	0.6
8	Macao, China	1.1	Indonesia	1.1	Germany	1.0	Australia	0.5
9	Russia	1.1	Singapore	0.9	Kazakhstan	0.8	Zambia	0.5
10	Australia	1.1	Nigeria	0.8	Sudan	0.7	Mongolia	0.5
Total – Top 5		83.8		83.1		86.7		88.2
Total – Top 10		91.4		89.6		92.5		90.8

BVI = British Virgin Islands.
Source: MOFCOM.

Table 3.A1.7. **Top ten OFDI destinations – stock**

% share of total OFDI from China

	2003		2004		2005		2006	
1	Hong Kong, China	74.1	Hong Kong, China	67.9	Hong Kong, China	63.8	Hong Kong, China	56.3
2	Cayman Islands	11.1	Cayman Islands	14.9	Cayman Islands	15.6	Cayman Islands	18.9
3	BVI	1.6	BVI	2.4	BVI	3.5	BVI	6.3
4	United States	1.5	United States	1.5	Korea	1.5	United States	1.6
5	Macao, China	1.3	Macao China	1.4	United States	1.4	Korea	1.3
6	Iraq	1.3	Korea	1.3	Macao, China	1.0	Russia	1.2
7	Australia	1.3	Australia	1.1	Australia	1.0	Australia	1.1
8	Korea	0.7	Iraq	1.0	Russia	0.8	Macao, China	0.8
9	Singapore	0.5	Singapore	0.5	Iraq	0.8	Sudan	0.7
10	Thailand	0.5	Bermuda Is.	0.4	Sudan	0.6	Germany	0.6
Total – Top 5		89.7		88.1		85.9		84.5
Total – Top 10		93.9		92.3		90.1		88.9

BVI = British Virgin Islands.

Source: MOFCOM.

Table 3.A1.8. **FDI to and from three offshore financial centres (2005)**

	Value of FDI from China (USD million)	As a share of total FDI from China (%)	Value of FDI to China (USD million)	As a share of total FDI into China (%)
Hong Kong, China	3 420	27.9	17 949	29.8
British Virgin Islands	1 226	10.0	9 022	15.0
Cayman Islands	5 163	42.1	1 948	3.2
Total – 3	9 809	80.0	28 918	47.9

Source: MOFCOM, National Bureau of Statistics of China.

Table 3.A1.9. **Regional distribution – flow: 2003-06**

USD millions

	2003	2004	2005	2006
Asia	1 505 (52.7%)	3 014 (54.8%)	4 484 (36.6%)	7663 (43.5%)
Hong Kong, China (as a share of Asia)	1 149 (76.3%)	2 628 (87.2%)	3 420 (76.3%)	6931 (90.4%)
Latin America (LA)	1 038 (36.4%)	1 763 (32.1%)	6 470 (52.8%)	8469 (48.0%)
3 Offshore Financial Centres (as a share of LA)	1 015 (97.8%)	1 715 (97.3%)	6 412 (99.1%)	7889 (93.2%)
Europe	145 (5.1%)	158 (2.9%)	395 (3.2%)	598 (3.4%)
Western Europe (as a share of Europe)	107 (74.0%)	70 (44.4%)	185 (46.7%)	111 (18.5%)
Central and Eastern Europe (as a share of Europe)	38 (26.0%)	88 (55.6%)	211 (53.3%)	487 (81.5%)
Africa	75 (2.6%)	317 (5.8%)	392 (3.2%)	520 (2.9%)
North America	58 (2.0%)	126 (2.3%)	321 (2.6%)	258 (1.5%)
Oceania	34 (1.2%)	120 (2.2%)	203 (1.7%)	126 (0.7%)
Total	2 855 (100.0%)	5 498 (100.0%)	12 265 (100.0%)	17 634 (100.0%)

Source: MOFCOM

Table 3.A1.10. **Regional distribution – stock: 2003-06**

USD millions

	2003	2004	2005	2006
Asia	26 603 (80.1%)	33 480 (74.8%)	40 954 (71.6%)	47 978 (63.9%)
Hong Kong, China (as a share of Asia)	24 632 (92.6%)	30 393 (90.8%)	36 507 (89.1%)	42 270 (88.1%)
Latin America (LA)	4 619 (13.6%)	8 268 (18.5%)	11 470 (20.0%)	19 694 (26.3%)
3 Offshore Financial Centres (as a share of LA)	4 268 (92.4%)	7 829 (94.7%)	10 934 (95.3%)	18 977 (96.4%)
Europe	487 (1.5%)	677 (1.5%)	1 273 (2.2%)	2 270 (3.0%)
Western Europe (as a share of Europe)	383 (78.7%)	496 (73.2%)	708 (55.7%)	1 050 (46.3%)
Central and Eastern Europe (as a share of Europe)	104 (21.3%)	181 (26.8%)	565 (44.3%)	1 220 (53.7%)
Africa	491 (1.5%)	900 (2.0%)	1 595 (2.8%)	2 557 (3.4%)
North America	548 (1.7%)	909 (2.0%)	1 263 (2.2%)	1 584 (2.1%)
Oceania	472 (1.4%)	544 (1.2%)	650 (1.1%)	939 (1.3%)
Total	33 222 (100.0%)	44 777 (100.0%)	57 206 (100.0%)	75 026 (100.0%)

Source: MOFCOM.

Table 3.A1.11. **Sectoral distribution – flow: 2003-06**

USD millions

	2003	2004	2005	2006
Primary sector	1 460 (51.1%)	2 089 (38.0%)	1 781 (14.6%)	8725 (49.5%)
Agriculture, forestry, husbandry and fishery	80 (2.8%)	289 (5.3%)	105 (0.9%)	185 (1.0%)
Mining, quarrying and petroleum	1 380 (48.3%)	1 800 (32.7%)	1 675 (13.7%)	8540 (48.4%)
Secondary sector (manufacturing)	620 (21.7%)	756 (13.7%)	2 280 (18.6%)	907 (5.0%)
Tertiary sector	775 (27.1%)	2 654 (48.3%)	8 200 (66.9%)	8003 (45.4%)
Lease and business services	280 (9.8%)	749 (13.6%)	4 942 (40.3%)	4522 (25.6%)
Wholesale and retail	360 (12.6%)	800 (14.5%)	2 260 (18.4%)	1114 (6.3%)
Transport and storage	80 (2.8%)	829 (15.1%)	577 (4.7%)	1377 (7.8%)
Others	55 (1.9%)	276 (5.0%)	422 (3.4%)	991 (5.6%)
Total	2 854 (100.0%)	5 498 (100.0%)	12 261 (100.0%)	17634 (100.0%)

Source: MOFCOM.

Table 3.A1.12. **Sectoral distribution – stock: 2003-06**

USD millions

	2003	2004	2005	2006
Primary sector	6 370 (19.2%)	6 786 (15.2%)	9 163 (16.0%)	18 718 (24.9%)
Agriculture, forestry, husbandry and fishery	470 (1.4%)	834 (1.9%)	512 (0.9%)	807 (1.1%)
Mining, quarrying and petroleum	5 900 (17.8%)	5 951 (13.3%)	8 652 (15.1%)	17 902 (23.9%)
Secondary sector (Manufacturing)	2 070 (6.2%)	4 538 (10.1%)	5 770 (10.1%)	7 530 (10.0%)
Tertiary sector	24 782 (74.6%)	33 454 (74.7%)	42 272 (73.9%)	48 778 (65.0%)
Lease and business services	2 070 (6.2%)	16 428 (36.7%)	16 554 (28.9%)	19 464 (25.9%)
Wholesale and retail	6 530 (19.7%)	7 843 (17.5%)	11 418 (20.0%)	12 955 (17.3%)
Transport and storage	2 020 (60.1%)	4 581 (10.2%)	7 083 (12.4%)	7 568 (10.1%)
Others	14 162 (42.6%)	4 602 (10.3%)	7 218 (12.6%)	8 791 (11.7%)
Total	33 222 (100.0%)	44 777 (100.0%)	57 206 (100.0%)	75 026 (100.0%)

Source: MOFCOM.

Table 3.A1.13. **Trade with Africa: China *vs.* the OECD member countries**

	Trade volume with Africa (USD million in 2006)	As a share in Africa's total trade volume with the world (%)	Average annual FDI flow to Africa (USD million for 2003-05)	As a share in total FDI flow into Africa from the world (%)
China	**48 575**	**8.6**	**261**	**1.2**
Australia	4 089	0.7	132	0.6
Austria	2 529	0.4	–10	–0.0
Belgium	12 800	2.3	461	2.1
Canada	8 602	1.5	NA	NA
Czech Republic	817	0.1	137	0.6
Denmark	1 126	0.2	184	0.8
Finland	1 960	0.3	–6	–0.0
France	47 623	8.4	1 671	7.6
Germany	28 532	5.0	–309	–1.4
Greece	1 109	0.2	23	0.1
Hungary	1 110	0.2	0	0.0
Iceland	107	0.0	–3	0.0
Ireland	1 792	0.3	–21	–0.1
Italy	30 081	5.3	81	0.4
Japan	21 030	3.7	79	0.4
Korea	12 199	2.1	37	0.2
Luxembourg	114	0.0	117	0.5
Mexico	1 062	0.2	21	0.1
Netherlands	17 876	3.1	1 089	4.9
New Zealand	852	0.1	2	0.0
Norway	1 029	0.2	n.a.	n.a.
Poland	1 454	0.3	15	0.1
Portugal	5 859	1.0	58	0.3
Slovak Republic	249	0.0	3	0.0
Spain	27 127	4.8	1 244	5.6
Sweden	3 254	0.6	58	0.3
Switzerland	6 432	1.1	330	1.5
Turkey	6 529	1.1	3	0.0
United Kingdom	20 238	3.6	9 348	42.2
United States	86 404	15.2	2 029	9.2

Source: IMF; MOFCOM; and OECD, *International Direct Investment Statistics*.

Table 3.A1.14. **FDI in Africa: China *vs.* major OECD member investors in Africa**

	Year of data for FDI stock	FDI stock in Africa	As a share in total FDI stock held by the world in Africa (%)	As a share in total FDI stock held by each country in the world (%)	Average annual FDI flow to Africa (2003-05)[1]	As a share in total FDI flow from the world to Africa (%)	As a share in total FDI flow from each country to the world (%)
China	2005	1 595	0.6	2.8	261	1.2	3.8
Austria	2004	365	0.2	0.5	–10	0.0	–0.1
Canada	2005	2 606	1.0	0.7			
France	2004	18 377	7.7	2.2	1 671	7.6	2.2
Germany	2004	6 271	2.6	0.7	–309	–1.4	–1.7
Greece	2005	427	0.2	3.2	23	0.1	2.4
Italy	2005	4 318	1.6	1.5	81	0.5	0.6
Japan	2005	1 326	0.5	0.3	79	0.4	0.2
Korea	2004	593	0.2	1.8	37	0.2	0.9
Netherland	2004	8 084	3.4	1.4	1 089	4.9	1.8
Norway	2004	5 731	2.4	1.6			
Portugal	2003	974	0.5	2.7	58	0.3	1.0
Spain					1 244	5.6	2.9
Switzerland	2003	2 672	1.3	0.8	330	1.5	1.2
United Kingdom	2005	43 807	16.6	3.5	9 348	42.2	10.9
United States	2005	24 257	9.2	1.2	2 029	9.2	1.8
Total FDI in Africa	2005	264 495	100		22 128	100	

1. For Italy and Korea, FDI flow data are available only for 2003 and 2004.

Source: MOFCOM; OECD, *International Direct Investment Statistics*; and UNCTAD.

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Table 3.A1.15. **Top African recipients of China's OFDI by stock**

As of end-2006

		China's OFDI stock (USD million)	Rank as China's OFDI destinations in the world	As a share in China's total OFDI stock in Africa (%)	As a share in total FDI stock in each African country (%)
1	Sudan	497	9	19.4	4.4
2	Zambia	268	16	10.5	7.1
3	Algeria	247	18	9.7	2.4
4	Nigeria	216	22	8.4	0.5
5	South Africa	168	26	6.6	0.2
6	Tanzania	112	36	4.4	1.8
7	Egypt	100	39	3.9	0.3
8	Ethiopia	96	41	3.7	3.1
9	Republic of Congo	63	47	2.5	1.8
10	Guinea	55	49	2.1	8.0
Top 5		1 396		54.6	1.0
Top 10		1 821		71.2	0.9
Total Africa		2 557		100.0	0.8

Source: MOFCOM and UNCTAD.

Table 3.A1.16. **Top African recipients of China's OFDI by flow**

As a share of China's total OFDI flows to Africa (%)

	2003		2004		2005		2006	
1	Nigeria	32.6	Sudan	46.2	Sudan	23.3	Algeria	19.0
2	Mauritius	13.7	Nigeria	14.3	Algeria	21.7	Zambia	16.8
3	South Africa	11.8	South Africa	5.6	Nigeria	13.6	Nigeria	13.0
4	Zambia	7.4	Guinea	4.5	South Africa	12.1	Sudan	9.8
5	Algeria	3.3	Benin	4.3	Guinea	4.2	South Africa	7.8
Top 5		68.9		75.1		74.8		66.5
Top 10		78.3		89.1		85.8		88.2

Source: MOFCOM.

Table 3.A1.17. **Sectoral composition of China's OFDI in Africa**

1979-2000

Sector	No. of projects	Investment value (USD million)	As a share in China's total investment in Africa (%)
Agriculture	22	48	7.0
Resource extraction	44	188	27.6
Manufacturing	230	315	46.2
Machinery	20	16	2.3
Home appliances	36	25	3.7
Light industry	82	87	12.8
Textile	58	102	15.0
Other manufacturing	34	86	12.6
Services	200	125	18.3
Others	3	6	0.9
Total	499	681	100.0

Source: World Bank (2004), *Asian Foreign Direct Investment in Africa*, Table 7.6 (based on MOFCOM data).

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Table 3.A1.18. **ODA to Africa: China *vs.* the OECD member countries**

	ODA (USD millions)	Year of data	As a share in total ODA from each country to developing countries (%)
China (estimate)	**1 000-1 600**[1]	**2005/2006/2007**	**44**[2]
Australia	60	2005	4.2
Austria	551	2006	50.5
Belgium	850	2006	62.6
Canada	1 005	2005	35.5
Czech Republic	7	2006	9.5
Denmark	762	2006	52.1
Finland	156	2005	26.2
France	4 646	2005	64.2
Germany	2 658	2005	35.7
Greece	17	2006	9.0
Hungary	0	2006	0.0
Iceland	6	2005	34.3
Ireland	308	2005	63.9
Italy	920	2005	40.6
Japan	1 102	2006	10.6
Korea	39	2005	8.4
Luxembourg	89	2005	48.1
Netherlands	1 422	2005	38.6
New Zealand	18	2005	8.1
Norway	715	2005	35.2
Poland	93	2006	78.8
Portugal	125	2006	59.1
Slovak Republic	16	2006	65.8
Spain	474	2006	22.7
Sweden	798	2005	35.4
Switzerland	316	2005	22.6
Turkey	11	2005	2.2
United Kingdom	3 795	2005	46.5
United States	4 570	2005	18.1

1. From estimates including Brautigam (2007) and Wang (2007).
2. The share of aid to African countries between 2000 and 2003 as reported by Minister of Foreign Affairs Li Zhaoxing, in 2003.

Source: OECD, *International Development Statistics* (net ODA flows in disbursements in current prices).

Table 3.A1.19. **China's economic co-operation with Africa**

USD million in 2005

	Total turnover of economic co-operation[1]	As a share in total turnover in Africa (%)
Sudan	1 343	21.4
Algeria	1 065	17.0
Nigeria	800	12.7
Angola	306	4.9
Egypt	277	4.4
Botswana	265	4.2
Tanzania	212	3.4
Ethiopia	183	2.9
Mali	177	2.8
Libya	132	2.1
Total Africa	6 274	100.0

1. This includes: 1) overseas contracted projects undertaken by Chinese contractors which are financed by foreign investors, China's ODA funds, or themselves jointly with foreign contractors as well as contracted projects in China financed by foreign investments; 2) services co-operation contracts providing Chinese labour to employers and contractors overseas; and 3) overseas design and construction projects undertaken by Chinese contractors providing technical services as well as similar projects in China financed by foreign investments.

Source: National Bureau of Statistics of China.

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